Earnings statement

KBC Group, 3Q 2009 and 9M 2009

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Summary

KBC ended the three months to September 2009 with a net profit of 528 million euros. Excluding exceptional items, an underlying net profit of 631 million euros was achieved, 54% higher than the previous quarter and up 15% compared to the third quarter of 2008. Jan Vanhevel, Group CEO: *'Although volume trends remain sluggish for the time being, business margins continue to be resilient and charges for problem loans are lower. The figures presented in this earnings statement provide evidence of the underlying earnings power of the group. The operating environment further gradually improved during the third quarter and leading indicators are signalling that we are past the bottom of the economic cycle.'*

In millions of EUR	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	3Q 2009	cumul. 9M 2008	cumul. 9M 2009
Net profit (IFRS)	554	493	-906	-2 625	-3 600	302	528	141	-2 770
Underlying net profit	737	806	551	176	465	409	631	2094	1506
Breakdown of underlying profit by business unit:									
Belgium Business Unit	455	318	215	158	255	289	289	987	832
Central & Eastern Europe and Russia Business Unit	180	222	201	84	106	71	42	603	219
Merchant Banking Business Unit	89	234	137	-42	91	41	281	460	413
European Private Banking Business Unit	50	64	32	15	34	44	38	146	116
Group Centre	-36	-32	-34	-38	-21	-35	-19	-102	-74
Shareholders' equity per share (EUR, at end of period)	45.7	45.5	42.0	31.5	19.5	23.2	27.7	42.0	27.7

Financial highlights for 3Q 2009:

- Continued resilient interest margin trend: net interest margin at 1.9%, up from 1.8% in previous quarter
- Supportive institutional trading environment, further gradual recovery of fee and commission income but lower insurance income
- On an underlying basis, operating expenses down 4% year-on-year
- Credit risk: loan provision charge significantly lower (year-to-date loan loss ratio of 79 basis points)
- -0.1 billion euros of exceptional items: various fair value changes of balance sheet positions (with negative items outweighing positive ones), partly offset by the positive impact of the repurchase of hybrid Tier-1 securities.

The income statement summary tables are on pages 5 and 6 of this earnings statement.

Financial highlights – 3Q 2009

Jan Vanhevel, Group CEO summarises the underlying business performance for 3Q 2009 as follows:

- *‘On an underlying basis, interest income grew by 3% quarter-on-quarter and 17% year-on-year. While volume growth slowed in core markets and international loan exposure has been reduced, the net interest margin remained healthy. The average net interest margin for the banking operations stood at 1.86%, compared to 1.78% for the previous quarter.’*
- *‘Still a mixed picture for non-interest income. Trading results were solid, even some 5% above the strong level of the previous quarter. Fee and commission income was up 2% on the previous quarter, benefiting further from the improved investment climate, though it is still, as yet, too early for a further marked rebound of asset-management-driven fee and commission income. Insurance premiums increased compared to the year-earlier quarter, but total insurance revenue suffered from lower investment yields.’*
- *‘Since late 2008, major efforts have been made to reduce costs. Following a marked consecutive decrease in previous quarters, the cost trend is bottoming out. Operating costs ended 4% lower year-on-year.’*
- *‘Compared to the previous quarter, loan losses were lower by 210 million euros or -37%. Loan losses were considerably lower for the international loan book in the merchant banking unit, and also in Belgium. In Central & Eastern Europe, additional loan provisions were set aside for corporate Russia and the unsecured consumer finance business in Poland, two particular areas of higher risk. In other parts of the CEE region, loan losses were roughly stable. In Ireland, they were down somewhat to 40 million euros, bringing the year-to-date loan loss ratio to 0.74%.’*

Headlines of underlying performance per business unit:

- With total income slightly up and costs and impairment charges slightly down compared to the previous quarter, a good pre-tax performance was posted again in the Belgium Business Unit. After tax, net profit remained stable at a fairly high level, bringing the year-to-date return on allocated equity to 32%.
- Compared to the preceding quarter, the net result for Central and Eastern Europe was impacted by additional loan impairment for Russia (15 million euros higher, mainly related to corporate credit) and Poland (13 million euros higher, mainly related to consumer finance). The year-to-date credit cost ratio for the entire region edged up to 1.83%. In the fourth quarter, additional loan loss provisions for Polish consumer finance are anticipated; however, total credit costs in Central and Eastern Europe and Russia for the full year are expected to remain within the 2.00%-2.30% range (cf. earlier guidance). KBC is now planning to refocus its consumer finance activities in Poland, moving away from the stand-alone specialist model and towards an integrated bancassurance distribution model.
- In merchant banking, there was a major recovery of net profit on the back of falling corporate loan provision charges (even when excluding the non-recurrence of general provisions set aside in 2Q 2009 for the US mortgage-backed securities portfolio). Results for capital market activities also remained solid.
- Results for the European Private Banking Business Unit were down slightly on the previous quarter, because some restructuring charges were posted. On the revenue side, increased securities-related income was offset by lower interbank income earned on available excess liquidity.

The quarter was also characterised by a number of one-off items that were not part of the normal course of business and were excluded from the presented underlying results. The main items were:

- A value mark-up of KBC’s CDO exposure was generated in the amount of +0.2 billion euros, net, primarily resulting from the further easing of market prices for corporate credit risk;
- A positive impact of +0.1 billion, after tax, was realised when perpetual subordinated hybrid Tier-1 securities were repurchased following a public tender offering; this repurchase also had a positive effect (+0.19%) on the core Tier-1 ratio of the group;
- A fair value change of KBC’s own debt issued of -0.2 billion euros, net, was recognised due to the improvement of KBC’s own credit default swap spread;
- A net present value change of the CDO guarantee fee of -0.1 billion euros, net, was posted, since the downwards shift of the interest yield curve resulted in lower discount rates used for the net present value calculation;
- A trading loss of -0.1 billion euros, net, was posted related to ‘legacy’ structured derivatives positions within KBC Financial Products (Merchant Banking).

Financial highlights – 9M 2009

Explanations per heading of the income statement for 9M 2009 (see summary table on page 5):

- The *net result* for the first nine months of 2009 amounted to -2.8 billion euros. This figure includes exceptional items (totalling -4.3 billion euros, net), such as value losses on CDO investments, the fee paid for the guarantee bought to cover the remaining CDO-linked exposure and position losses of discontinued trading activities. Adjusted for those items, (underlying) profit came to a positive 1.5 billion euros.

- *Net interest income* came to 4.5 billion euros, up 21% year-on-year (+12% on an underlying basis). While volume growth slowed down, margins recovered significantly at the start of 2009. As at 30 September 2009, the customer loan book (excluding reverse repos) stood, on an organic basis, 4% below the year-earlier level (up 2% in Belgium, but down 1% in Central & Eastern Europe and 8% in Merchant Banking). The net interest margin for banking came to 1.81%, up from 1.68% for the first nine months of 2008.
- *Gross earned premiums* in insurance stood at 3.7 billion euros, up 16% on the year-earlier figure. Net of *technical charges* and the *ceded reinsurance result*, income came to 324 million euros. The combined ratio for the non-life insurance activities came to a favourable 94%.
- *Dividend income* from equity investments amounted to 108 million euros, markedly lower than the 195 million euros reported for the first nine months of 2008. The equity investment portfolio shrank (to 1.9 billion euros, down from 2.7 billion euros at the start of the year) while corporate dividend payouts were also generally lower.
- *Net gains from financial instruments at fair value* came to -3.8 billion euros. Although sales and trading activities on money and debt securities markets performed well, this income heading was strongly impacted by net negative value adjustments on structured credit exposure (including the cost of the acquired guarantee) and the marking down of discontinued derivative positions. On an underlying basis, this income heading came to +886 million euros.
- *Gains from available-for-sale assets* (mostly on investments in shares) were 164 million euros. Due to the pursued policy of reducing the share investment portfolio and the past poor equity market performance, this was considerably below the year-earlier figure of 341 million euros.
- *Net fee and commission income* amounted to 1.1 billion euros. This is 20% lower than the year-earlier level, largely due to the lower income from asset management activities consequent on the investment climate that prevailed until the first half of 2009.
- *Other net income* ended at 384 million euros, down somewhat on the year-earlier figure of 435 million euros.
- Excluding exceptional items, *operating expenses* were down 7% year-on-year. Cost containment measures were implemented across all business units. The underlying cost/income ratio for banking stood at 55%, compared to 64% for 2008.
- Total *impairment* charges stood at 1.8 billion euros, 1.3 billion euros of which related to loans and receivables. This corresponds with a credit cost ratio of 0.96%. Excluding the charge for US mortgage-backed securities classified as loans, the credit cost ratio for the group came to 0.79% (0.12% for the Belgium Business Unit, 1.83% for the Central & Eastern Europe and Russia Business Unit and 0.76% for Merchant Banking Business Unit). *Available-for-sale* investment securities, mainly shares, were impaired to the tune of 335 million euros on the back of falling share prices throughout 2008 and up to the end of the first quarter of 2009. An impairment loss of 181 million euros was recognised on the value of goodwill outstanding, related to, among other things, acquisitions made in late 2007 and in early 2008 in Bulgaria and Slovakia.
- As pre-tax results were negative, a deferred *income tax* credit of 266 million euros was recognised.
- The result attributable to minority interests amounted to a negative 66 million euros (the negative amount has to do with the repurchase of a number of hybrid capital securities in the third quarter of 2009).
- At the end of September 2009, *total equity* came to 16.9 billion euros, up 1.6 billion euros on the figure at the start of the year, due to the fact that the negative year-to-date result (-2.8 billion) and the effect of the buying back hybrid capital securities (-0.6 billion) was offset by the positive impact of the issue of non-voting core capital securities to the State (Flemish Region of Belgium, +3.5 billion euros) and the positive market value adjustments on assets (+1.6 billion euros). The tier-1 capital ratio for the group stood at 10.2 % (8.8%, when excluding non-state hybrid tier-1 instruments).

Strategy highlights and future developments

- Jan Vanhevel, Group CEO: *'The operating environment further gradually improved during the third quarter and leading indicators are signalling that we are past the bottom of the economic cycle.*" On the other hand, fears remain that the recent economic recovery may not gain momentum since it has been driven by rebuilding inventory levels and temporary fiscal boosts without there being a structural rise in demand, among other factors. Jan Vanhevel: '*Of course, we are happy with the recent optimism and are now preparing for a further recovery. However, we are not assuming that we are back to a normal situation just yet.'* Underwriting criteria remain tight, especially in non-core markets and higher-risk areas. Although a late-cyclical rise in non-performing loan levels may appear, impairment charges are expected to remain manageable.
- Jan Vanhevel: *'KBC has been rethinking its position and partly reshaping itself in the wake of the financial crisis, lowering its risk tolerance while maintaining core earnings power and organic growth potential.'* The strategy review formed the basis of the restructuring plan that was submitted to the European Commission in relation to the capital support transactions with the State. Jan Vanhevel: '*We believe that we have entered a final stage of our discussions with the EU, and we remain confident about our business case*. The highlights of the plan were made public at an earlier date. The business strategy will focus on organically growing bancassurance in Belgium and Central and Eastern Europe, while especially international corporate lending and capital market activities are planned to be

reduced. The redemption of the capital securities issued to the State will be based largely on retained earnings and on the release of capital tied up in non-core assets.

- The European Commission provisionally cleared KBC's restructuring plan in June 2009 and is now anticipated to give final approval by early December at the latest. As is usual for this type of communication, KBC may ask the market regulator to temporarily suspend trading in its securities on the day the plan is published in order for the market to take note of the details. An investor conference will also be scheduled shortly after publication and will be open to capital market participants that have registered in advance (details will be available on www.kbc.com). All PowerPoint presentations will be made available to the public on www.kbc.com at the start of the conference.

Additional information on the financial statements

- During the third quarter of 2009, no changes were made to the scope of consolidation or to the valuation rules that had a material net impact on earnings.
- On average for the third quarter, value of local currencies in Central and Eastern European markets appreciated by 4% against the euro, compared to the previous quarter, which had a positive impact on the earnings components of the Central & Eastern Europe and Russia Business Unit. However, when comparing the third quarter to the same period of 2008, the average value of those currencies depreciated by 10%, which had a negative impact on earnings.
- *Total equity* at 30 September 2009 (16.9 billion euros) comprises the 7-billion-euros' worth of non-voting core capital securities issued to both the Belgian Federal State and the Flemish Regional Government of Belgium. Total equity breaks down into *parent shareholder's equity* (9.4 billion euros), *non-voting core capital securities* (7.0 billion euros) and *minority interests* (0.5 billion euros).
- *Parent shareholders' equity per share* at 30 September 2009 (27.7 euros) was calculated on the basis of 339.6 million shares, whereby the number of treasury shares held (18.2 million) was deducted from the number of ordinary shares outstanding (357.8 million).
- *Earnings per share* for 3Q 2009 (1.56 euros) was calculated on the basis of 339.54 million shares (average number during the quarter), while *diluted earnings per share* (1.56 euros) was calculated on the basis of 339.55 million shares (also quarterly average). In both cases, the average number of treasury shares held was deducted from the average ordinary share count. For calculating diluted earnings per share, however, the number of stock options granted to employees with an exercise price below the market price (25 579) was also deducted. Under IAS33, the conversion option held on a portion of the non-voting core capital securities issued to the State and the share underwriting commitment by the State linked to the CDO guarantee scheme have no impact.
- As usual, KBC has made additional risk disclosures on the composition of both its loan book and its structured credit exposure as at 30 September 2009 (available in the English version of the extended quarterly report at www.kbc.com/ir).
- KBC will publish its results for 4Q 2009 on 11 February 2010. An extended version of the financial calendar, including analyst and investor meetings, is available at www.kbc.com/ir/calendar.

Overview of results according to IFRS – 3Q 2009 and 9M 2009

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. A condensed statement of changes in shareholders' equity and several notes to the accounts are also available in the same section. In the period from 3Q 2008 to 1Q 2009, earnings were markedly impacted by value adjustments of investment portfolios. 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**	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	3Q 2009	cumul. 9H 2008	cumul. 9M 2009
Net interest income	1 163	1 311	1 249	1 269	1 477	1 441	1 597	3 723	4 515
Gross earned premiums, insurance	1 236	1 008	922	1 419	1 308	1 256	1 122	3 166	3 687
Gross technical charges, insurance	-1 078	-820	- 804	-1 181	-1 164	-1 127	-1 039	-2 702	-3 330
Ceded reinsurance result	- 10	-17	- 17	- 27	- 15	-17	-2	-44	-33
Dividend income	36	123	37	63	23	60	26	195	108
Net (un)realised gains from fin instruments at fair value	- 26	35	-1 688	-1 801	-3 742	78	-160	-1 680	-3 824
Net realised gains from available-for-sale assets	198	63	80	- 246	34	13	117	341	164
Net fee and commission income	438	477	422	377	317	372	380	1 336	1 069
Other net income	129	97	210	183	152	116	116	435	384
Total income	2 084	2 276	411	56	-1 610	2 193	2 157	4 771	2 740
Operating expenses	-1 278	-1 310	-1 351	-1 660	-1 235	-1 518	-1 307	-3 939	-4 061
Impairment	- 98	-332	- 478	-1 325	- 707	-633	-442	-909	-1 782
o/w on loans and receivables	- 27	-143	- 130	- 522	- 307	-578	-368	-300	-1 254
o/w on available-for-sale assets	- 71	-180	- 341	- 742	- 311	-19	-5	-591	-335
Share in results of associated companies	16	8	9	- 33	0	-2	3	33	2
Profit before tax	723	642	-1 410	-2 963	-3 552	40	411	- 45	-3 101
Income tax expense	- 144	-121	533	360	- 28	286	8	269	266
Profit after tax	579	521	- 876	-2 603	-3 580	326	419	224	-2 835
attributable to minority interests	26	28	30	22	20	24	-109	83	-66
attributable to the equity holders of the parent	**554**	**493**	**- 906**	**-2 625**	**-3 600**	**302**	**528**	**141**	**-2 770**
Belgium	357	194	- 227	- 721	- 5	287	330	324	611
Central & Eastern Europe and Russia	159	203	- 32	- 142	44	42	-3	330	84
Merchant Banking	31	125	- 519	-1 801	-3 738	-153	403	-363	-3 488
European Private Banking	43	48	- 88	- 155	26	29	37	2	92
Group centre	- 35	-77	- 40	193	73	97	-238	-152	-68
Earnings per share, basic (IFRS, in EUR)	1.62	1.45	-2.66	-7.72	-10.60	0.89	1.56	0.42	-8.16
Earnings per share, diluted (IFRS, in EUR)	1.62	1.45	-2.65	-7.70	-10.60	0.89	1.56	0.41	-8.16

Highlights, consolidated balance sheet and ratios (in millions of EUR or %)	31-12-2008	30-09-2009
Total assets	355 317	334 219
of which loans and advances to customers	157 296	156 974
of which securities (equity and debt instruments)	94 897	97 252
Total liabilities	339 941	317 282
of which deposits from customers and debt certificates	196 733	194 748
of which gross technical provisions, insurance	19 523	21 508
of which liabilities under investment contracts, insurance	7 201	7 319
Parent shareholders' equity	10 710	9 416
Non-voting core-capital securities	3 500	7 000
Return on equity (based on underlying results, year-to-date)	16%	19%
Cost/income ratio (based on underlying results, year-to-date)	64%	55%
Combined ratio, non-life (based on underlying results, year-to-date)	95%	94%

For a definition of ratios, see "glossary and other information".

More information on the balance sheet can be found in the Consolidated Financial Statements part of the quarterly report.

Overview of the underlying results – 3Q 2009 and 9M 2009

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 reconciliation table for net profit is provided on the next page.

Consolidated income statement, KBC Group (in millions of EUR) - **UNDERLYING FIGURES**	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	3Q 2009	cumul. 9H 2008	cumul. 9M 2009
Net interest income	1 202	1 257	1 186	1 265	1 353	1 344	1 391	3 645	4 088
Gross earned premiums, insurance	1 236	1 008	922	1 419	1 308	1 256	1 122	3 166	3 687
Gross technical charges, insurance	-1 078	-820	-804	-1 181	-1 164	-1 127	-1 039	-2 702	-3 330
Ceded reinsurance result	-10	-17	-17	-27	-15	-17	-2	-44	-33
Dividend income	19	103	20	54	12	47	9	142	68
Net (un)realised gains from fin instruments at fair value	114	403	242	175	231	321	335	759	886
Net realised gains from available-for-sale assets	198	63	80	2	51	41	95	341	187
Net fee and commission income	464	482	430	379	328	391	400	1 376	1 119
Other net income	115	72	110	107	119	98	93	297	309
Total income	2 260	2 550	2 170	2 192	2 222	2 353	2 405	6 980	6 980
Operating expenses	-1 284	-1 383	-1 278	-1 646	-1 235	-1 196	-1 224	-3 945	-3 656
Impairment	-28	-152	-143	-420	-319	-560	-367	-323	-1 247
o/w on loans and receivables	-27	-143	-130	-341	-307	-567	-356	-300	-1 230
o/w on available-for-sale assets	0	0	-15	-29	-3	-1	0	-15	-4
Share in results of associated companies	16	8	9	-20	0	-2	3	33	2
Profit before tax	964	1 022	758	106	667	595	816	2 744	2 079
Income tax expense	-200	-188	-175	94	-181	-162	-167	-564	-510
Profit after tax	763	834	583	200	486	433	649	2 180	1 568
attributable to minority interests	26	28	32	24	21	24	18	86	63
attributable to the equity holders of the parent	**737**	**806**	**551**	**176**	**465**	**409**	**631**	**2 094**	**1 506**
Belgium	455	318	215	158	255	289	289	987	832
Central & Eastern Europe and Russia	180	222	201	84	106	71	42	603	219
Merchant Banking	89	234	137	-42	91	41	281	460	413
European Private Banking	50	64	32	15	34	44	38	146	116
Group centre	-36	-32	-34	-38	-21	-35	-19	-102	-74
Underlying earnings per share, basic (in EUR)	2.16	2.37	1.62	0.52	1.37	1.21	1.86	6.16	4.44
Underlying earnings per share, diluted (in EUR)	2.15	2.36	1.62	0.52	1.37	1.21	1.86	6.14	4.44

In order to arrive at the underlying net profit, the following factors are eliminated:

- Fair value changes recognised under IFRS on derivatives used for asset and liability hedging purposes that do not qualify for *fair value hedge accounting for a portfolio hedge of interest rate risk* (since most of the hedged assets are not measured at fair value, fair valuing of hedges themselves is, from an economic point of view, an asymmetric treatment generating results without substance).
- Fair value changes recognised under IFRS on *liabilities at fair value through profit or loss* due to the changes in own credit spreads.
- Exceptional factors that do not regularly occur during the normal course of business (including exceptional value losses on financial assets due to the financial crisis).

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

Moreover, in order to arrive at the underlying figures, the following additional adjustments are made (without any impact on net profit):

- Interest results on derivatives used for asset and liability hedging purposes that do not qualify for *fair value hedge accounting for a portfolio hedge of interest rate risk* are presented in the *net interest income* heading in the same way as the interest paid on the underlying assets is treated (under IFRS, the interest results on these derivatives are recognised as *net (un)realised gains from financial instruments at fair value*);

- All income components related to professional trading activities within the investment banking division are presented under the *net (un)realised gains from financial instruments at fair value* heading (while under IFRS, income is split across different headings).

Underlying profit analysis, KBC Group (in millions of EUR)	BU*	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	3Q 2009	cumul. 9H 2008	cumul. 9M 2009
Underlying profit after tax, attributable to equity holders of the parent		737	806	551	176	465	409	631	2 094	1 506
Plus										
- Amounts before taxes and minority items										
MTM of derivatives for hedging purposes	1,2,3,4,5	-33	41	-151	- 310	-137	206	42	-144	110
MTM of own debt issued	5				371	134	200	-330		3
Losses on CDOs/monolines	1,2,3,4	-137	-241	-1 732	-1 895	-3 793	996	198	-2 110	-2 598
Government guarantee fee							-1 121	- 116		-1 236
Value losses on AFS shares	1,2,3,4	-71	-138	-159	- 733	- 311	- 50	4	- 368	- 358
Impairment of exposure to US and Icelandic banks	2,3,4			-172	- 268	16	-1	42	-172	56
Loss on to be discontinued structured trading positions	3				- 245		-760	-153		-913
Impairment on goodwill	1,2,3				- 10	-79	-28	-58		-166
Buy back of hybrid Tier-1 securities	1,2,3							128		128
Exceptional tax adjustments	1,2,3,5					145	61			205
Other	1,2,3,4,5		-42	46	21	-49	2	-33	5	-79
- Taxes and minority interests on the items above	1,2,3,4,5	58	67	712	267	7	388	176	836	570
Profit after tax, attributable to equity holders of the parent		554	493	-906	-2 625	-3 600	302	528	141	-2 770

* 1 = Belgium business unit; 2 = Central & Eastern Europe and Russia business unit; 3 = Merchant Banking business unit; 4 = European Private Banking business unit; 5 = Group Centre

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