



# Earnings Statement

## KBC Group, 3Q2011 and 9M2011

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Date of release: 10 November 2011, 7 a.m. CET.

### Summary: Considerable progress on execution of strategic plan, 3Q results affected by exceptional and one-off items.

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KBC ended the third quarter of 2011 with an underlying net result of -248 million euros but excluding one-off items induced by the prevailing and exceptional market circumstances, the net result would have amounted to 222 million euros. This compares with +528 million euros in 2Q2011 and +445 million euros in 3Q2010. The underlying result for the first nine months of 2011 amounted to +937 million euros, compared to +1 542 million euros for the corresponding period in 2010.

The IFRS-based net result reported for the quarter under review came to a net loss of 1 579 million euros, compared with a net profit of 333 million euros in the previous quarter and 545 million euros in the year-earlier quarter. This means that the group has generated a total net loss of 424 million euros in the first nine months of 2011, as opposed to a net profit of 1 136 million euros for the corresponding period in 2010.

Jan Vanhevel, Group CEO: *'The third quarter for KBC was characterised by a continuing good level of underlying income and considerable progress in both our divestment and de-risking plans. We concluded the sales agreements for KBL EPB and Fidea. We further reduced our CDO and ABS exposure and have already reached our initial target (capital relief of 0.5 billion euros). We have also substantially reduced our exposure to Southern European government bonds.*

*Unfortunately, the third quarter results were also affected significantly by exceptional items related to the uncertain macroeconomic climate and challenging, turbulent market conditions. We are disappointed to record a loss in the third quarter, largely on account of these market-driven items.*

*However, our core strengths remain fundamentally sound and we have a very solid customer base in our core markets of Belgium and Central Europe, where there was further loan and deposit growth, and an excellent underlying insurance performance. Our liquidity profile is robust and supported by a stable and resilient customer deposit base. Moreover, our solvency position is and remains strong and has enabled us to continue to increase lending to our customers.*

*I would like to add that our already comfortable capital position has been further enhanced by the fact that the Belgian regulator has recognised the Yield Enhanced Securities (YES) as common equity under the current CRD4 proposal. We continue to strive to reimburse 7 billion euros to the state by the end of 2013, in line with the European plan.*

*KBC has expressed its intention to repay a first tranche of the YES to the amount of 500 million euros by year end to the Federal Government under the conversion mechanism. The Federal Government has confirmed that the 15% penalty will be applicable. The Flemish Government has agreed to waive its "pari passu" rights for this repayment and any further repayments effected before end of 2012.*

*We remain committed to executing our strategic plan with the same diligence and determination to ensure timely repayment of the state aid and are committed to playing an active role in the European financial sector, which will benefit our customers, employees, shareholders and other stakeholders. The good results we have observed during October, lead us to guide for a full year underlying net profit of 1.2 billion to 1.4 billion euros.'*

Further to a continued strong RWA management (RWA reduction of 6.7 billion euros in the third quarter), KBC has also acted to reduce volatility in its results.

#### • CDO exposure

During the third quarter, our CDO exposure was reduced by 2.5 billion euros, which constitutes a 12% decline in the notional amount outstanding. This was achieved by early terminations and sales at limited cost.

- **ABS exposure**

During the third quarter, our ABS exposure was reduced by 0.7 billion euros, which constitutes a 17% decline in the notional amount outstanding. This was achieved by sales at limited cost.

- **Southern European government bond exposure**

In the third quarter, we substantially reduced our exposure to Southern European government bonds. The reduction amounted to 2.9 billion euros, or more than 30% compared to the exposure at the end of June. We have further reduced this exposure since the end of September by another 1.6 billion euros.

Main exceptional factors in 3Q2011 that have impacted the reported IFRS result:

- **Divestments: one-off impact**

Notwithstanding the particularly challenging market circumstances, the execution of our strategic plan has gained further momentum with, for instance, sales agreements being signed for KBL EPB and Fidea. The transactions related to the sale of Centea and KBC Asset Management's stake in KBC Concord Asset Management Co. Ltd. (Taiwan) have been closed, and KBC Securities completed the divestment of its operations in Serbia and Romania. Other planned divestments are well on track. The divestments of KBL EPB and Fidea had a combined negative impact of 0.6 billion euros on KBC's third-quarter net result, but a positive impact on our capital.

- **Impact of the credit spread on CDOs**

During the third quarter, global economic uncertainty intensified, resulting in volatile markets and significantly wider corporate and ABS credit spreads. This resulted in a valuation markdown of some 0.6 billion euros on the CDO exposure. 30% of the unrealised losses booked in 3Q11 could already be reversed in October 2011.

Main important one-off factors in 3Q2011 that have impacted the underlying result:

- **Greece: one-off impact**

As a result of the deteriorating credit position of Greece in the financial markets, we recorded an additional impairment of 126 million euros after tax (176 million pre-tax) on our Greek government bond portfolio in this quarter (as a result, the impairment on Greek government bonds at 30 September 2011 was recognised in full at 58% of the nominal amount of these bonds).

We also recorded a provision of 174 million euros after tax (263 million pre-tax) on the contingent intention to repurchase on a voluntary basis the bonds (KBC IFIMA 5/5/5 and KBC Group 5-5-5) sold to retail customers, conditional on the occurrence of a credit event. These structured bonds were launched in the spring of 2008, have a term to maturity of five years, a gross coupon of 5% (which so far have all been paid) and are linked until their maturity to the creditworthiness of five countries (Belgium, France, Spain, Italy and Greece). All holders of these bonds had been informed in March 2011 of this contingent intention. Until the date of this press release no credit event occurred, but since the probability of a credit event is estimated by the financial markets to be higher than 50% on 30 September 2011, we decided to book the provision in the third quarter results. If no credit event under ISDA definitions occurs, the provision will be reversed.

- **Hungary: one-off impact**

During September, new legislation designed to help households with foreign-currency-based mortgages was introduced in Hungary. This legislation allows households during a limited period to pay off foreign-currency debts in one lump sum at a fixed, discounted exchange rate. The shortfall between the fixed and market rates is to be covered by the banks. The Hungarian Banking Association has taken the matter to the Constitutional Court in Budapest. Nevertheless, KBC has recorded an impairment of 74 million euros (after tax) on its FX retail mortgage portfolio (92 million euros, pre-tax), reflecting that an estimated 20% of all debtors will pay off their foreign currency loans.

- **Bulgaria: one-off impact**

KBC performed an in-depth evaluation of its Bulgarian assets for which the Group has recorded an additional impairment of 96 million euros.

Main special items in 3Q2011 that have impacted the underlying result:

- **Share portfolio**

Following the downturn on the stock market, an impairment of 87 million euros (before and after tax) had to be booked on the share portfolio.

- **Ireland**

We indicated during the 2Q11 results presentation in August that we had seen some deterioration in the number of payment arrears. The economic situation and the Irish marketplace have not improved in the way we envisaged and the austerity measures put in place by the Irish authorities have had a considerable impact on the financial strength of households. Besides that, we have observed a change in behaviour of some borrowers. As a consequence, a loan loss provision of 164 million euros after tax (187 million euros, pre-tax) was recorded in 3Q2011.

These factors aside, underlying income in the third quarter was characterised by a good level of net interest income, strict cost control, an excellent combined ratio, good life insurance results, and robust liquidity and solvency positions. The credit cost ratio in our core markets remains low (barring the specific situation in Hungary and Bulgaria). Fundamentally, KBC continues to have a strong loan-to-deposit ratio (85% at the end of September 2011) which translates into a robust liquidity position.

With a total tier-1 ratio of 14.4% and a core tier-1 ratio of 12.6% (including the impact of the sale of KBL EPB and Fidea), solvency remains not only firm, but also exceeds the threshold set under the recent EBA stress test.

Under the preliminary EBA exercise based on data as at the end of June (see press release of 27 October 2011), both KBC group and KBC Bank complied with the 9% core tier-1 threshold as determined by the EBA (capital position according to Basel2.5, corrected with the marked-down sovereign exposures based on market prices as at 30 September 2011). The preliminary capital buffer as identified at the end of June is sufficient to cover 3Q11 results. An update of the outcome of the EBA exercise based on positions and market prices as of 30 September is expected to be published in November 2011.

*Jan Vanhevel concludes: 'The operating environment has been harsh in the third quarter and we realise that these are tough times for most economies and for millions of people. KBC has obviously not been immune to this and our results have been severely impacted. However, KBC continues to build on and reap the benefits of its sound customer-driven bancassurance model, as illustrated by the **good results during October**. This resulted in a strong liquidity and robust solvency position, helping us to remain a solid European financial player committed to actively financing our customers' projects, even in extremely difficult conditions. The Executive Committee has decided to forego all variable remuneration for financial year 2011, regardless of how profits develop in the remainder of the year.'*

Overview (consolidated)	3Q2010	2Q2011	3Q2011	Cumul. 9M2010	Cumul. 9M2011
Net result, IFRS (in millions of EUR)	545	333	-1 579	1 136	-424
Earnings per share, basic, IFRS (in EUR) <sup>1</sup>	1.17	0.54	-5.08	2.03	-2.56
Underlying net result (in millions of EUR)	445	528	-248	1 542	937
Underlying earnings per share, basic (in EUR) <sup>1</sup>	0.87	1.11	-1.17	3.23	1.45
Breakdown of underlying net result per business unit (in millions of EUR) <sup>2</sup>					
Belgium	220	238	32	797	551
Central & Eastern Europe	84	146	-40	412	229
Merchant Banking	156	63	-196	361	43
Group Centre	-15	81	-44	-28	114
Parent shareholders' equity per share (in EUR, end of period)	33.1	33.8	28.9	33.1	28.9

1 Note: the coupon that is expected to be paid on the core-capital securities sold to the Belgian State and Flemish Region is deducted from earnings (*pro rata*) in the EPS calculation.

2 The changes in the strategic plan announced in mid-2011 are reflected in the breakdown by business unit; all reference figures have been adjusted retroactively.

The IFRS and underlying income statement summary tables are provided further on in this earnings statement.

Financial highlights for 3Q2011 compared to 2Q2011:

- Net loss caused by the impact of a difficult financial climate on several results components.
- Net interest income sustained. Stable margins and volumes up in Belgium and Central Europe.
- Net fee and commission income somewhat lower on account of lower sales of investment products, as Europe's continuing debt crisis and market volatility reduce investors' risk appetite.
- Combined ratio of 90% year-to-date.
- Increased sales of life products and premium income on non-life products.
- Weak dealing room performance.
- Underlying cost/income ratio at 61% year-to-date (58% excluding the impact of the provision for 5-5-5 products).
- Credit cost ratio 0.61% year-to-date.
- Consistently strong liquidity position.
- Solvency: continued strong capital base: *pro forma* tier-1 ratio – including the effect of divestments for which a sale agreement has been signed to date – at approximately 14.4% (with core tier-1 at 12.6%).

## Financial highlights 3Q2011 (underlying)

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Jan Vanhevel, Group CEO, summarises the *underlying* business performance for 3Q2011 as follows:

**Gross income benefits from stable interest income and better technical insurance results, but is affected by lower commission income, weak trading results and the provision set aside for the 5-5-5 products.**

- Underlying net interest income stood at 1 342 million euros, at first sight -5% year-on-year and -3% quarter-on-quarter, but this was due mainly to the deconsolidation of Centea (excluding this factor, net interest income was virtually flat). The net interest margin came to 1.98% for the quarter under review, stable compared to the previous quarter and up 6 basis points on its level of 3Q2010. In the Belgium Business Unit, both credit and deposit volumes were up year-on-year and quarter-on-quarter (credit: +5% year-on-year and +2% quarter-on-quarter; deposits +9% year-on-year and +3% quarter-on-quarter). The loan book in the CEE Business Unit increased by 3% year-on-year (thanks to the Czech Republic and Slovakia) and by 1% quarter-on-quarter, while deposits also increased 3% year-on-year and 1% quarter-on-quarter. In line with the strategy to run down the international loan books, the loan portfolio in the Merchant Banking Business Unit fell 4% year-on-year (stable in the last quarter), while the deposit base shrank by 17% year-on-year (8% in the last quarter), commensurate with the reduction in the international loan book.
- A very good performance was turned in on the technical insurance front during the quarter under review: net of technical charges and ceded reinsurance result, technical insurance income came to 138 million euros in 3Q2011, up 52% year-on-year and 12% quarter-on-quarter. Moreover, non-life premium income increased by 7% year-on-year on a comparable basis, and the year-to-date combined ratio came to an excellent 90%. In life insurance, we witnessed a significant increase in the sale of unit-linked products, both in Belgium and in CEE, which more than offset the decrease in interest-guaranteed products.
- The net result from financial instruments at fair value amounted to 10 million in 3Q2011, significantly below its level both in the previous quarter and a year earlier, due to the weak performance turned in by the dealing room in the quarter under review.
- Net fee and commission income amounted to 367 million euros, unchanged on the year-earlier quarter, but down 7% on the previous quarter. Net fee and commission income was hit by the relatively low level of fees generated by the asset management business (reduced investor risk appetite).
- The other income components came to an aggregate -185 million euros. The 263-million-euro provision set aside for the contingent repayment intention that KBC has provided its retail clients in relation to the 5-5-5 products had a significantly adverse impact in this regard (recorded under 'Other net income').

**Operating expenses stable, significant loan loss provisions for Hungary, Bulgaria and Ireland, and additional impairment on Greek government bonds.**

- Operating expenses came to 1 172 million euros in the third quarter of 2011. This was in line (+1%) with the previous quarter and – disregarding the booking in 3Q2010 of the Hungarian bank tax for FY2010 – also comparable to its year-earlier level. The year-to-date cost/income ratio came to 61% (58% excluding the impact of the 5-5-5 product), a clear indication that costs remain under control.
- Loan loss impairment stood at 475 million euros in the third quarter, up on the 356 million euros recorded a year ago, and up on the 164 million euros recorded in the previous quarter, due to significant additional provisions being set aside for Ireland, Hungary (following the new legislation on forex loans) and Bulgaria. As a consequence, the annualised credit cost ratio stood at 0.61% for the first nine months of 2011; this breaks down into an excellent 0.09% for the Belgian retail book (down even further on the 0.15% recorded for FY2010), 1.44% in Central and Eastern Europe (up from 1.16% for FY2010) and 0.90% for Merchant Banking (down from 1.38% for FY2010).
- Other impairment charges came to 265 million in the quarter under review and related mainly to shares in the investment portfolio (87 million euros) and an additional impairment on Greek government bonds (176 million euros, over and above the 139 million euros booked in the previous quarter), bringing the fully recognised impairment to 58% of the nominal amount of these bonds.

**Strong solvency capital position under Basel II.**

- The group's tier-1 ratio (under Basel II) came to a strong 13.6% at 30 September 2011 (core tier-1 ratio of 11.7%). Including the effect of divestments for which a sale agreement has been signed to date (Fidea and KBL EPB), *the pro forma* tier-1 ratio even stands at approximately 14.4% (core tier-1 ratio of 12.6%).

### ***Highlights of underlying performance per business unit.***

- The Belgium Business Unit contributed 32 million euros to profit in 3Q2011. This was 206 million euros less than in 2Q2011. The quarter was characterized by stable net interest income, excellent insurance results and a very low level of loan impairments. The quarter-on-quarter decrease is entirely related to a provision of 132 million euros (pre-tax) on the contingent repayment intention that KBC has provided its retail clients in relation to 5-5-5 products, and to significant impairment on shares and Greek government bonds in the investment portfolio.
- The CEE Business Unit (Czech Republic, Slovakia, Hungary and Bulgaria) posted a loss of 40 million euros in 3Q2011, as opposed to a profit of 146 million euros in the previous quarter. Good life insurance sales, a favourable combined ratio and a stable net interest income defined this quarter. The decrease was almost entirely due to the impairment taken on the loan portfolios of Hungary (forex mortgages) and Bulgaria, and on Greek government bonds.
- The Merchant Banking Business Unit posted a loss of 196 million euros in 3Q2011, as opposed to 63 million euros in profit recorded in 2Q2011. The decrease is due mainly to the provision of 132 million euros (pre-tax) on the contingent repayment intention the KBC has provided its retail clients in relation to the 5-5-5 products, to higher impairment charges on loans and receivables in Ireland and a weak dealing room result.
- It should be noted that all planned divestments in the KBC group (including those that originated from the change to the strategic plan in mid-2011, i.e. Kredyt Bank and Warta in Poland) are not included in the respective business units, but have been grouped together in the Group Centre in order to clearly indicate the financial performance of the long-term activities and the planned divestments separately. In 3Q2011, the Group Centre's net result came to -44 million euros, compared to 81 million euros in the previous quarter. The result was impacted by the -43-million-euro (pre-tax) impairment on Greek bonds (over and above the -36 million euros recorded in the previous quarter) and the divestment of Centea, among other factors.

### ***Substantial negative value adjustments dominate exceptional items.***

- The quarter was also characterised by a number of exceptional items that were not part of the normal course of business and were therefore excluded from the underlying results. Their combined impact in 3Q2011 amounted to a negative 1.3 billion euros. Apart from some smaller items, the main non-operating items in 3Q2011 were:
  - a valuation markdown of 0.6 billion euros on the CDO exposure (resulting mainly from a widening of corporate and ABS credit spreads).
  - a negative 0.2 billion euros marked-to-market change in the value of the position in trading derivatives used for hedging purposes, primarily because of a further widening of government spreads.
  - a positive 0.2 billion euros marked-to-market change regarding KBC's own credit risk.
  - a negative 0.1 billion euros impairment on goodwill for CIBank in Bulgaria.
  - a negative 0.6 billion euros as a result of the sales agreements signed for KBC EPB and Fidea.

## First nine months of 2011: results per heading (IFRS)

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Explanations per heading of the **IFRS** income statement for the first nine months of 2011 (see summary table on the next page):

- The IFRS net result for the first nine months of 2011 (further referred to as 9M2011) amounted to -424 million euros, as opposed to +1 136 million euros recorded in the same period of 2010.
- Net interest income amounted to 4 142 million euros in 9M2011. On an underlying basis and excluding companies that have since been sold, net interest income was up 1% year-on-year. On a comparable basis, the loan book increased by 1% year-on-year. In line with our intention to scale down our international loan book outside our home markets, the loan portfolio contracted by 4% year-on-year in Merchant Banking and by 2% in the Group Centre. On the other hand, the loan books in our core markets of Belgium and CEE, grew by 5% and 3% year-on-year, respectively. Mortgage loans contributed significantly to this growth, with a year-on-year increase of as much as 8% for Belgium and 4% for CEE. Customer deposits rose by 9% in Belgium, by 3% in CEE and fell significantly in Merchant Banking and the Group Centre. The net interest margin remained more or less the same, both in Belgium and in CEE.
- Net of technical charges and the ceded reinsurance result, technical insurance income came to 379 million euros, up a good 57% on the year-earlier figure. The first nine months of 2011 were characterised by a relatively low level of claims. The combined ratio for the group's non-life insurance companies came to an excellent 90% for 9M2011 (85% in Belgium, 93% in CEE), a significant improvement on the 100% for FY2010.
- Net fee and commission income amounted to 877 million euros in 9M2011, down 4% on its 9M2010 level. In the period under review, sales of commission-based products remained subdued, and assets under management fell 9% year-on-year to 193 billion euros at the end of September 2011 (150 billion euros when excluding KBL EPB), both on account of the negative investment performance and net entry effect.
- The net result from financial instruments at fair value (trading and fair value income) came to -613 million euros in 9M2011, compared to -506 million euros in 9M2010. On an underlying basis (i.e. excluding exceptional items such as value adjustments to structured credit, results related to the activities of KBC Financial Products that are being wound down, and after shifting all trading-related income items to this income statement line), trading and fair value income amounted to 371 million euros in 9M2011, down 49% on its year-earlier figure.
- The remaining income components were as follows: dividend income from equity investments amounted to 70 million euros, the net realised result from available-for-sale assets (bonds and shares) stood at 86 million euros and other net income totalled 53 million euros. This last item has been impacted by a provision of 263 million euros recorded in 3Q2011 for the contingent repayment intention that KBC has provided its retail clients in relation to the 5-5-5 products.
- Operating expenses amounted to 3 301 million euros in 9M2011, 2% higher than in 9M2010, with such factors as inflation, wage increases and the higher banking tax offsetting the effect of deconsolidated entities. The underlying cost/income ratio for banking – a measure of cost efficiency – stood at 61% in 9M2011, up on the 56% recorded for FY2010 (increase also clearly attributable to the lower level of total income, cf. provisioning for the 5-5-5 product).
- Total impairment stood at 1 377 million euros in 9M2011. Impairment on loans and receivables amounted to 733 million euros, down on the 990 million euros recorded in 9M2010, notwithstanding the high level recorded in 3Q2011 for Ireland, Hungary and Bulgaria. As a result, the annualised credit cost ratio for 9M2011 came to 0.61%, an improvement on the figure of 0.91% for FY2010. Other impairment charges totalled 644 million euros in 9M2011 (versus 111 million euros in 9M2010) and relate mainly to the impairment recorded on Greek government bonds in the second and third quarters (315 million euros, pre-tax), on shares in the investment portfolio (106 million euros) and on goodwill (79 million euros, related to CIBank in Bulgaria, among other things).
- Income tax amounted to 245 million euros for 9M2011.
- At the end of September 2011, total equity came to 17.4 billion euros, a 1.3-billion-euro decrease compared to the start of the year, due mainly to the inclusion of the negative result (-0.4 billion euros) for 9M2011 and the dividend and state coupon paid (-0.9 billion euros, combined). The group's tier-1 capital ratio – a measure of financial strength – stood at a sound 13.6% at end-September 2011.

## Table of results according to IFRS

A summary of the income statement of KBC Group, based on the *International Financial Reporting Standards* (IFRS) is given below. A full overview of the IFRS consolidated income statement and balance sheet is provided in the 'Consolidated Financial Statements' section of the quarterly report. Condensed statements of comprehensive income, changes in shareholders' equity, and cash flow, as well as several notes to the accounts, are also available in the same section. In order to provide a good insight into the underlying business trends, KBC also publishes its 'underlying' results (see the following section).

Consolidated income statement according to IFRS, KBC Group (in millions of EUR)	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011	3Q 2011	4Q 2011	Cumul. 9M2010	Cumul. 9M2011
Net interest income	1 519	1 567	1 562	1 598	1 395	1 406	1 341	-	4 647	4 142
Interest income	2 621	2 651	2 627	2 642	3 047	3 195	2 910	-	7 900	9 151
Interest expense	-1 103	-1 085	-1 065	-1 045	-1 651	-1 789	-1 569	-	-3 253	-5 009
Earned premiums, insurance (before reinsurance)	1 248	1 144	1 074	1 150	1 141	974	972	-	3 466	3 087
Technical charges, insurance (before reinsurance)	-1 163	-1 123	-957	-1 018	-1 012	-840	-812	-	-3 243	-2 665
Ceded reinsurance result	-9	50	-23	-26	-17	-8	-18	-	18	-43
Dividend income	15	40	21	21	12	41	17	-	76	70
Net result from financial instruments at fair value through profit or loss	-11	-721	227	429	472	-194	-892	-	-506	-613
Net realised result from available-for-sale assets	19	30	11	29	34	42	10	-	61	86
Net fee and commission income	322	336	259	307	300	297	281	-	917	877
Fee and commission income	549	578	480	549	518	530	480	-	1 607	1 529
Fee and commission expense	-227	-242	-221	-242	-218	-233	-200	-	-690	-651
Other net income	98	182	65	107	92	110	-149	-	345	53
<b>Total income</b>	<b>2 038</b>	<b>1 504</b>	<b>2 239</b>	<b>2 597</b>	<b>2 416</b>	<b>1 829</b>	<b>749</b>	<b>-</b>	<b>5 781</b>	<b>4 994</b>
Operating expenses	-1 072	-1 044	-1 130	-1 190	-1 143	-1 081	-1 077	-	-3 246	-3 301
Impairment	-383	-299	-420	-555	-105	-332	-940	-	-1 102	-1 377
on loans and receivables	-355	-278	-357	-492	-97	-164	-473	-	-990	-733
on available-for-sale assets	-1	-16	-5	-9	-6	-118	-223	-	-23	-347
on goodwill	-27	-1	-13	-47	0	-17	-62	-	-41	-79
on other	0	-3	-45	-6	-2	-33	-183	-	-48	-218
Share in results of associated companies	-2	-9	-5	-46	1	0	-23	-	-16	-22
<b>Result before tax</b>	<b>581</b>	<b>153</b>	<b>683</b>	<b>806</b>	<b>1 170</b>	<b>416</b>	<b>-1 292</b>	<b>-</b>	<b>1 418</b>	<b>294</b>
Income tax expense	-164	304	-124	-97	-334	-76	165	-	16	-245
Net post-tax result from discontinued operations	31	-302	-7	24	0	0	-445	-	-278	-445
<b>Result after tax</b>	<b>448</b>	<b>155</b>	<b>553</b>	<b>733</b>	<b>835</b>	<b>340</b>	<b>-1 571</b>	<b>-</b>	<b>1 156</b>	<b>-396</b>
attributable to minority interests	6	6	8	8	14	6	8	-	20	28
<b>attributable to equity holders of the parent</b>	<b>442</b>	<b>149</b>	<b>545</b>	<b>724</b>	<b>821</b>	<b>333</b>	<b>-1 579</b>	<b>-</b>	<b>1 136</b>	<b>-424</b>
Belgium	283	131	321	453	385	158	-348	-	734	196
Central & Eastern Europe*	146	173	113	178	141	145	-91	-	431	195
Merchant Banking	64	73	173	-138	203	69	-255	-	310	17
Group Centre*	-50	-228	-61	231	92	-39	-885	-	-339	-831
Earnings per share, basic (EUR)	0.86	0.00	1.17	1.69	1.98	0.54	-5.08	-	2.03	-2.56
Earnings per share, diluted (EUR)	0.86	0.00	1.17	1.69	1.98	0.54	-5.08	-	2.03	-2.56

\* The changes in the strategic plan announced in mid-2011 are reflected in the figures for these business unit; all reference figures have been adjusted retroactively.

Highlights, consolidated balance sheet and ratios, KBC Group (in millions of EUR or %)	31-03- 2010	30-06- 2010	30-09- 2010	31-12- 2010	31-03- 2011	30-06- 2011	30-09- 2011	31-12- 2011
Total assets	340 128	350 232	328 590	320 823	322 493	312 899	305 109	-
Loans and advances to customers*	153 640	157 024	149 982	150 666	147 625	143 182	143 451	-
Securities (equity and debt instruments)*	101 984	95 910	96 876	89 395	88 839	85 144	74 062	-
Deposits from customers and debt certificates*	203 367	205 108	198 825	197 870	192 412	188 116	184 453	-
Technical provisions, before insurance*	23 222	22 384	22 843	23 255	23 870	24 084	21 064	-
Liabilities under investment contracts, insurance*	7 908	6 496	6 488	6 693	6 568	6 638	6 787	-
Parent shareholders' equity	10 677	10 259	11 245	11 147	11 011	11 500	9 834	-
Non-voting core-capital securities	7 000	7 000	7 000	7 000	7 000	7 000	7 000	-
KBC Group ratios (based on underlying results, year-to-date)								
Return on equity				11%			6%	-
Cost/income ratio, banking				56%			61%	-
Combined ratio, non-life insurance				100%			90%	-
KBC Group solvency								
Tier-1 ratio				12.6%			13.6%	-
Core tier-1 ratio				10.9%			11.7%	-

\* Note: in accordance with IFRS 5, the assets and liabilities of a number of divestments were moved to 'Non-current assets held for sale and assets associated with disposal groups' and 'Liabilities associated with disposal groups', which slightly distorts the comparison between periods.

## Table of underlying results

Over and above the figures according to IFRS, KBC provides a number of 'underlying' figures aimed at providing more insight into the business trends. The differences with the IFRS figures relate to the exclusion of exceptional or non-operating items and a different accounting treatment of certain hedging results and capital-market income. In view of their nature and materiality, it is important to adjust the results for these factors to understand the profit trend fully. A full explanation of the differences between IFRS and underlying figures is provided in the 'Consolidated financial statements' section of the quarterly report, under 'Notes on segment reporting'. A reconciliation table for the net result is provided below.

Consolidated income statement, KBC Group, underlying (in millions of EUR)	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011	3Q 2011	4Q 2011	Cumul. 9M2010	Cumul. 9M2011
Net interest income	1 344	1 394	1 406	1 459	1 374	1 390	1 342	-	4 144	4 106
Earned premiums, insurance (before reinsurance)	1 249	1 146	1 075	1 151	1 141	975	972	-	3 470	3 088
Technical charges, insurance (before reinsurance)	-1 168	-1 129	-962	-1 022	-1 016	-843	-817	-	-3 259	-2 676
Ceded reinsurance result	-9	50	-23	-26	-17	-8	-18	-	18	-43
Dividend income	8	36	12	18	8	37	14	-	55	59
Net result from financial instruments at fair value through profit or loss	320	147	264	124	259	102	10	-	731	371
Net realised result from available-for-sale assets	24	41	6	28	53	42	11	-	71	106
Net fee and commission income	429	454	367	417	399	394	367	-	1 249	1 161
Other net income	85	68	62	-96	73	72	-210	-	215	-64
<b>Total income</b>	<b>2 282</b>	<b>2 205</b>	<b>2 206</b>	<b>2 051</b>	<b>2 274</b>	<b>2 161</b>	<b>1 673</b>	<b>-</b>	<b>6 693</b>	<b>6 107</b>
Operating expenses	-1 158	-1 150	-1 214	-1 311	-1 227	-1 155	-1 172	-	-3 521	-3 553
Impairment	-356	-298	-361	-510	-105	-333	-740	-	-1 015	-1 179
on loans and receivables	-355	-278	-356	-492	-97	-164	-475	-	-989	-736
on available-for-sale assets	-1	-17	-5	-10	-6	-135	-228	-	-23	-369
on goodwill	0	0	0	0	0	0	0	-	0	0
on other	0	-3	0	-7	-2	-35	-38	-	-3	-75
Share in results of associated companies	-1	-9	-5	-46	1	0	-23	-	-15	-22
<b>Result before tax</b>	<b>767</b>	<b>749</b>	<b>626</b>	<b>184</b>	<b>943</b>	<b>673</b>	<b>-262</b>	<b>-</b>	<b>2 142</b>	<b>1 353</b>
Income tax expense	-218	-189	-173	-7	-271	-138	22	-	-580	-388
<b>Result after tax</b>	<b>549</b>	<b>559</b>	<b>453</b>	<b>177</b>	<b>671</b>	<b>534</b>	<b>-240</b>	<b>-</b>	<b>1 562</b>	<b>966</b>
attributable to minority interests	6	6	8	9	14	6	8	-	20	28
<b>attributable to equity holders of the parent</b>	<b>543</b>	<b>554</b>	<b>445</b>	<b>168</b>	<b>658</b>	<b>528</b>	<b>-248</b>	<b>-</b>	<b>1 542</b>	<b>937</b>
Belgium	279	298	220	255	280	238	32	-	797	551
Central & Eastern Europe*	156	171	84	158	123	146	-40	-	412	229
Merchant Banking	85	121	156	-228	177	63	-196	-	361	43
Group Centre*	24	-36	-15	-16	77	81	-44	-	-28	114
Earnings per share, basic (EUR)	1.16	1.19	0.87	0.06	1.50	1.11	-1.17	-	3.23	1.45
Earnings per share, diluted (EUR)	1.16	1.19	0.87	0.06	1.50	1.11	-1.17	-	3.23	1.45

\* The changes in the strategic plan announced in mid-2011 are reflected in the figures for these business unit; all reference figures have been adjusted retroactively.

Reconciliation between underlying result and result according to IFRS KBC Group (in millions of EUR)	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011	3Q 2011	4Q 2011	Cumul. 9M2010	Cumul. 9M2011
Result after tax, attributable to equity holders of the parent, UNDERLYING	543	554	445	168	658	528	-248	-	1 542	937
+ MTM of derivatives for ALM hedging	-57	-179	16	41	96	-77	-245	-	-220	-226
+ gains/losses on CDOs	176	326	221	304	124	-86	-618	-	723	-580
+ MTM of CDO guarantee and commitment fee	-33	-18	-23	6	-10	-22	-10	-	-74	-41
+ impairment on goodwill (and associated companies)	-27	-1	-43	-47	0	-17	-57	-	-71	-74
+ result on legacy structured derivative business (KBC FP)	-126	-210	6	-42	14	43	5	-	-330	62
+ MTM of own debt issued	-2	33	-34	41	-16	-25	185	-	-3	144
+ Results on divestments	0	-338	-44	206	-45	-12	-591	-	-382	-647
+ other	-32	-18	2	46	0	0	0	-	-48	0
Result after tax, attributable to equity holders of the parent: IFRS	442	149	545	724	821	333	-1 579	-	1 136	-424

## Other information

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### Strategy highlights and main events

- KBC's core strategy remains centred around bancassurance in Belgium and a selection of countries in CEE (Czech Republic, Slovakia, Hungary and Bulgaria). In line with its strategic plan, which was amended in July 2011 (the intended IPO of a minority share in ČSOB was replaced by the divestment of Kredyt Bank and Warta in Poland, among other things), the group is continuing with the sale or run-down of a number of (non-core) activities (see further).
- In 3Q2011, we continued to implement our strategic refocusing plan:
  - On 1 July 2011, the sale of Centea to Crédit Agricole (Belgium) was closed. This deal freed up around 0.4 billion euros of capital for KBC, primarily by reducing risk-weighted assets by 4.2 billion euros, which boosted KBC's tier-1 ratio by around 0.4%. The gain on the deal is limited.
  - On 3 August 2011, it was announced that KBC Securities had divested its operations in Serbia and Romania, after reaching an agreement on management buy-outs with local management (very limited impact on the earnings and capital of the group).
  - On 10 August 2011, the sale of KBC Asset Management's 55.46% stake in KBC Concord Asset Management Co. Ltd. to Value Partners Ltd. was closed (very limited impact on the earnings and capital of the group).
  - On 10 October 2011, KBC reached an agreement with Precision Capital for the sale of its private banking subsidiary KBL European Private Bankers ('KBL EPB') for a total consideration of 1 050 million euros (50 million of which depends on the results of KBL EPB ('conditional earn out')). The transaction will release a total of approximately 0.7 billion euros in capital for KBC, resulting in a 0.6 % increase in KBC's tier-1 ratio. In addition, over the last 18 months, some 115 million euros in capital has already been released as a result of a reduction in risk-weighted assets. The transaction impacted the 3Q2011 results to the tune of approximately -0.4 billion euros. Closure of the transaction is subject to the customary regulatory approval.
  - On 17 October 2011, KBC reached an agreement with J.C. Flowers & Co. for the sale of its subsidiary Fidea for a total consideration of 243.6 million euros, including a 22.6 million euros pre-completion dividend and subject to pricing adjustments on closing accounts. In total, this deal will free up around 0.1 billion euros in capital for KBC, primarily by reducing risk-weighted assets by 1.8 billion euros. The overall positive impact on KBC's tier-1 ratio is around 0.1%. The transaction impacted the results to the tune of roughly -0.1 billion euros. Closure of the transaction is subject to the customary regulatory approval.
  - A number of companies are still scheduled for divestment. The sales processes for Kredyt Bank, Warta and KBC Bank Deutschland have started, and the files for the sales process for Antwerp Diamond Bank are being prepared.
  - KBC's main objective in this respect is and remains to implement the plan within the agreed timeframe and to repay the Belgian authorities in a timely manner. KBC also intends to maintain a regulatory tier-1 capital ratio of 11%, according to Basel II banking capital adequacy rules.
- Other main events in 3Q2011:
  - The deteriorating credit position of Greece in the financial markets led to an impairment of an additional 126 million euros (after tax) being recorded on our Greek government bond portfolio (fully recognised at 58% of the nominal amount), while a provision of 174 million euros (after tax) was set aside for the contingent repayment intention that KBC has provided its retail clients in relation to the 5-5-5 products.
  - During September, the bill on FX debt rescheduling became law in Hungary. Although the matter has been taken to the Constitutional Court in Budapest, KBC has recorded an impairment of 74 million euros (after tax) on this portfolio, reflecting an anticipated 20% participation rate in the scheme.
  - In Bulgaria, a thorough evaluation of the underlying asset values has led to an impairment of 96 million euros being recorded. An impairment of 53 million euros has also been recorded on the goodwill for CIBank.
  - Following the stock market downturn, impairment of 87 million euros (before and after tax) had to be recorded on the share portfolio.
  - Given that the economy and Irish marketplace have not improved in the way we envisaged and that the austerity measures have had a considerable impact on households, a loan loss provision of 164 million euros (after tax) was recorded for the Irish loan book.
  - The substantial widening of corporate ABS credit spreads between end-June and end-September resulted in a valuation markdown of 0.6 billion euros (after tax) on the CDO exposure.
  - The considerable widening of government spreads between end-June and end-September resulted in a negative 0.2 billion euros (after tax) marked-to-market change in the value of the position in trading derivatives used for hedging purposes.
  - The widening of KBC's credit spread between end-June and end-September resulted in a positive 0.2 billion euros (after tax) marked-to-market change regarding KBC's own credit risk.
  - Under the preliminary EBA exercise based on data as at the end of June (see press release of 27 October 2011), both KBC group and KBC Bank complied with the 9% core tier-1 threshold as determined by the EBA (capital position according to B2.5, corrected with the marked-down sovereign exposures based on market prices as at 30 September 2011). The preliminary capital buffer as identified at the end of June is sufficient to cover 3Q11 results. An update of the outcome of the EBA exercise based on positions and market prices as of 30 September is expected to be published in November 2011.

- We have also acted to reduce volatility in our results. During the third quarter, our CDO exposure was reduced by 2.5 billion euros, which constitutes a 12% decline in the notional amount outstanding. This was achieved by early terminations and sales at limited cost. During the third quarter, our ABS exposure was reduced by 0.7 billion euros, which constitutes a 17% decline in the notional amount outstanding. This was achieved by sales at limited cost.
- KBC responded to the market developments of recent months by further reducing in an efficient manner its government bond exposure to PIIGS countries, cutting it from 9.6 billion euros at 30 June 2011 to 6.7 billion euros at 30 September 2011. Moreover, KBC has since further reduced its exposure by a nominal amount of 1.6 billion euros (by the end of October).
- The Belgian regulator has confirmed to us that the YES (Yield Enhanced Securities) will be fully grandfathered as common equity under the current CRD4 proposal.

#### **Statement of risk**

- Mainly active in banking, insurance and asset management, KBC Group is exposed to a number of typical risks such as – but not exclusively – credit default risk, movements in interest rates, capital markets risk, currency risk, liquidity risk, insurance underwriting risk, operational risk, exposure to emerging markets, changes in regulations, customer litigation, as well as the economy in general. It is part of the business risk that the macroeconomic environment and the ongoing restructuring plans may have a negative impact on asset values or could generate additional charges beyond anticipated levels.
- Risk management data are provided in KBC's annual reports, the extended quarterly reports and the dedicated risk reports, all of which are available at [www.kbc.com](http://www.kbc.com).
- For the remainder of 2011 and early 2012, the main risk for economic growth is the potential for further contagion of the financial crisis to the real economy. In particular, a credible and sustainable solution for the EMU sovereign debt problem is necessary to restore general confidence and stabilise the financial sector.

The financial calendar, including the dates of earnings releases as well as analysts and investor meetings, is available at [www.kbc.com](http://www.kbc.com).

#### **Contact details:**

- Wim Allegaert, General Manager, Investor Relations, KBC Group  
Tel 32 2 429 40 51 [wim.allegaert@kbc.be](mailto:wim.allegaert@kbc.be)

- Viviane Huybrecht, General Manager, Group Communication/Spokesperson, KBC Group  
Tel 32 2 429 85 45 [pressoffice@kbc.be](mailto:pressoffice@kbc.be)

#### **Note for the editor:**

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