



Earnings statement

KBC Group, 4Q 2012 and FY 2012

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Date of release: 14 February 2013, 7 a.m. CET.

Summary: further alignment with core strategy and good commercial results

KBC ended the last three months of 2012 with a net profit of 240 million euros, compared with a net profit of 531 million euros in the previous quarter and 437 million euros in the year-earlier quarter. This means the group has generated a total net profit of 612 million euros for the full-year 2012, compared with 13 million euros a year earlier.

After excluding all exceptional and non-operating items, KBC ended the fourth quarter of 2012 with an underlying net profit of 309 million euros, compared with a net profit of 406 million euros in the previous quarter and 161 million euros in the corresponding quarter of 2011. The underlying results for full-year 2012 amounted to 1 542 million euros, well above 1 098 million euros in 2011.

Johan Thijs, Group CEO:



'The continued alignment of the group with its core strategy was the main focus for the last quarter of 2012. Besides generating good commercial results, we made substantial progress again in this quarter towards bringing KBC into line with its strategic objectives. Significant divestments, a very successful strengthening of our capital and a large repayment of state aid were the main features of the fourth quarter, a period in which we recorded underlying net profit of 309 million euros.'

Our underlying result was driven by the good commercial performance of our strategic banking and insurance business model in our home markets in Belgium and Central and Eastern Europe. Net interest income held firm despite the current challenging low-yield environment, thanks to healthy commercial margins and the lower funding cost of covered bonds, among other things. Loan and deposit volumes grew considerably in our core markets. Fee income went up significantly and insurance products sold well, particularly in the life insurance business. The combined ratio was persistently low across the year, but loan loss impairments in the quarter under review were slightly higher.

We also successfully carried out the merger of our Polish banking subsidiary, Kredyt Bank, with Bank Zachodni WBK. In addition, we signed an agreement to sell our Russian banking subsidiary, Absolut Bank, to Blagosostoyanie, the group that manages the assets of the second-largest non-state pension fund in Russia. And we signed an agreement to fully exit NLB by selling our remaining 22% stake to the Republic of Slovenia. Consequently, we are now in a position to focus further on our core activities.

We improved our already strong liquidity position, as illustrated by a loan-to-deposit ratio of 78% at the end of December. We have decided to repay 8.3 billion euros of the LTRO to the ECB, given that our group boasts a strong retail and corporate deposit base in our core markets and our wholesale funding needs for 2013 are well advanced.

In addition to the successful placement of 350 million euros' worth of treasury shares at the beginning of the fourth quarter, an equally successful placement of 59 million ordinary shares at the beginning of December added gross cash proceeds of 1 250 million euros to our capital. At the beginning of 2013, we complemented these transactions with the issue of a tier-2 contingent capital note for 1 billion US dollars that was eight times oversubscribed.

We repaid 3 billion euros of state aid plus paid a penalty of 15% (450 million euros) to the Belgian Federal Government in December. We intend to accelerate repayment of 1.17 billion euros of state aid to the Flemish Regional Government plus pay the accompanying penalty of 580 million euros in the first half of 2013, subject to the customary approval of the National Bank of Belgium.

As a result, our tier-1 capital ratio settled at 13.8% in the fourth quarter of 2012. This ratio will amount to 14.6% on a pro forma basis when the effects of the sale of our stake in Bank Zachodni WBK, the sale of our holding in Nova Ljubljanska banka group and the sale of Absolut Bank are included. Our common equity ratio under Basel III at the end of 2012 stood at 10.8% (fully loaded), well above our goal to maintain a target common equity ratio under Basel III (fully loaded) of 10% as of 1 January 2013.

At the beginning of October, we announced our updated strategy for the group for 2013 and beyond and have restructured our organisation with effect from 1 January 2013 to better reflect this updated strategy. Our goal is to become more agile and efficient and thus more competitive. In doing so, we will not only adapt to changing client behaviour but will also meet the legitimate expectations from society as a whole, to the benefit of our clients, employees, shareholders and other stakeholders alike.

Over the whole of 2012, KBC generated a profit of 612 million euros. On an underlying basis, this figure stood at an even higher 1 542 million euros. When taking into account the repayment penalty of 450 million euros, paid to the Belgian State, and the coupon of 543 million euros, to be paid on the core capital securities sold to the Belgian State and the Flemish Region, our underlying earnings per share comes to 1.57 euros, while reported earnings per share amounts to -1.09 euros. Given our strong solvency position – as reflected in our tier-1 capital ratio of 13.8% – we will propose to the Annual General Meeting of Shareholders that a dividend of 1.00 euro per share be paid this year.

We also intend not to pay a dividend next year, which means no coupon will be paid to the Flemish Regional Government either. Taking all factors into account, the return the Flemish Region will receive on the core capital securities will remain higher than 10% per year. As mentioned above, we still intend to accelerate repayment of 1 167 million euros of state aid to the Flemish Regional Government plus pay the accompanying premium of 583 million euros in the first half of 2013, subject to the customary approval of the National Bank of Belgium. '

Main exceptional and non-operating items impacting the reported IFRS result for 4Q2012:

A number of exceptional items were excluded from the underlying results. Their combined impact in 4Q2012 amounted to -0.1 billion euros. Apart from some smaller items, the main non-operating items in 4Q2012 were a negative amount of 0.1 billion euros for a marked-to-market adjustment in relation to KBC's own credit risk, a positive amount of 0.1 billion euros attributable to the Kredyt Bank divestment file and a negative amount of 0.1 billion euros from the sale of our stake in the Nova Ljubljanska banka group.

Financial highlights for 4Q2012 compared to 3Q2012:

- Continued good underlying net group profit through strong commercial franchise.
- Stable net interest income.
- Good growth in loan and deposit volumes in our core markets.
- Healthy combined ratio at 95% year-to-date.
- Robust sales of unit-linked life insurance products.
- Increased net fee and commission income, up by 4%.
- Solid gains from financial instruments at fair value.
- Underlying cost/income ratio at 57% year-to-date.
- Credit cost ratio at a satisfactory 0.71% year-to-date. Excluding Ireland, this ratio stands at 0.39%.
- Consistently strong liquidity position with a solid loan-to-deposit ratio of 78%.
- Solvency: strong capital base: *pro forma* tier-1 ratio – including the effect of divestments which have been signed, but not yet closed – at 14.6% (with a core tier-1 ratio of 12.5%). Basel III common equity ratio (fully loaded) well above the 10% target.

Overview KBC Group (consolidated)	4Q2011	3Q2012	4Q2012	Cumul. FY2011	Cumul. FY2012
Net result, IFRS (in millions of EUR)	437	531	240	13	612
Basic earnings per share, IFRS (in EUR) ¹	0.63	1.16	-0.97	-1.93	-1.09
Underlying net result (in millions of EUR)	161	406	309	1 098	1 542
Underlying basic earnings per share (in EUR) ¹	-0.19	0.79	-0.84	1.26	1.57
Breakdown of underlying net result per business unit (in millions of EUR)					
Belgium	251	290	237	802	1 019
Central & Eastern Europe	98	169	146	327	621
Merchant Banking	-153	10	-7	-110	-19
Group Centre	-35	-64	-67	79	-78
Parent shareholders' equity per share (in EUR, end of period)	28.7	31.3	29.0	28.7	29.0

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

¹ Note: If a coupon is expected to be paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments, it will be deducted from the numerator (pro rata). If a penalty has to be paid, it will likewise be deducted.

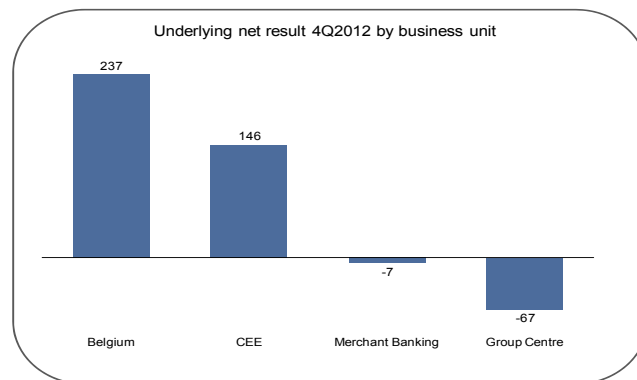
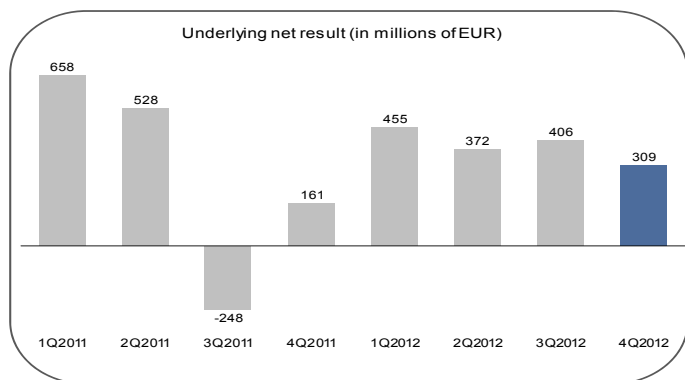
Underlying results

Highlights of 4Q2012 (excluding exceptional and non-operating items)

In addition to the figures according to IFRS (next section), KBC provides 'underlying' figures aimed at giving more insight into the business performance. The differences with the IFRS figures relate to the exclusion of exceptional or non-operating items and a different accounting treatment for certain hedging results and capital-market income.

A full explanation of the differences between the 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, underlying KBC Group (in millions of EUR)	1Q 2011	2Q 2011	3Q 2011	4Q 2011	1Q 2012	2Q 2012	3Q 2012	4Q 2012	Cumul FY2011	Cumul FY2012
Net interest income	1 374	1 390	1 342	1 298	1 211	1 150	1 087	1 086	5 404	4 534
Earned premiums, insurance (before reinsurance)	1 141	975	972	1 033	884	890	578	623	4 122	2 975
Technical charges, insurance (before reinsurance)	-1 016	-843	-817	-880	-752	-757	-499	-584	-3 556	-2 593
Ceded reinsurance result	-17	-8	-18	-1	-14	-1	-12	13	-44	-13
Dividend income	8	37	14	15	5	21	10	5	74	41
Net result from financial instruments at fair value through profit or loss	259	102	10	138	326	113	256	222	509	917
Net realised result from available-for-sale assets	53	42	11	85	31	6	57	55	191	150
Net fee and commission income	399	394	367	374	306	310	349	363	1 535	1 328
Other net income	73	72	-210	12	-8	53	74	89	-52	209
Total income	2 274	2 161	1 673	2 075	1 989	1 786	1 900	1 873	8 182	7 549
Operating expenses	-1 227	-1 155	-1 172	-1 133	-1 110	-1 016	-990	-1 068	-4 686	-4 184
Impairment	-105	-333	-740	-730	-271	-241	-305	-378	-1 909	-1 195
on loans and receivables	-97	-164	-475	-599	-261	-198	-283	-329	-1 335	-1 072
on available-for-sale assets	-6	-135	-228	-85	-5	-24	-4	-4	-453	-37
on goodwill	0	0	0	0	0	0	0	0	0	0
on other	-2	-35	-38	-46	-5	-18	-18	-45	-121	-86
Share in results of associated companies	1	0	-23	-35	-9	-9	-13	1	-57	-31
Result before tax	943	673	-262	177	599	520	592	428	1 530	2 139
Income tax expense	-271	-138	22	-9	-136	-144	-177	-110	-397	-567
Result after tax	671	534	-240	167	463	376	415	317	1 133	1 572
attributable to minority interests	14	6	8	7	7	5	9	9	35	30
attributable to equity holders of the parent	658	528	-248	161	455	372	406	309	1 098	1 542
Belgium	280	238	32	251	266	226	290	237	802	1 019
Central & Eastern Europe	123	146	-40	98	118	188	169	146	327	621
Merchant Banking	177	63	-196	-153	42	-65	10	-7	-110	-19
Group Centre	77	81	-44	-35	30	23	-64	-67	79	-78
Basic earnings per share (EUR)	1.50	1.11	-1.17	-0.19	0.93	0.69	0.79	-0.84	1.26	1.57
Diluted earnings per share (EUR)	1.50	1.11	-1.17	-0.19	0.93	0.69	0.79	-0.84	1.26	1.57
Reconciliation of underlying and IFRS result KBC Group (in millions of EUR)	1Q 2011	2Q 2011	3Q 2011	4Q 2011	1Q 2012	2Q 2012	3Q 2012	4Q 2012	Cumul FY2011	Cumul FY2012
Result after tax, attributable to equity holders of the parent: UNDERLYING	658	528	-248	161	455	372	406	309	1 098	1 542
+ MTM of derivatives for ALM hedging	96	-77	-245	-46	45	-29	-33	-30	-273	-46
+ gains/losses on CDOs	114	-108	-628	154	149	-32	274	40	-468	431
+ impairment on goodwill	0	-17	-57	-41	0	-16	0	-8	-115	-24
+ result on legacy structured derivative business (KBC FP)	14	43	5	-12	-11	-7	6	7	50	-6
+ MTM of own debt issued	-16	-25	185	215	-340	41	-144	-87	359	-531
+ results on divestments	-45	-12	-591	8	81	-868	23	10	-640	-754
Result after tax, attributable to equity holders of the parent: IFRS	821	333	-1 579	437	380	-539	531	240	13	612



The underlying net result for the quarter under review amounted to 309 million euros, compared to 406 million euros in 3Q2012 and 161 million euros in 4Q2011.

Gross income stable quarter-on-quarter.

- Underlying net interest income stood at 1 086 million euros, the same level as the previous quarter and down 16% year-on-year. The year-on-year performance was impacted partly by the deconsolidation of KBL *epb*, Warta, Żagiel and Fidea. Leaving these items out, net interest income was down by 10% year-on-year. This was due primarily to the lower income from asset and liability management, while commercial margins remained healthy. The net interest margin came to 1.77% for the quarter under review, 3 basis points higher than in the previous quarter but 18 basis points less than the high level of a year earlier. In the Belgium Business Unit, both deposit and loan volumes were up quarter-on-quarter and year-on-year (loans: +5% year-on-year and +1% quarter-on-quarter; deposits: +5% year-on-year and 1% quarter-on-quarter). The loan book in the CEE Business Unit increased by 4% year-on-year (attributable to the Czech Republic, Slovakia and Bulgaria) and by 1% quarter-on-quarter, while deposits rose by 2% year-on-year and 3% quarter-on-quarter. The loan portfolio in the Merchant Banking Business Unit was down 6% year-on-year (mainly in Western Europe and the US) and 2% quarter-on-quarter, while the deposit base grew by 23% year-on-year, after a sharp contraction in 4Q2011 and by 2% quarter-on-quarter.

- Both the life and non-life insurance businesses had good commercial results during the quarter under review. In total, gross earned premiums less gross technical charges and the ceded reinsurance result came to 52 million euros, down 22% quarter-on-quarter and 66% year-on-year. However, when account is taken of the deconsolidation of Fidea, VITIS and Warta, this result was 42% less than the year-earlier figure. This year-on-year effect was caused by technical elements.

The non-life segment was characterised by a good level of premiums but a relatively high level of claims due to bad weather conditions as well as technical elements like the introduction of new indicative tables for bodily injury claims, leading to a high figure for technical charges. The combined ratio for the year came to a good 95%.

In the life segment, and on a comparable basis, sales of life insurance products rose by 29% quarter-on-quarter, due to a very successful savings campaign in the fourth quarter. Year-on-year, these sales rose by as much as 49%.

It should be noted that the insurance results were also impacted by low investment income but benefitted from strict control of general administrative expenses.

- The net result from financial instruments at fair value amounted to 222 million euros in the quarter under review, down on the exceptionally high figure for the previous quarter but substantially up on the year-earlier figure.
- Net realised gains from available-for-sale assets stood at 55 million euros for the quarter under review, similar to the previous quarter but well above the 45-million-euro average for the last four quarters. This item was impacted mostly by gains on the sale of bonds.
- Net fee and commission income amounted to 363 million euros, up 4% quarter-on-quarter but down 3% year-on-year. The year-on-year performance was impacted partly by the deconsolidation of KBL *epb*, Warta, Żagiel and Fidea. Leaving these items out, income was up by 8% year-on-year. Assets under management stood at 155 billion euros, up 4% on the year-earlier figure, due to a positive investment performance, but flat compared with the figure for the third quarter of 2012.
- Other net income came to 89 million euros, 41 million euros of which was recovered with respect to the KBC Lease UK fraud case.

Operating expenses impacted by year-end effects.

- Operating expenses came to 1 068 million euros in the last quarter of 2012, up 8% on their level in the previous quarter and down 6% on their year-earlier level. The year-on-year performance was accounted for partly by the deconsolidation of KBL *epb*, Warta, Żagiel and Fidea. Excluding deconsolidated companies, underlying costs increased by 10% compared to the previous year. Higher marketing expenses and restructuring charges, primarily in Central and Eastern Europe, were the main causes of the quarterly increase. The year-on-year comparison is distorted by the recovery of 55 million euros of the bank tax in Hungary in the last quarter of 2011. The year-to-date cost/income ratio came to 57%, a clear indication that costs remain well under control.

Credit cost ratios up; loan loss provisions for Merchant Banking Business Unit sizeable.

- Loan loss impairment stood at 329 million euros in the last quarter, up on the 283 million euros recorded in the previous quarter, but down on the 599 million euros recorded a year earlier. The quarterly figure was accounted for by the fact that loan loss impairment of 87 million euros was recorded at KBC Bank Ireland, as well as 96 million euros at the Merchant Banking Business Unit excluding Ireland. The annualised credit cost ratio stood at 0.71% for 2012. This breaks down into a low 0.11% for the Belgian retail book (compared to 0.10% for FY2011), 0.40% in Central and Eastern Europe (down from 1.59% for FY2011, which had been adversely affected by Hungary and Bulgaria) and 1.42% for Merchant Banking (marginally up from 1.36% for FY2011). Excluding Ireland, the credit cost ratio for Merchant Banking stood at 0.48% (down from 0.59% for FY2011).
- Impairment charges on available-for-sale assets came to 4 million euros and other impairment charges amounted to 45 million euros in the quarter under review.

Strong solvency capital position under Basel II.

- The group's tier-1 ratio (under Basel II) stood at a strong 13.8% at 31 December 2012 (core tier-1 ratio of 11.7%). Including the effect of the sale of the stake in Bank Zachodni WBK, the sale of the holding in the Nova Ljubljanska banka group and the sale of Absolut Bank, the *pro forma* tier-1 ratio was as high as 14.6% (core tier-1 ratio of 12.5%).
- The solvency ratio for KBC Insurance stood at an excellent 322% at 31 December 2012, down from a very high 365% at the end of the previous quarter.
- The common equity ratio under the current Basel III framework stood at 10.8% (fully loaded, including the aid from the Flemish Region) at the end of 2012, well above the targeted common equity ratio of 10% under Basel III (fully loaded).

Highlights of underlying performance per business unit.

- The Belgium Business Unit contributed 237 million euros to profit in 4Q2012, compared to 290 million euros in the previous quarter. The quarter was characterised by increased net interest income due to good commercial margins, good insurance sales but a challenging combined ratio due largely to technical elements, increased fee income and a higher level of loan impairment. Operating expenses were up for seasonal reasons but remained very well under control.
- The CEE Business Unit (Czech Republic, Slovakia, Hungary and Bulgaria) posted a profit of 146 million euros in 4Q2012, compared to 169 million euros in the previous quarter, driven partly by a higher level of operating expenses and a somewhat lower net interest income. Overall, impairment levels in the fourth quarter remained low.
- The Merchant Banking Business Unit recorded a loss of 7 million euros in 4Q2012, compared to a profit of 10 million euros in 3Q2012. The result was impacted by an increased level of loan impairment in the corporate branches. In Ireland, impairment charges amounted to 87 million euros, down 33% on the previous quarter. The respectable dealing room results and a recovery of an amount related to the fraud case at KBC Lease UK contributed substantially to the gross income. Excluding KBC Bank Ireland, net profit for the Merchant Banking Business Unit in 4Q2012 would have been 53 million euros.
- It should be noted that all planned divestments in the KBC group are not included in the respective business units, but have been grouped together in the Group Centre in order to clearly state the financial performance of the long-term activities and the planned divestments separately. In 4Q2012, the Group Centre's net result came to a negative 67 million euros, compared to -64 million euros in the previous quarter. This result was driven largely by the impairments in a small number of files in the project finance portfolio of KBC Finance Ireland as well as at KBC Bank Deutschland.

Exceptional and non operating items.

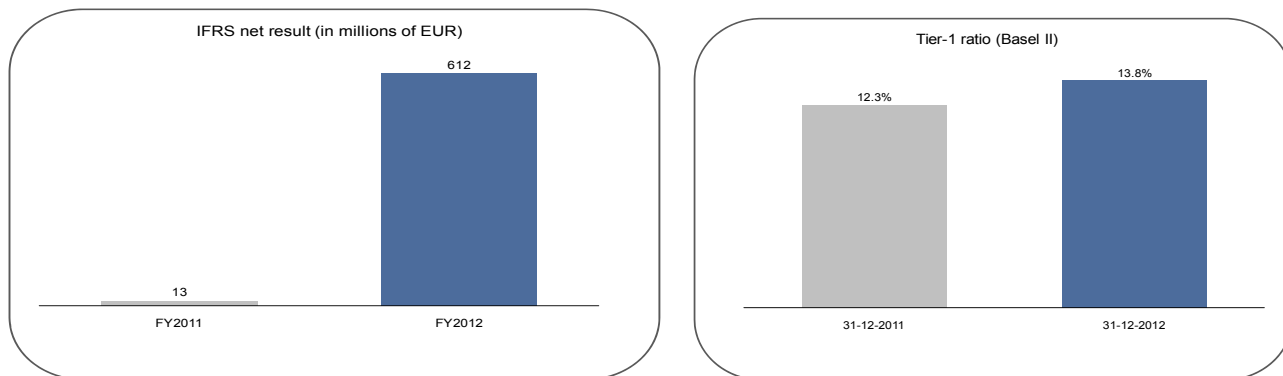
A number of exceptional items were excluded from the underlying results. Their combined impact in 4Q2012 amounted to -0.1 billion euros. Apart from some smaller items, the main non-operating items in 4Q2012 were a negative amount of 0.1 billion euros for a marked-to-market adjustment in relation to KBC's own credit risk, a positive amount of 0.1 billion euros income from the Kredyt Bank divestment file and a negative amount of 0.1 billion euros from the sale of the group's stake in the Nova Ljubljanska banka group.

IFRS result

Highlights of FY2012

A full overview of the IFRS consolidated income statement and balance sheet is provided in the 'Consolidated Financial Statements' section of this 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 performance, KBC also publishes its 'underlying' results (see above).

Consolidated income statement, IFRS KBC Group (in millions of EUR)	1Q 2011	2Q 2011	3Q 2011	4Q 2011	1Q 2012	2Q 2012	3Q 2012	4Q 2012	Cumul FY2011	Cumul FY2012
Net interest income	1 395	1 406	1 341	1 337	1 261	1 190	1 097	1 121	5 479	4 669
Interest income	3 047	3 195	2 910	2 732	2 695	2 563	2 493	2 382	11 883	10 134
Interest expense	-1 651	-1 789	-1 569	-1 395	-1 434	-1 374	-1 396	-1 261	-6 404	-5 465
Earned premiums, insurance (before reinsurance)	1 141	974	972	1 033	884	890	578	623	4 119	2 975
Technical charges, insurance (before reinsurance)	-1 012	-840	-812	-877	-752	-757	-499	-584	-3 541	-2 593
Ceded reinsurance result	-17	-8	-18	-1	-14	-1	-12	13	-44	-13
Dividend income	12	41	17	15	6	21	13	5	85	45
Net result from financial instruments at fair value through profit or loss	472	-194	-892	436	60	43	275	42	-178	420
Net realised result from available-for-sale assets	34	42	10	83	32	9	56	85	169	181
Net fee and commission income	300	297	281	287	304	309	343	360	1 164	1 315
Fee and commission income	518	530	480	514	492	479	494	541	2 043	2 005
Fee and commission expense	-218	-233	-200	-227	-188	-170	-151	-181	-878	-690
Other net income	92	110	-149	3	73	368	106	187	56	734
Total income	2 416	1 829	749	2 317	1 853	2 072	1 954	1 854	7 310	7 733
Operating expenses	-1 143	-1 081	-1 077	-1 043	-1 132	-1 033	-1 003	-1 081	-4 344	-4 248
Impairment	-105	-332	-940	-746	-273	-1 473	-302	-463	-2 123	-2 511
on loans and receivables	-97	-164	-473	-599	-261	-198	-283	-330	-1 333	-1 072
on available-for-sale assets	-6	-118	-223	-71	-5	-75	-4	-11	-417	-95
on goodwill	0	-17	-62	-41	0	-414	0	-8	-120	-421
on other	-2	-33	-183	-35	-7	-786	-15	-114	-253	-923
Share in results of associated companies	1	0	-23	-35	-9	17	-6	1	-58	2
Result before tax	1 170	416	-1 292	492	439	-417	644	310	786	976
Income tax expense	-334	-76	165	-75	-93	-110	-103	-56	-320	-362
Net post-tax result from discontinued operations	0	0	-445	26	40	-8	0	-6	-419	27
Result after tax	835	340	-1 571	443	387	-535	540	249	47	641
attributable to minority interests	14	6	8	6	7	5	9	9	34	29
attributable to equity holders of the parent	821	333	-1 579	437	380	-539	531	240	13	612
Belgium	385	158	-348	226	489	204	321	286	421	1 300
Central & Eastern Europe	141	145	-91	94	119	171	182	119	289	591
Merchant Banking	203	69	-255	-225	17	-65	-8	-58	-208	-114
Group Centre	92	-39	-885	342	-246	-849	37	-107	-489	-1 165
Basic earnings per share (EUR)	1.98	0.54	-5.08	0.63	0.71	-1.99	1.16	-0.97	-1.93	-1.09
Diluted earnings per share (EUR)	1.98	0.54	-5.08	0.63	0.71	-1.99	1.16	-0.97	-1.93	-1.09



IFRS net result for 2012 at 612 million euros, compared to 13 million euros a year earlier.

- Net interest income amounted to 4 669 million euros, compared to 5 479 million euros a year earlier. The decline was caused primarily by the deconsolidation of KBL *epb*, Warta, Żagiel and Fidea and lower re-investment yields. Year-on-year, loan volumes grew overall by 1%: 5% in Belgium, 4% in Central Europe and -6% in Merchant Banking. Customer deposits expanded by 9%: 5% in Belgium, 2% in Central Europe, and 23% at Merchant Banking, after a sharp contraction in 4Q2011. The year-to-date net interest margin shrunk to 1.81%, 16 basis points lower than the high figure a year ago.
- Gross earned premiums less gross technical charges and the ceded reinsurance result came to 369 million euros, down 31% year-on-year, primarily because of the deconsolidation of VITIS, Warta and Fidea.
For the non-life activities, the year-to-date combined ratio came to a strong 95%, slightly up on the 92% for FY2011 due largely to technical items. For the life activities and on a comparable basis, there was a 16% year-on-year increase in the sale of life insurance products (thanks to higher sales of unit-linked products). It should be noted that the insurance results were also affected by investment income and charges, as well as by general administrative expenses. Investment income, in particular, was lower for both the life and non-life businesses compared to the previous quarter and the year-earlier quarter.
- Net fee and commission income amounted to 1 315 million euros in 2012, up 13% on its level a year ago, thanks, *inter alia*, to the successful sale of unit-linked products. Assets under management stood at 155 billion euros, up 4% on the year-earlier figure, due to a positive investment performance.
- The net result from financial instruments at fair value (trading and fair value income) came to 420 million euros in 2012, compared to a negative 178 million euros a year earlier. On an underlying basis (i.e. excluding exceptional items such as value adjustments to structured credit, fair valuing of the group's own debt and after shifting all trading-related income items to this heading), trading and fair value income amounted to 917 million euros on 31 December 2012, almost double the year-earlier figure, due to the very good performance turned in by the dealing room, especially in the first quarter, and the positive credit value adjustments in the third quarter.
- The remaining income components were as follows: dividend income from equity investments amounted to 45 million euros, the net realised result from available-for-sale assets (bonds and shares) stood at 181 million euros and other net income totalled 734 million euros, accounted for primarily by the capital gain realised on the closure of the sale of Warta in the second quarter.
- Operating expenses amounted to 4 248 million euros in 2012, 2% lower than the year-earlier figure. This was caused by the divestments, but offset by such factors as inflation, wage indexation and a higher bank tax. The underlying cost/income ratio for banking – a measure of cost efficiency – stood at 57% at the end of December 2012, an improvement on the 60% recorded for FY2011.
- Total impairment stood at 2 511 million euros for 2012. Impairment on loans and receivables amounted to 1 072 million euros, substantially lower than the 1 333 million euros recorded in 2011. As a result, the annualised credit cost ratio for 2012 came to 0.71%, an improvement on the figure of 0.82% for FY2011. Impairment on available-for-sale assets stood at 95 million euros. Impairment on goodwill totalled 421 million euros and other impairment charges 923 million euros. Impairment charges on goodwill and other impairment charges were both caused by the planned divestment files (primarily NLB, Absolut Bank, Antwerp Diamond Bank, KBC Banka and KBC Bank Deutschland) and were recorded in the second quarter.
- Income tax amounted to 362 million euros for FY2012.
- At year-end 2012, total equity came to 16.0 billion euros – down 0.8 billion euros on its level at the start of the year – due mainly to the repayment of 3.0 billion euros (plus a penalty of 0.5 billion euros) of non-voting core capital securities subscribed by the Belgian Federal Government and the deduction of the coupon on non-voting core capital securities subscribed by the Belgian Federal and Flemish Regional governments (-0.6 billion euros). These outflows were mitigated by the inclusion of net profit for 2012 (0.6 billion euros), the substantial change in the available-for-sale revaluation reserve (1.4 billion euros), and the capital increase through the sale of treasury shares and issue of new shares (1.6 billion euros combined). The remaining items include cash flow hedges and translation differences. The group's tier-1 capital ratio – a measure of financial strength – stood at a sound 13.8% at 31 December 2012. This ratio will amount to 14.6% on a pro

forma basis when the effects of the sale of the stake in Bank Zachodni WBK, the sale of the holding in NLB and sale of Absolut Bank are included.

Selected balance sheet data

Highlights of consolidated balance sheet KBC Group (in millions of EUR)	31-03- 2011	30-06- 2011	30-09- 2011	31-12- 2011	31-03- 2012	30-06- 2012	30-09- 2012	31-12- 2012
Total assets	322 493	312 899	305 109	285 382	290 635	285 848	270 010	256 886
Loans and advances to customers*	147 625	143 182	143 451	138 284	135 980	133 326	131 048	128 492
Securities (equity and debt instruments)*	88 839	85 144	74 062	65 036	65 853	64 227	65 171	67 295
Deposits from customers and debt certificates*	192 412	188 116	184 453	165 226	166 551	163 685	160 945	159 632
Technical provisions, before reinsurance*	23 870	24 084	21 064	19 914	19 925	19 539	19 637	19 205
Liabilities under investment contracts, insurance*	6 568	6 638	6 787	7 014	7 871	8 856	9 680	10 853
Parent shareholders' equity	11 011	11 500	9 834	9 756	10 949	9 687	10 629	12 099
Non-voting core-capital securities	7 000	7 000	7 000	6 500	6 500	6 500	6 500	3 500

* In accordance with IFRS 5, the assets and liabilities of a number of divestments have been reallocated to 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups', which slightly distorts the comparison between periods.

Selected ratios

Selected ratios KBC Group (consolidated)	FY2011	FY2012
Profitability and efficiency (based on underlying results)		
Return on equity ¹	5%	10%
Cost/income ratio, banking	60%	57%
Combined ratio, non-life insurance	92%	95%
Solvency²		
Tier-1 ratio	12.3%	13.8%
Core tier-1 ratio	10.6%	11.7%
Credit risk		
Credit cost ratio	0.82%	0.71%
Non-performing ratio	4.9%	5.3%

¹ If a coupon is expected to be paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments, it will be deducted from the numerator (pro rata).

² After coupon on the core-capital securities sold to the Belgian Federal and Flemish Regional governments and assumed dividend of 1.00 euros per share, payable in May 2013.

Strategy highlights and main events

KBC's core strategy remains focused on bank-insurance in Belgium and a selection of countries in Central and Eastern Europe (Czech Republic, Slovakia, Hungary and Bulgaria). In line with its strategic plan, the group has almost finished the sale or run-down of a number of (non-core) activities (see below).

Significant progress made in 4Q2012 and so far in 2013 in implementing strategic refocusing plan.

- On 8 October 2012, Johan Thijs, the group's CEO, presented the updated strategy and explained how KBC will address the challenges presented by the changed business environment. He also put forward KBC's main financial targets for 2015, setting the course for the group to become the reference in bank-insurance in its core markets.
- On 16 October 2012, KBC Group NV and KBC Bank NV announced the successful completion of the private placement of 18.2 million euros' worth of treasury shares. The gross proceeds from the transaction amounted to 350 million euros.
- On 3 December 2012, KBC launched a highly successful Mortgage Pfandbriefen benchmark issue in euros, marking KBC's inaugural benchmark issue of covered bonds. The 1.25-billion-euro covered bond issue allowed KBC to further diversify its investor base and long-term funding mix and resources through covered bonds.
- On 4 December 2012, the Polish Financial Supervision Authority approved the merger of KBC and Banco Santander's respective Polish banking subsidiaries, Kredyt Bank and Bank Zachodni WBK. The merger was registered on 4 January 2013.
- On 4 December 2012, KBC Private Equity NV reached an agreement with KeBeK I regarding the sale of most of KBC Private Equity's remaining private equity portfolio.
- On 10 December 2012, KBC Group NV announced the successful placement of 58.8 million ordinary shares at a price of 21.25 euros per share, resulting in gross cash proceeds of 1 250 million euros.
- On 17 December 2012, KBC repaid 3 billion euros of state aid plus paid a penalty of 15% (450 million euros) to the Belgian Federal Government, after having obtained approval from the National Bank of Belgium. Since KBC had already repaid 500 million euros in state aid (plus a 15% penalty) to the Belgian Federal Government on 2 January 2012, all of the state aid received from the Belgian Federal Government has now been reimbursed.
- On 20 December 2012, KCB announced the amendment of the guarantee agreement (the Portfolio Protection Agreement or PPA) for the group's CDO and ABS portfolio. Additional clauses have been added to the revised agreement that grant KBC a conditional discount on the outstanding premiums, under certain strict conditions and limited to a set maximum amount.
- On 24 December 2012, KBC Group NV signed an agreement to sell its Russian banking subsidiary Absolut Bank to a group of Russian companies that manage the assets of Blagosostoyanie, the group that manages the second-largest non-state pension fund in Russia. The transaction is still subject to regulatory approval, which is expected in the second quarter of 2013.
- On 28 December 2012, KBC reached agreement with the Republic of Slovenia regarding the sale of its remaining 22% stake in the Nova Ljubljanska banka group. Completion of the agreement is expected in early 2013 after the approval of the Slovenian Competition Authority has been obtained.
- On 18 January 2013, KBC successfully placed 1 billion US dollars' worth of tier-2 contingent capital notes. The issue met with strong demand and was more than eight times oversubscribed.
- On 25 January 2013, KBC Group NV announced its decision to repay its three-year Long Term Refinancing Operation to the European Central Bank in the first quarter of 2013, for an amount totalling 8.3 billion euros. KBC boasts a strong retail and corporate deposit base in its core markets and its wholesale funding needs for 2013 are well advanced.
- For three of its remaining divestment files, i.e. Antwerp Diamond Bank (Belgium), KBC Banka (Serbia) and KBC Bank Deutschland (Germany), KBC is still in discussions with a number of interested parties, while the divestment of the stake in Bank Zachodni WBK (Poland) is ongoing. For all four files, KBC is also maintaining an open and constructive dialogue with the European Commission

Other main events in 2012

- On 3 October 2012, the European Banking Authority and National Bank of Belgium announced the final assessment of the capital exercise and fulfilment of the EBA December 2011 Recommendation, which showed that KBC Bank meets the 9% core tier-1 ratio including the sovereign buffer as stated in the recommendation.

- The Irish economy appears to be growing modestly albeit not evenly. A solid export performance and growing signs of stabilisation in domestic activity have coincided with an improvement in financial sentiment. Reflecting the challenging global environment and ongoing budget austerity, the turnaround in Irish economic conditions is likely to be gradual. However, growth in tax revenues, a marginal easing in unemployment and broadly encouraging survey data suggest domestic activity is approaching a turning point, while recent data on housing transactions and prices seem consistent with a bottoming out in the housing market. A loan loss provision of 87 million euros was recorded in 4Q2012, resulting in impairment on loans of 547 million euros for the full financial year.
- KBC has acted to reduce volatility in its results, and further reduced its exposure to Southern European government bonds in the first three quarters by almost a third, mainly through cutting back its holdings of Spanish and Italian government bonds.
- KBC reduced the profit and loss sensitivity of its CDO portfolio significantly through de-risking activities.

Statement of risk

- Mainly active in banking, insurance and asset management, KBC 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.
- Although political event risks remain large, particularly in the Southern part of the European Monetary Union (EMU) area, economic risks clearly receded in recent months. This is illustrated, for example, by the avoidance of the fiscal cliff in the US and the ongoing favourable effect on EMU sovereign bond markets of the OMT programme announced by the ECB in September 2012. As a consequence, the recovery in global manufacturing is gaining strength and is becoming most visible in the US, China and in core EMU economies such as Germany. Since structural reforms in the Southern EMU area are starting to bear fruit and the political approach towards growth-reducing austerity has become more pragmatic, it is likely that countries in that area will gradually join the global recovery in the second half of 2013.

Additional information

- "Our auditor has confirmed that his audit procedures of the consolidated financial statements, prepared in accordance with the International Financial Reporting Standards as adopted in the European Union, are substantially completed and that these procedures have not revealed any material modification that would have to be made to the accounting information derived from the consolidated financial statements and included in this earnings statement."
- In 2012, the changes in the scope of consolidation related to Centea, Fidea, Warta and KBL *epb*. The combined effect of these changes on profit is immaterial.

Financial calendar for 2013

2012 Annual Report available as of	2 April 2013
2012 Risk Report available as of	2 April 2013
Annual General Meeting	2 May 2013
Ex-dividend date	13 May 2013
Payment date	16 May 2013
KBC Group – Publication of 1Q 2013 results	16 May 2013
KBC Group – Publication of 2Q 2013 results	8 August 2013
KBC Group – Publication of 3Q 2013 results	14 November 2013
KBC Group – Publication of 4Q 2013 results	13 February 2014

The financial calendar, including analyst and investor meetings, is available at www.kbc.com/ir/calendar.

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Note for the editor:

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