

# Earnings Statement

## KBC Group, 3Q 2008 and 9M 2008

Regulated information\* - 6 November 2008 (7 a.m. CET)

### Summary

KBC posted a net loss of 906 million euros (IFRS) for the quarter ending 30 September 2008. The loss was driven by value markdowns on structured credit and other investment portfolios. Adjusted for exceptional items and for structured credit and other value write-downs (see details in the quarterly report), the net profit would have come to 551 million euros. As at 30 September 2008, year-to-date reported profit stood at 141 million euros (2 094 million on an adjusted basis).

*According to André Bergen, Group CEO: "Following the credit-rating downgrades of the Collateralised Debt Obligations held, KBC decided mid-October to communicate its preliminary third-quarter earnings earlier than planned. The definitive set of results presented today is fully in line with the information disclosed at that time. Despite the difficult operating environment, commercial performance was satisfactory, especially in Eastern Europe. The financial position of the group remains solid, and the more so after the capital-strengthening transaction that was announced last week."*

Key figures, overview:

In millions of EUR	3Q 2007	2Q 2008	3Q 2008	3Q 2008 / 3Q 2007	9M 2007	9M 2008	9M 2008 / 9M2007
Net profit (IFRS)	639	493	-906	-	2 572	141	-95%
Earnings per share, basic (IFRS, in EUR)	1.85	1.45	-2.66	-	7.39	0.42	-94%
Earnings per share, diluted (IFRS, in EUR)	1.84	1.45	-2.65	-	7.36	0.41	-94%
Underlying net profit (group share) excluding investment losses related to the financial crisis*	646	806	551	-15%	2 309	2 094	-9%
Belgium Business Unit	313	318	215	-31%	1 057	987	-7%
Central & Eastern Europe and Russia Business Unit	130	222	201	55%	457	603	32%
Merchant Banking Business Unit	170	234	137	-19%	681	460	-31%
European Private Banking Business Unit	50	64	32	-36%	160	146	-9%
Group Centre	-16	-32	-34	-	- 46	- 102	-
Shareholders' equity per share (EUR, at end of period)					50.2	42.0	-16%

\*Revaluation of CDOs and impairments on shares and troubled US banks.

Highlights for 3Q 2008:

- Preliminary earnings trend reconfirmed
- Satisfactory commercial results, especially in Eastern Europe, despite difficult climate
- Negative impact from investment markdowns (1.4 billion euros, net)
- Measures taken to reduce earnings impact of future CDO rating downgrades
- Loan quality remains remarkably good (credit cost ratio: 24 bps)
- CEE continues to perform well, mainly thanks to geographical business mix
- *Pro forma* Tier-1 capital ratio, banking at 10.7% (of which 8.2% core equity) and *pro forma* insurance solvency at 2.8 times the regulatory minimum

Publication schedule for 6 November 2008:

- Quarterly report available on [www.kbc.com](http://www.kbc.com) 7.00 a.m. CET
- E-conference for financial analysts 9.30 p.m. CET, [www.kbc.com](http://www.kbc.com) – Tel. +44 20 7162 0025
- Press conference call 11.30 a.m. CET – Tel. +32 2 290 1407

\* KBC Group is a listed company. This news release contains information that is subject to transparency regulations for listed companies.

## Financial highlights - 3Q 2008

André Bergen, Group CEO, summarised the financial highlights for 3Q 2008, as follows:

*“The preliminary earnings disclosure of mid-October is fully confirmed. Despite the difficult climate, and taking into account the recurring seasonal revenue pattern, commercial results were satisfactory, especially in Eastern Europe. However, the reported results have been negatively affected by accounting markdowns on investment portfolios across business units.”*

*“The net profit impact of the investment markdowns due to the financial crisis was 1.4 billion euros: 1.1 billion on the CDO portfolio, 0.2 billion on shareholdings and 0.1 billion on exposure to troubled US banks Lehman Brothers and Washington Mutual. Part of the CDO markdown resulted from credit rating downgrades of 5 CDOs held. The markdowns also included the impact of extrapolating the rating downgrading to those CDO notes that were out of the scope of the credit rating agency review. By so doing, the future financial impact of potential effective downgrades of those CDOs has been anticipated.”*

*“While overall economic activity slowed, credit quality remained remarkably good. Loan losses were low again in Belgium, as was the case in our international loan book. Year-to-date, the credit cost ratio was 24 basis points. When including the losses on bonds of the troubled US banks, the ratio came to 37 basis points. Within the context of the deteriorating economic environment, it is expected that the loan loss trend will remain upwards for the next quarters.”*

*“Even after the consensus macroeconomic forecast for the region was revised, the Central and Eastern Europe business unit continues to perform well, mainly thanks to the relative weight of our presence in countries with more moderate vulnerability. Updated stress tests also provide comfort as regards our selective foreign-currency lending in the region.”*

*“KBC’s financial position remains very solid thanks to its sound liquidity buffer and firm solvency ratios. When account is taken of the capital-strengthening transaction announced last week, the Tier-1 ratio for banking activities stands at 10.7%, of which 8.2% core capital. For the insurance division, the solvency margin is 280%.”*

## Financial highlights – 9M 2008

- *Net profit* according to IFRS for the nine months ending 30 September 2008 amounted to 141 million euros. This figure includes charges for items that do not occur during the normal course of business in the amount of -90 million euros, net, and losses on investment portfolios related to the financial crisis in the amount of 1 863 million, net.
- *Net interest income* came to 3 723 million euros, up 24% on the year-earlier figure (+12% on an underlying basis), mainly thanks to solid volume growth achieved across all markets. The net interest margin in the Central & Eastern Europe and Russia Business Unit increased (partly thanks to growth in higher-margin countries), while it fell in Belgium due to the repricing of savings deposits during 3Q 2008.
- *Gross earned premiums*, insurance, stood at 3 166 million euros, up 19% compared to the year-earlier figure. Net of *technical charges* and *ceded reinsurance result*, the income was 54 million higher (+15%). The combined ratio, non-life, remained at a remarkably favourable level of 92%.
- *Dividend income* from equity holdings amounted to 195 million euros, somewhat lower than the year-earlier figure.
- *Net gains from financial instruments at fair value* came to a negative 1 680 million euros. This amount included a valuation markdown of 2.1 billion euros on *structured credit investments*. The line item also includes income from professional money and securities trading, which was negatively impacted by the adverse capital-market climate.
- *Gains from available-for-sale assets* were realised in the amount of 341 million euros (mostly on investments in shares), 199 million less than the year-earlier figure.
- *Net fee and commission income* amounted to 1 336 million euros. This is 11% below the year-earlier level, largely due to lower customer investment activities consequent on the adverse investment climate.
- *Other net income* stood at 435 million euros, 47 million above the year-earlier level.
- *Operating expenses* came to 3 939 million euros. Compared to the year-earlier period, the 4% growth in costs is explained by new acquisitions and currency appreciations. Excluding these factors, the cost level was down 3%, largely on the back of lower bonus accruals due to lower trading revenue.
- *Impairment charges* stood at 909 million euros, 300 million euros of which related to the loan portfolio. An impairment of 591 million euros was taken on *available-for-sale* investment securities, of which 415 million euros related to shares held mainly in the insurance business and 172 million euros related to (mostly) bonds of the troubled US banks *Lehman Brothers* and *Washington Mutual*.
- The contribution from *associated companies* amounted to 33 million euros, while the share in the result *attributable to minority interests* was 83 million euros. Due to the negative pre-tax results, a deferred tax asset was recognised, resulting in a positive impact on the profit and loss account.
- As at the end of September 2008, parent shareholders’ equity came to 14.3 billion euros (42 euros per share). Shareholders’ equity was down on the start of the year, as profit for the period (+0.1 billion euros) was more than

offset by dividends paid out and treasury shares repurchased (-1.6 billion euros, combined) and by a decrease in the revaluation reserve for available-for-sales assets (-1.8 billion euros).

## Strategy highlights – 9M 2008

The 2008 financial year has so far been one of the most eventful periods for the banking industry in a long time. Several banks went into difficulties, while liquidity and debt markets dried up substantially. In spite of these events, KBC's funding base and solvency position remained solid. The capital base will even be strengthened further by the planned issuance of core capital securities (to be subscribed by the Belgian State) following the significant change in market expectations as to banking capital adequacy .

KBC's strategy remained unchanged, primarily focused on reinforcing market positions in its home markets in Belgium and Central and Eastern Europe and pursuing niche strategies in merchant and private banking. In light of the adverse operating environment, the strategic focus shifted recently to safeguarding organic growth, away from acquisitions, which have become a remote option in the immediate future.

## Future developments

André Bergen, Group CEO: *"When the financial crisis first came to public notice in the summer of 2007, we could not have imagined that it would last so long and be so deep. Reported earnings will continue to be influenced by market price trends of shares and credit instruments. It is obvious that we remain vigilant, while we make sure that much of the management agenda continues to be directed towards business performance and enhancement of the mid-term value of our core business portfolio."*

KBC has a credit exposure to 3 Icelandic banks in the amount of 277 million euros. No impairment decision has been taken yet since the level thereof could not be reliably determined. This decision will be taken later in the fourth quarter.

## Additional information on the financial statements

Year-to-date earnings per share and shareholders' equity per share as at 30 September 2008 were calculated on the basis of 340.1 (period average) and 339.5 (end of period) million shares, respectively. For this purpose, the number of mandatorily convertible bonds (MCB 1998/2008) was added to the number of ordinary shares, while the number of treasury shares held was deducted. On the other hand, diluted earnings per share was calculated on the basis of 341.2 million shares (period average), including the number of outstanding share options.

The outstanding 1998/2008 mandatorily convertible bonds (MCBs) will mature on 30 November 2008. Holders will be repaid in 2.5 million newly issued ordinary shares that will have a share in the results as of the 2009 financial year. According to the IFRS, MCBs are included in the shareholders' equity. Therefore, the conversion will not alter the reported shareholders' equity amount.

During the past year, a number of changes were made to the scope of consolidation (of which the inclusion of *ISTROBANKA* in Slovakia as of the third quarter of 2008). The resulting year-to-date impact on net profit was immaterial.

KBC has made additional risk disclosures on its structured credit exposure as at 30 September 2008. The dedicated PowerPoint presentation is available at [www.kbc.com/ir](http://www.kbc.com/ir).

## Financial calendar

Publication of 4Q 2008 results	12 February 2009
Publication of Embedded Value data as at 31-12-2008, Insurance	2 April 2009
2008 Annual Report available as of	9 April 2009
2008 Annual Corporate Social Responsibility Report available as of	9 April 2009
Annual General Meeting	30 April 2009

For an extended version of the calendar, including analyst and investor meetings, see [www.kbc.com/ir/calendar](http://www.kbc.com/ir/calendar).

## Overview of results according to IFRS – 3Q 2008 and 9M 2008

Below is the income statement summary of KBC Group, based on the *International Financial Reporting Standards* (IFRS). A full overview of the IFRS consolidated income statement and balance sheet is provided in the 'Consolidated Financial Statements' section of the quarterly report. A condensed statement of changes in shareholders' equity and 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, KBC Group (in millions of EUR) - IFRS- FIGURES	1Q 2007	2Q 2007	3Q 2007	4Q 2007	1Q 2008	2Q 2008	3Q 2008	cumul. 9M 2007	cumul. 9M 2008
Net interest income	1 052	1 014	930	1 093	1 163	1 311	1 249	2 996	3 723
Gross earned premiums, insurance	869	824	969	1 328	1 236	1 008	922	2 661	3 166
Gross technical charges, insurance	- 753	- 663	- 841	- 1 147	- 1 078	- 820	- 804	- 2 258	- 2 702
Ceded reinsurance result	- 15	- 5	- 17	- 28	- 10	- 17	- 17	- 37	- 44
Dividend income	28	138	52	38	36	123	37	218	195
Net (un)realised gains from financial instruments at fair value	400	548	379	315	- 26	35	- 1 688	1 327	- 1 680
Net realised gains from available-for-sale assets	317	108	115	143	198	63	80	539	341
Net fee and commission income	489	527	478	499	438	477	422	1 494	1 336
Other net income	155	105	128	231	129	97	210	388	435
<b>Total income</b>	<b>2 541</b>	<b>2 595</b>	<b>2 193</b>	<b>2 473</b>	<b>2 084</b>	<b>2 276</b>	<b>411</b>	<b>7 329</b>	<b>4 771</b>
Operating expenses	- 1 208	- 1 314	- 1 266	- 1 431	- 1 278	- 1 310	- 1 351	- 3 788	- 3 939
Impairment	- 27	- 56	- 62	- 121	- 98	- 332	- 478	- 146	- 909
o/w on loans and receivables	- 25	- 55	- 51	- 54	- 27	- 143	- 130	- 130	- 300
o/w on available-for-sale assets	- 4	2	- 8	- 65	- 71	- 180	- 341	- 11	- 591
Share in results of associated companies	16	22	14	4	16	8	9	52	33
<b>Profit before tax</b>	<b>1 322</b>	<b>1 248</b>	<b>878</b>	<b>925</b>	<b>723</b>	<b>642</b>	<b>- 1 410</b>	<b>3 447</b>	<b>- 45</b>
Income tax expense	- 293	- 281	- 211	- 184	- 144	- 121	533	- 786	269
<b>Profit after tax</b>	<b>1 028</b>	<b>966</b>	<b>667</b>	<b>741</b>	<b>579</b>	<b>521</b>	<b>- 876</b>	<b>2 662</b>	<b>224</b>
attributable to minority interests	31	30	28	33	26	28	30	89	83
<b>attributable to the equity holders of the parent</b>	<b>997</b>	<b>936</b>	<b>639</b>	<b>708</b>	<b>554</b>	<b>493</b>	<b>- 906</b>	<b>2 572</b>	<b>141</b>
Belgium	353	470	302	278	357	194	- 227	1 124	324
Central & Eastern Europe and Russia	151	181	150	182	159	203	- 32	482	330
Merchant Banking	261	227	160	185	31	125	- 519	648	- 363
European Private Banking	53	73	43	41	43	48	- 88	169	2
Group centre	179	- 14	- 16	23	- 35	- 77	- 40	149	- 152

As stated earlier, the earnings for the third quarter were markedly impacted by value markdowns on credit and other investment portfolios.

Highlights, consolidated balance sheet and ratios (in millions of EUR or %)	31-12-2007	30-09-2008
<b>Total assets</b>	<b>355 597</b>	<b>383 576</b>
of which loans and advances to customers	147 051	163 947
of which securities (equity and debt instruments)	105 023	105 329
<b>Total liabilities</b>	<b>337 110</b>	<b>368 158</b>
of which deposits from customers and debt certificates	192 135	215 381
of which gross technical provisions, insurance	17 905	19 312
of which liabilities under investment contracts, insurance	8 928	8 155
<b>Parent shareholders' equity</b>	<b>17 348</b>	<b>14 254*</b>
Return on equity (based on underlying results, year-to-date)	18%	2%
Cost/income ratio (based on underlying results, year-to-date)	58%	79%
Combined ratio, non-life (based on underlying results, year-to-date)	96%	92%

For a definition of ratios, see "glossary and other information" of the quarterly report. More information on the balance sheet can be found in the Consolidated Financial Statements part of the quarterly report.

\* Decrease versus 31-12-2007 due to pay-out of dividends, repurchase of treasury shares and decrease in revaluation reserve for available-for-sale assets.

## Overview of the underlying results – 3Q 2008 and 9M 2008

Over and above the figures according to IFRS, KBC provides a number of 'underlying' figures aimed at providing more insight into the course of business.

The differences with the IFRS figures relate to a) the exclusion of exceptional non-operating items, b) the recognition of certain hedging derivatives used for Asset and Liability Management purposes and c) the accounting treatment of certain income components related to capital-market activities. A full reconciliation of the net profit according to IFRS and the underlying net profit is provided on the next page.

Consolidated income statement, KBC Group (in millions of EUR) - <b>UNDERLYING FIGURES</b>	1Q 2007	2Q 2007	3Q 2007	4Q 2007	1Q 2008	2Q 2008	3Q 2008	cumul. 9M 2007	cumul. 9M 2008
Net interest income	1 063	1 081	1 116	1 199	1 202	1 257	1 186	3 260	3 645
Gross earned premiums, insurance	869	824	969	1 328	1 236	1 008	922	2 661	3 166
Gross technical charges, insurance	-753	-663	-841	-1 147	-1 078	-820	-804	-2 258	-2 702
Ceded reinsurance result	-15	-5	-17	-28	-10	-17	-17	-37	-44
Dividend income	12	112	23	29	19	103	20	147	142
Net (un)realised gains from financial instruments at fair value	359	404	154	154	-28	88	-1 424	917	-1 365
Net realised gains from available-for-sale assets	96	107	115	143	198	63	80	318	341
Net fee and commission income	512	541	539	546	464	482	430	1 593	1 376
Other net income	151	87	88	125	115	72	115	324	302
<b>Total income</b>	<b>2 293</b>	<b>2 488</b>	<b>2 145</b>	<b>2 350</b>	<b>2 118</b>	<b>2 235</b>	<b>509</b>	<b>6 926</b>	<b>4 861</b>
Operating expenses	-1 208	-1 314	-1 266	-1 367	-1 278	-1 310	-1 351	-3 788	-3 939
Impairment	-27	-56	-62	-121	-98	-290	-471	-146	-859
o/w on loans and receivables	-25	-55	-51	-54	-27	-143	-130	-130	-300
o/w on available-for-sale assets	-4	2	-8	-65	-71	-138	-333	-11	-542
Share in results of associated companies	16	22	14	4	16	8	9	52	33
Profit before tax	1 074	1 140	831	866	756	643	-1 304	3 045	95
Income tax expense	-262	-230	-202	-157	-157	-105	481	-694	219
Profit after tax	812	910	629	709	599	538	-823	2 351	314
attributable to minority interests	31	30	28	33	25	28	30	90	83
<b>attributable to the equity holders of the parent</b>	<b>781</b>	<b>880</b>	<b>601</b>	<b>676</b>	<b>573</b>	<b>510</b>	<b>-853</b>	<b>2 261</b>	<b>231</b>
Belgium	327	417	303	274	387	177	-192	1 047	373
Central & Eastern Europe and Russia	150	177	117	174	154	190	-21	444	323
Merchant Banking	269	241	153	179	26	128	-518	663	-364
European Private Banking	52	57	44	41	43	47	-88	153	2
Group centre	-17	-13	-16	8	-36	-32	-34	-46	-103
<b>attributable to the equity holders of the parent, excluding investment losses related to the financial crisis*</b>	<b>785</b>	<b>878</b>	<b>646</b>	<b>834</b>	<b>737</b>	<b>806</b>	<b>551</b>	<b>2 309</b>	<b>2 094</b>
Belgium	328	416	313	307	455	318	215	1 057	987
Central & Eastern Europe and Russia	152	175	130	184	180	222	201	457	603
Merchant Banking	269	241	170	284	89	234	137	681	460
European Private Banking	52	58	50	50	50	64	32	160	146
Group centre	-17	-13	-16	8	-36	-32	-34	-46	-102

\*Revaluation of CDOs and impairments on shares and troubled US banks.

## Reconciliation of the accounts according to IFRS with the underlying accounts

The differences between the underlying results and the results reported according to IFRS are as follows:

- In order to arrive at the figure for underlying group profit, exceptional factors that do not regularly occur during the normal course of business are eliminated from the profit figure. In view of their exceptional nature and materiality, it is important to separate out these factors to understand the profit trend fully (impact on net profit: see table below).
- In the IFRS accounts, a large part of KBC's derivatives used for Asset and Liability Management (ALM) are treated as 'trading instruments'. These include those derivatives that do not qualify for *fair value hedge accounting for a portfolio hedge of interest rate risk*. Consequently, interest results on such hedges are recognised as 'net (un)realised gains from financial instruments at fair value', while the interest paid on the underlying assets is recognised as 'net interest income'. In the underlying accounts, the interest on these derivatives is also recognised in the 'net interest income' heading (where interest results on the underlying assets are already presented), without any impact on net profit.

Moreover, the fair value changes (due to marking-to-market) of these ALM derivatives are recognised under 'net (un)realised gains from financial instruments at fair value', while most of the underlying assets are not fair-valued (i.e. not marked-to-market). Hence, the 'underlying figures' exclude the fair value changes in these ALM derivatives (impact on net profit: see table below).

- Lastly, in the IFRS accounts, income related to trading activities is split across different components. While trading gains are recognised under 'net (un)realised gains from financial instruments at fair value', the funding costs and commissions paid in order to realise these trading gains are recognised respectively under 'net interest income' and 'net fee and commission income'. Moreover, part of the 'dividend income', 'net realised gains on available-for-sale assets' and 'other net income' are also related to trading income. In the underlying figures, all trading income components are recognised under 'net (un)realised gains from financial instruments at fair value', without any impact on net profit.

A detailed reconciliation of net profit under IFRS and underlying net profit is provided in the table below.

Underlying profit analysis, KBC Group (in millions of EUR)	BU*	1Q 2007	2Q 2007	3Q 2007	4Q 2007	1Q 2008	2Q 2008	3Q 2008
Profit after tax, attributable to equity holders of the parent		997	936	639	708	554	493	-906
Minus								
- Amounts before taxes and minority items								
MTM of derivatives for hedging purposes	various	34	94	13	36	-33	41	-151
Sale of fin participation in Intesa Sanpaolo (Italy)	Group	207	0	0	0	0	0	0
Sale of Banca KBL Fumagalli (Italy)	EPB	0	14	0	0	0	0	0
Sale of GBC (Hungary)	CEER	0	0	35	0	0	0	0
Adjustment staff health insurance	Group	0	0	0	-64	0	0	0
Impairment of fin participation in Irish Life & Permanent (Ireland)	Group	0	0	0	0	0	-42	-8
Gain on participation NLB as a result of capital increase	CEER	0	0	0	0	0	0	54
Other	various	-23	-13	-3	80	0	0	0
- Taxes and minority interests on the items above	various	-2	-40	-6	-20	14	-16	52
Underlying profit after tax, attributable to equity holders of the parent		781	880	601	676	573	510	-853

\*Belgium = Belgium business unit; CEER = Central & Eastern Europe and Russia business unit; Merchant = Merchant Banking business unit; EPB = European Private Banking business unit; Group = Group Centre.

In line with internal reporting policy, the unrealised value gain made on KBC's financial participation of some 31% in *Nova Ljubljanska Banka* was considered as a non-operating item. The gain resulted from using for valuation purposes – according to IFRS - the per share value of its recent capital increase, to which KBC did not subscribe. The impairment of KBC's financial participation of some 2% in *Irish Life & Permanent* was similarly treated.

-----