



# Earnings statement

## KBC Group, 4Q 2011 and FY 2011

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Date of release: 9 February 2012, 7 a.m. CET.

### **Summary: 4Q profit at 437 million euros. Divestment and de-risking continues in a challenging market.**

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KBC ended the last three months of 2011 with a net profit of 437 million euros, compared with a net loss of 1 579 million euros in the previous quarter and a net profit of 724 million euros in the corresponding quarter of 2010. As a result, net profit came to 13 million euros for full-year 2011, compared to 1 860 million euros a year earlier.

The 'underlying' net result for the quarter under review (after excluding one-off and exceptional items) came to 161 million euros, well up on the net loss of 248 million euros in 3Q 2011 and almost on a par with the 168 million euros in 4Q 2010.

Jan Vanhevel, Group CEO:

*'In the last quarter of 2011, we recorded a high 437 million euros in profit, took a sizeable step forward in the implementation of our divestment plan and continued to de-risk our company. In January 2012, we concluded a sale agreement for Warta, our Polish insurance company, at an attractive price.*

*We have also further reduced our exposure to Southern European government bonds, as well as to CDOs and ABS, which has allowed us to continue reducing risk and volatility in profit at KBC.*

*Notwithstanding the particularly challenging market circumstances, the execution of our strategic plan has gained further momentum.*

*Our underlying result has been driven by the good results generated by our strategic banking and insurance business model on our home markets in Belgian and Central and Eastern Europe. The insurance business, in particular, had an excellent quarter. However, the result was also affected by additional loan loss provisioning in Ireland and Hungary, as well as by the impairment recorded on our Greek government bond position.*

*The two most noteworthy exceptional items were the positive value adjustments in our CDO portfolio and the marked-to-market valuation of our own issued debt.*

*KBC Bank notes the announcements made by the European Banking Authority and National Bank of Belgium in December 2011, which demonstrate that KBC Bank (at a consolidated level) already meets the 9% core tier-1 threshold.*

*On 2 January 2012, KBC repaid a first tranche of 500 million euros in respect of the YES (Yield Enhanced Securities) to the Belgian Federal Government under the conversion mechanism, which meant that the 15% – and not the 50% – penalty was applied. We are continuing our efforts to ensure that the 4.7 billion euros in state aid is reimbursed (before a penalty is incurred) by the end of 2013, as set out in the European plan.*

*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.'*

Despite the particularly challenging market circumstances, implementation of the strategic plan gained further momentum, as illustrated by the agreement that was signed for the sale of Warta. The transaction is expected to release almost 0.7 billion euros in capital, resulting in an increase in KBC's tier-1 ratio of slightly less than 0.7%. When closed, the transaction will have a positive impact of approximately 0.3 billion euros on KBC's profit and loss account.

As has been the case in previous quarters, KBC has acted to reduce volatility in its results.

- **CDO and ABS exposure**

We reduced our CDO and ABS exposure by 0.2 billion euros in the fourth quarter of 2011 and by a further 1.7 billion euros in January 2012. This was achieved by early terminations and sales at limited cost.

- **Southern European government bond exposure**

We continued to cut back our exposure to Southern European government bonds in the fourth quarter, reducing it by a substantial 1.9 billion euros, or almost 30% quarter-on-quarter.

The main exceptional factors having an impact on the reported IFRS result for 4Q2011 were:

- **Impact of the credit spread on CDO exposure**

During the fourth quarter, corporate and ABS credit spreads tightened, unlike the third quarter when they widened very severely. This led to a valuation mark-up of some 0.2 billion euros on the CDO exposure.

- **Impact of the marked-to-market valuation of issued debt**

The substantial widening of the credit spread on KBC debt between the end of September and year-end 2011 resulted in a positive marked-to-market adjustment of 0.2 billion euros.

- **Divestment of Warta**

The positive impact will be reflected in the results when the transaction is closed.

The main one-off items having an impact on the underlying result for 4Q2011 were:

- **Greece: one-off impact**

As a result of the deteriorating credit position of Greece in the financial markets, we recorded an additional impairment of 62 million euros after tax (85 million, pre-tax) on our Greek government bond portfolio in this quarter (which meant that an impairment of 71% of the nominal amount of Greek government bonds was recognised in full at 31 December 2011).

We also recorded a provision of 47 million euros after tax (71 million, pre-tax) on the 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 intention. At the time this press release was published, no credit event had occurred. At year-end 2011, however, the financial markets estimated that the probability of a credit event occurring was higher than 50% (a deterioration since the end of September 2011) and, therefore, we decided to set aside an additional provision through profit or loss in the fourth quarter based on the market value of these instruments. If no ISDA-defined credit event occurs, this provision will be reversed at last when the products mature in the second quarter of 2013.

- **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 recorded an additional impairment of 82 million euros (pre-tax) (in addition to 92 million euros (pre-tax)) on its FX retail mortgage portfolio in the fourth quarter, reflecting that 30% of all debtors are participating in this scheme. Please note that a portion of the impairment taken in respect of this new legislation has been deducted from the bank tax.

The main special items having an impact on the underlying result for 4Q2011 was:

- **Ireland**

The domestic economy weakened in late 2011 and is expected to remain challenging in 2012. Consumer sentiment, business sentiment and spending were all hit by the poorer global backdrop and ongoing severe austerity measures taken in Ireland itself. As a consequence, a loan loss provision of 164 million euros after tax (228 million euros, pre-tax) was recorded in 4Q2011.

These factors aside, underlying income in the fourth quarter was characterised by a sustained level of net interest income and commission income, good cost control, an excellent combined ratio, buoyant life insurance results, good dealing room results and comfortable liquidity and solvency positions. The credit cost ratio in our core markets remains low (barring the specific situation in Hungary and Bulgaria).

With a *pro forma* total tier-1 ratio of 13.8% and a core tier-1 ratio of 12.0% (including the impact of the sale of Warta, KBL EPB and Fidea), solvency remains not only solid, but also exceeds the threshold set under the recent EBA stress test.

Jan Vanhevel concludes: 'Over the whole of 2011, KBC generated net profit of 13 million euros, a figure that was primarily affected by divestments and impairment charges. The underlying result amounts to a substantially higher 1 098 million euros. Without taking into account the penalty paid and the coupon to be paid on the core-capital securities sold to the Belgian State and the Flemish Region, our earnings per share are slightly positive. When these payments are taken into account, earnings per share amount to -1.93 euros. We will propose to the Annual General Meeting of Shareholders that a technical dividend of 0.01 euros be paid.'

| Overview (consolidated)                                                                | 4Q2010 | 3Q2011 | 4Q2011 | Cumul.<br>FY2010 | Cumul.<br>FY2011 |
|----------------------------------------------------------------------------------------|--------|--------|--------|------------------|------------------|
| Net result, IFRS (in millions of EUR)                                                  | 724    | -1 579 | 437    | 1 860            | 13               |
| Earnings per share, basic, IFRS (in EUR) <sup>1</sup>                                  | 1.69   | -5.08  | 0.63   | 3.72             | -1.93            |
| Underlying net result (in millions of EUR)                                             | 168    | -248   | 161    | 1 710            | 1 098            |
| Underlying earnings per share, basic (in EUR) <sup>1</sup>                             | 0.06   | -1.17  | -0.19  | 3.28             | 1.26             |
| Breakdown of underlying net result per business unit (in millions of EUR) <sup>2</sup> |        |        |        |                  |                  |
| Belgium                                                                                | 255    | 32     | 251    | 1 051            | 802              |
| Central & Eastern Europe                                                               | 158    | -40    | 98     | 570              | 327              |
| Merchant Banking                                                                       | -228   | -196   | -153   | 133              | -110             |
| Group Centre                                                                           | -16    | -44    | -35    | -44              | 79               |
| Parent shareholders' equity per share (in EUR, end of period)                          | 32.8   | 28.9   | 28.7   | 32.8             | 28.7             |

1 Note: the penalty paid and the coupon that is expected to be paid on the core-capital securities sold to the Belgian State and Flemish Region are 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 4Q2011 compared to 3Q2011:

- High reported result characterised by good underlying business and the trend in market spreads.
- Net interest income sustained by higher loan volume in Belgium.
- Margins only slightly impacted by reduced exposure to Southern European government bonds.
- Net fee and commission income somewhat higher on account of successful issuance of Belgian state notes.
- Combined ratio of 92% for full year 2011.
- Increased premium income driven by higher sales of life products.
- Good dealing room performance.
- Underlying cost/income ratio at 60% for full year 2011 (57% excluding the impact of the provision for 5-5-5 investment products).
- Credit cost ratio up to 0.82% for full year 2011 on account of Ireland and Hungary.
- Strong liquidity in core markets, outflow concentrated in non-core parts of Merchant Banking.
- 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 13.8% (with a core tier-1 ratio of 12.0%).

## Financial highlights 4Q2011 (underlying)

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Jan Vanhevel, Group CEO, summarises the *underlying* business performance for 4Q2011 as follows:

**Gross income benefits from strong technical insurance results, sustained levels of interest income and commission income and good dealing room results, but is affected by the provision set aside for the 5-5-5 investment products.**

- Underlying net interest income stood at 1 298 million euros, down 11% year-on-year and 3% quarter-on-quarter. The year-on-year comparison is accounted for primarily by the deconsolidation of Centea, whereas the quarter-on-quarter change is due mainly to the sale of Southern European government bonds. As a consequence, the net interest margin came to 1.96% for the quarter under review, 2 basis points lower than in the previous quarter and 11 basis points lower on its exceptionally high level of a year earlier. In the Belgium Business Unit, both deposit and credit volumes were up year-on-year, quarter-on-quarter deposits fell, while credit volumes grew further (credit: +6% year-on-year and +2% quarter-on-quarter; deposits +5% year-on-year and -2% quarter-on-quarter, due to the successful sale of Belgian state notes). The loan book in the CEE Business Unit increased by 6% year-on-year (thanks to the Czech Republic and Slovakia), but contracted by 1% quarter-on-quarter (caused by Hungary), while deposits increased 4% year-on-year and contracted 1% quarter-on-quarter. The loan portfolio in the Merchant Banking Business Unit fell 1% year-on-year (stable in the last quarter), while the deposit base shrunk by 45% year-on-year (35% in the last quarter), caused mainly by reduced short-term deposits in our New York branch and at KBC Bank Ireland, primarily as a result of our short-term rating being downgraded by S&P and risk aversion towards European markets in general.
- Another very good performance was turned in on the technical insurance front during the quarter under review: net of technical charges and the ceded reinsurance result, technical insurance income came to 152 million euros, up 49% year-on-year and 10% quarter-on-quarter. The year-to-date combined ratio came to an excellent 92%. In the life insurance business, there was a slight quarter-on-quarter increase in the sale of life products (thanks to higher sales of interest-guaranteed products), but a slight decrease year-on-year, because of lower sales of interest-guaranteed products which were partly offset by increased sales of unit-linked products.
- The net result from financial instruments at fair value amounted to 138 million euros in 4Q2011, significantly up on its level both in the previous quarter and a year earlier, due to the good performance turned in by the dealing room in the quarter under review.
- Net fee and commission income amounted to 374 million euros, up 2% quarter-on-quarter, but down 10% year-on-year. Even though the successful sale of Belgian state notes added to this revenue, continuing low investor appetite made it difficult to increase assets under management. At the end of 2011, these stood at 193 billion euros, down 8% on the year earlier figure, 5% of which was caused by negative net entries.
- The other income components came to an aggregate 112 million euros. We recorded a provision of 47 million euros after tax (71 million euros, pre-tax) on the 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.

**Operating expenses lower on account of divestments.**

- Operating expenses came to 1 133 million euros in the last quarter of 2011, down 3% on their level in the previous quarter and 14% on their year-earlier level. The quarter-on-quarter comparison was impacted by the deduction of a portion of the Hungarian banking tax, whereas the year-on-year comparison was accounted for by the sale of Centea, the lower expenses at KBL EPB and the deduction of the Hungarian banking tax. The year-to-date cost/income ratio came to 60% (57% excluding the impact of the 5-5-5 investment product), a clear indication that costs remain under control.

**Significant loan loss provisions for Hungary and Ireland, and additional impairment on Greek government bonds.**

- Loan loss impairment stood at 599 million euros in the fourth quarter, up on the 492 million euros recorded a year earlier, and up on the 475 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 the corporate network in Belgium, given the unsustainable low level of impairment recorded in the third quarter of 2011. As a consequence, the annualised credit cost ratio stood at 0.82% for 2011; this breaks down into an excellent 0.10% for the Belgian retail book (down even further on the 0.15% recorded for FY2010), 1.59% in Central and Eastern Europe (up from 1.16% for FY2010) and 1.36% for Merchant Banking (down from 1.38% for FY2010). Excluding Ireland, the credit cost ratio for Merchant Banking remained at the relatively low level of 0.59% (down from 0.67% for FY2010).
- Other impairment charges came to 131 million euros in the quarter under review and related mainly to an additional impairment on Greek government bonds (85 million euros, over and above the 316 million euros booked in the previous quarters), bringing the fully recognised impairment to 71% 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 12.3% at 31 December 2011 (core tier-1 ratio of 10.6%). Including the effect of divestments for which a sale agreement has been signed to date (Warta, Fidea and KBL EPB), the *pro forma* tier-1 ratio even stands at approximately 13.8% (core tier-1 ratio of 12.0%).

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

- The Belgium Business Unit contributed 251 million euros to profit in 4Q2011, which was 219 million euros more than in 3Q2011. The quarter was characterised by stable net interest income, good insurance results and a very low level of loan impairment. The quarter-on-quarter increase is entirely related to a provision on the contingent intention to reimburse retail customers who bought 5-5-5 investment products, and to significant impairment on shares and Greek government bonds in the investment portfolio. Additional provisions and impairment charges were taken in the last quarter of 2011, but to a much lesser extent than in the third quarter.
- The CEE Business Unit (Czech Republic, Slovakia, Hungary and Bulgaria) posted a profit of 98 million euros in 4Q2011, as opposed to a loss of 40 million euros in the previous quarter. Income remained at its third-quarter level. The results have been impacted by the impairment taken on the loan portfolios in Hungary (forex mortgages) and on Greek government bonds.
- The Merchant Banking Business Unit recorded a loss of 153 million euros in 4Q2011, compared to a 196-million-euro loss in 3Q2011. This was due to the good level of income generated by the dealing room. However, this performance was offset by the high level of impairment in both Ireland and the corporate network in Belgium, as well as by an additional provision on the contingent intention to reimburse retail customers who bought 5-5-5 investment products.
- 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 indicate the financial performance of the long-term activities and the planned divestments separately. In 4Q2011, the Group Centre's net result came to -35 million euros, compared to -44 million euros in the previous quarter. The result was accounted for mainly by the negative result at NLB.

**Positive 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 4Q2011 amounted to a positive 0.3 billion euros. Apart from some smaller items, the main non-operating items in 4Q2011 were:
  - a valuation mark-up of 0.2 billion euros on the CDO exposure (resulting mainly from a tightening of corporate and ABS credit spreads).
  - a positive 0.2 billion euros marked-to-market adjustment in relation to KBC's own credit risk.

## Full-year 2011: results per heading (IFRS)

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Explanations per heading of the **IFRS** income statement for full-year 2011 (see summary table on the next page):

- The IFRS net result for 2011 amounted to 13 million euros, as opposed to 1 860 million euros in 2010.
- Net interest income amounted to 5 479 million euros compared to 6 245 million euros a year earlier. The decline was caused primarily by the deconsolidation of Centea, but also by the sale of Southern European government bonds. Credit volumes grew by 2%, mortgages even by 3%. Customer deposits grew by 5% in Belgium and by 4% in Central Europe, while the deposit base at Merchant Banking contracted by 45%. The net interest margin increased from 1.92% to 1.96% for 2011.
- Net of technical charges and the ceded reinsurance result, technical insurance income came to 534 million euros, up a good 54% on the year-earlier figure of 346 million euros. The year was characterised by a relatively low level of claims. The combined ratio for the group's non-life insurance companies came to a very good 92% for 2011 (90% in Belgium, 93% in CEE), a significant improvement on the 100% for FY2010.
- Net fee and commission income amounted to 1 164 million euros in 2011, down 5% on its 2010 level. In the period under review, sales of commission-based products remained subdued, and assets under management fell 8% year-on-year to 193 billion euros at the end of December 2011 (149 billion euros when excluding KBL EPB), primarily on account of the negative investment performance but also a negative net entry effect.
- The net result from financial instruments at fair value (trading and fair value income) came to -178 million euros in 2011, compared to -77 million euros in 2010. 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 509 million euros in 2011, down 40% on its year-earlier figure.
- The remaining income components were as follows: dividend income from equity investments amounted to 85 million euros, the net realised result from available-for-sale assets (bonds and shares) stood at 169 million euros and other net income totalled 56 million euros. This last item has been impacted by a provision of 334 million euros (pre-tax) recorded in 3Q and 4Q of 2011 for the contingent intention to reimburse retail clients who bought 5-5-5 investment products.
- Operating expenses amounted to 4 344 million euros in 2011, 2% lower than in 2010, caused by the divestments in 2011, but mitigated somewhat by such factors as inflation, wage increases and the higher banking tax. The underlying cost/income ratio for banking – a measure of cost efficiency – stood at 60% at the end of 2011, 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 investment product).
- Total impairment stood at 2 123 million euros in 2011. Impairment on loans and receivables amounted to 1 333 million euros, down on the 1 483 million euros recorded in 2010, notwithstanding the high level recorded in 2011 for Ireland, Hungary and Bulgaria. As a result, the annualised credit cost ratio for 2011 came to 0.82%, an improvement on the figure of 0.91% for FY2010. Other impairment charges totalled 790 million euros in 2011 (versus 173 million euros in 2010) and relate mainly to the impairment recorded on Greek government bonds in the second, third and fourth quarters (401 million euros, pre-tax), on shares in the investment portfolio (114 million euros) and on goodwill (120 million euros, related to CIBank in Bulgaria, among other things).
- Income tax amounted to 320 million euros for 2011.
- At the end of 2011, total equity came to 16.8 billion euros, a 1.9-billion-euro decrease compared to the start of the year, due mainly to the dividend and state coupon paid (-0.9 billion euros, combined), as well as the repayment of a first tranche of the government support for a total cost of 575 million euros. The group's tier-1 capital ratio – a measure of financial strength – stood at a sound 12.3% at year-end 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<br>2010   | 2Q<br>2010   | 3Q<br>2010   | 4Q<br>2010   | 1Q<br>2011   | 2Q<br>2011   | 3Q<br>2011    | 4Q<br>2011   | Cumu<br>l.<br>FY20<br>10 | Cumul<br>FY2011 |
|---------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------------------|-----------------|
| Net interest income                                                             | 1 519        | 1 567        | 1 562        | 1 598        | 1 395        | 1 406        | 1 341         | 1 337        | 6 245                    | 5 479           |
| Interest income                                                                 | 2 621        | 2 651        | 2 627        | 2 642        | 3 047        | 3 195        | 2 910         | 2 528        | 10 542                   | 11 883          |
| Interest expense                                                                | -1 103       | -1 085       | -1 065       | -1 045       | -1 651       | -1 789       | -1 569        | -1 191       | -4 297                   | -6 404          |
| Earned premiums, insurance (before reinsurance)                                 | 1 248        | 1 144        | 1 074        | 1 150        | 1 141        | 974          | 972           | 1 033        | 4 616                    | 4 119           |
| Technical charges, insurance (before reinsurance)                               | -1 163       | -1 123       | -957         | -1 018       | -1 012       | -840         | -812          | -877         | -4 261                   | -3 541          |
| Ceded reinsurance result                                                        | -9           | 50           | -23          | -26          | -17          | -8           | -18           | -1           | -8                       | -44             |
| Dividend income                                                                 | 15           | 40           | 21           | 21           | 12           | 41           | 17            | 15           | 97                       | 85              |
| Net result from financial instruments at fair value through profit or loss      | -11          | -721         | 227          | 429          | 472          | -194         | -892          | 436          | -77                      | -178            |
| Net realised result from available-for-sale assets                              | 19           | 30           | 11           | 29           | 34           | 42           | 10            | 83           | 90                       | 169             |
| Net fee and commission income                                                   | 322          | 336          | 259          | 307          | 300          | 297          | 281           | 287          | 1 224                    | 1 164           |
| Fee and commission income                                                       | 549          | 578          | 480          | 549          | 518          | 530          | 480           | 514          | 2 156                    | 2 043           |
| Fee and commission expense                                                      | -227         | -242         | -221         | -242         | -218         | -233         | -200          | -227         | -932                     | -878            |
| Other net income                                                                | 98           | 182          | 65           | 107          | 92           | 110          | -149          | 3            | 452                      | 56              |
| <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>2 317</b> | <b>8 378</b>             | <b>7 310</b>    |
| Operating expenses                                                              | -1 072       | -1 044       | -1 130       | -1 190       | -1 143       | -1 081       | -1 077        | -1 043       | -4 436                   | -4 344          |
| Impairment                                                                      | -383         | -299         | -420         | -555         | -105         | -332         | -940          | -746         | -1 656                   | -2 123          |
| on loans and receivables                                                        | -355         | -278         | -357         | -492         | -97          | -164         | -473          | -599         | -1 483                   | -1 333          |
| on available-for-sale assets                                                    | -1           | -16          | -5           | -9           | -6           | -118         | -223          | -71          | -31                      | -417            |
| on goodwill                                                                     | -27          | -1           | -13          | -47          | 0            | -17          | -62           | -41          | -88                      | -120            |
| on other                                                                        | 0            | -3           | -45          | -6           | -2           | -33          | -183          | -35          | -54                      | -253            |
| Share in results of associated companies                                        | -2           | -9           | -5           | -46          | 1            | 0            | -23           | -35          | -63                      | -58             |
| <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>492</b>   | <b>2 224</b>             | <b>786</b>      |
| Income tax expense                                                              | -164         | 304          | -124         | -97          | -334         | -76          | 165           | -75          | -82                      | -320            |
| Net post-tax result from discontinued operations                                | 31           | -302         | -7           | 24           | 0            | 0            | -445          | 26           | -254                     | -419            |
| <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>443</b>   | <b>1 888</b>             | <b>47</b>       |
| attributable to minority interests                                              | 6            | 6            | 8            | 8            | 14           | 6            | 8             | 6            | 28                       | 34              |
| <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>437</b>   | <b>1 860</b>             | <b>13</b>       |
| Belgium                                                                         | 283          | 131          | 321          | 453          | 385          | 158          | -348          | 226          | 1 187                    | 421             |
| Central & Eastern Europe*                                                       | 146          | 173          | 113          | 178          | 141          | 145          | -91           | 94           | 609                      | 289             |
| Merchant Banking                                                                | 64           | 73           | 173          | -138         | 203          | 69           | -255          | -225         | 172                      | -208            |
| Group Centre*                                                                   | -50          | -228         | -61          | 231          | 92           | -39          | -885          | 342          | -107                     | -489            |
| Earnings per share, basic (EUR)                                                 | 0.86         | 0.00         | 1.17         | 1.69         | 1.98         | 0.54         | -5.08         | 0.63         | 3.72                     | -1.93           |
| Earnings per share, diluted (EUR)                                               | 0.86         | 0.00         | 1.17         | 1.69         | 1.98         | 0.54         | -5.08         | 0.63         | 3.72                     | -1.93           |

\* 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,<br>KBC Group (in millions of EUR or %) | 31-03-<br>2010 | 30-06-<br>2010 | 30-09-<br>2010 | 31-12-<br>2010 | 31-03-<br>2011 | 30-06-<br>2011 | 30-09-<br>2011 | 31-12-<br>2011 |
|-------------------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Total assets                                                                              | 340 128        | 350 232        | 328 590        | 320 823        | 322 493        | 312 899        | 305 109        | 285 382        |
| Loans and advances to customers*                                                          | 153 640        | 157 024        | 149 982        | 150 666        | 147 625        | 143 182        | 143 451        | 138 284        |
| Securities (equity and debt instruments)*                                                 | 101 984        | 95 910         | 96 876         | 89 395         | 88 839         | 85 144         | 74 062         | 65 036         |
| Deposits from customers and debt certificates*                                            | 203 367        | 205 108        | 198 825        | 197 870        | 192 412        | 188 116        | 184 453        | 165 226        |
| Technical provisions, before insurance*                                                   | 23 222         | 22 384         | 22 843         | 23 255         | 23 870         | 24 084         | 21 064         | 19 914         |
| Liabilities under investment contracts, insurance*                                        | 7 908          | 6 496          | 6 488          | 6 693          | 6 568          | 6 638          | 6 787          | 7 014          |
| Parent shareholders' equity                                                               | 10 677         | 10 259         | 11 245         | 11 147         | 11 011         | 11 500         | 9 834          | 9 756          |
| Non-voting core-capital securities                                                        | 7 000          | 7 000          | 7 000          | 7 000          | 7 000          | 7 000          | 7 000          | 6 500          |
| KBC Group ratios (based on underlying results, year-to-date)                              |                |                |                |                |                |                |                |                |
| Return on equity                                                                          |                |                |                | 11%            |                |                |                | 5%             |
| Cost/income ratio, banking                                                                |                |                |                | 56%            |                |                |                | 60%            |
| Combined ratio, non-life insurance                                                        |                |                |                | 100%           |                |                |                | 92%            |
| KBC Group solvency                                                                        |                |                |                |                |                |                |                |                |
| Tier-1 ratio                                                                              |                |                |                | 12.6%          |                |                |                | 12.3%          |
| Core tier-1 ratio                                                                         |                |                |                | 10.9%          |                |                |                | 10.6%          |

\* 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. FY2010 | Cumul. FY2011 |
|----------------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
| Net interest income                                                        | 1 344        | 1 394        | 1 406        | 1 459        | 1 374        | 1 390        | 1 342        | 1 298        | 5 603         | 5 404         |
| Earned premiums, insurance (before reinsurance)                            | 1 249        | 1 146        | 1 075        | 1 151        | 1 141        | 975          | 972          | 1 033        | 4 621         | 4 122         |
| Technical charges, insurance (before reinsurance)                          | -1 168       | -1 129       | -962         | -1 022       | -1 016       | -843         | -817         | -880         | -4 281        | -3 556        |
| Ceded reinsurance result                                                   | -9           | 50           | -23          | -26          | -17          | -8           | -18          | -1           | -9            | -44           |
| Dividend income                                                            | 8            | 36           | 12           | 18           | 8            | 37           | 14           | 15           | 73            | 74            |
| Net result from financial instruments at fair value through profit or loss | 320          | 147          | 264          | 124          | 259          | 102          | 10           | 138          | 855           | 509           |
| Net realised result from available-for-sale assets                         | 24           | 41           | 6            | 28           | 53           | 42           | 11           | 85           | 98            | 191           |
| Net fee and commission income                                              | 429          | 454          | 367          | 417          | 399          | 394          | 367          | 374          | 1 666         | 1 535         |
| Other net income                                                           | 85           | 68           | 62           | -96          | 73           | 72           | -210         | 12           | 118           | -52           |
| <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>2 075</b> | <b>8 744</b>  | <b>8 182</b>  |
| Operating expenses                                                         | -1 158       | -1 150       | -1 214       | -1 311       | -1 227       | -1 155       | -1 172       | -1 133       | -4 832        | -4 686        |
| Impairment                                                                 | -356         | -298         | -361         | -510         | -105         | -333         | -740         | -730         | -1 525        | -1 909        |
| on loans and receivables                                                   | -355         | -278         | -356         | -492         | -97          | -164         | -475         | -599         | -1 481        | -1 335        |
| on available-for-sale assets                                               | -1           | -17          | -5           | -10          | -6           | -135         | -228         | -85          | -34           | -453          |
| on goodwill                                                                | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0             | 0             |
| on other                                                                   | 0            | -3           | 0            | -7           | -2           | -35          | -38          | -46          | -10           | -121          |
| Share in results of associated companies                                   | -1           | -9           | -5           | -46          | 1            | 0            | -23          | -35          | -61           | -57           |
| Result before tax                                                          | 767          | 749          | 626          | 184          | 943          | 673          | -262         | 177          | 2 326         | 1 530         |
| Income tax expense                                                         | -218         | -189         | -173         | -7           | -271         | -138         | 22           | -9           | -587          | -397          |
| Result after tax                                                           | 549          | 559          | 453          | 177          | 671          | 534          | -240         | 167          | 1 739         | 1 133         |
| attributable to minority interests                                         | 6            | 6            | 8            | 9            | 14           | 6            | 8            | 7            | 29            | 35            |
| <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>161</b>   | <b>1 710</b>  | <b>1 098</b>  |
| Belgium                                                                    | 279          | 298          | 220          | 255          | 280          | 238          | 32           | 251          | 1 051         | 802           |
| Central & Eastern Europe*                                                  | 156          | 171          | 84           | 158          | 123          | 146          | -40          | 98           | 570           | 327           |
| Merchant Banking                                                           | 85           | 121          | 156          | -228         | 177          | 63           | -196         | -153         | 133           | -110          |
| Group Centre*                                                              | 24           | -36          | -15          | -16          | 77           | 81           | -44          | -35          | -44           | 79            |
| Earnings per share, basic (EUR)                                            | 1.16         | 1.19         | 0.87         | 0.06         | 1.50         | 1.11         | -1.17        | -0.19        | 3.28          | 1.26          |
| Earnings per share, diluted (EUR)                                          | 1.16         | 1.19         | 0.87         | 0.06         | 1.50         | 1.11         | -1.17        | -0.19        | 3.28          | 1.26          |

\* 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<br>KBC Group (in millions of EUR) | 1Q<br>2010 | 2Q<br>2010 | 3Q<br>2010 | 4Q<br>2010 | 1Q<br>2011 | 2Q<br>2011 | 3Q<br>2011 | 4Q<br>2011 | Cumul.<br>FY2010 | Cumul.<br>FY2011 |
|---------------------------------------------------------------------------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------------|------------------|
| Result after tax, attributable to equity holders of the parent, UNDERLYING                              | 543        | 554        | 445        | 168        | 658        | 528        | -248       | 161        | 1 710            | 1 098            |
| + MTM of derivatives for ALM hedging                                                                    | -57        | -179       | 16         | 41         | 96         | -77        | -245       | -46        | -179             | -273             |
| + gains/losses on CDOs                                                                                  | 176        | 326        | 221        | 304        | 124        | -86        | -618       | 164        | 1 027            | -416             |
| + MTM of CDO guarantee and commitment fee                                                               | -33        | -18        | -23        | 6          | -10        | -22        | -10        | -10        | -68              | -52              |
| + impairment on goodwill (and associated companies)                                                     | -27        | -1         | -43        | -47        | 0          | -17        | -57        | -41        | -118             | -115             |
| + result on legacy structured derivative business (KBC FP)                                              | -126       | -210       | 6          | -42        | 14         | 43         | 5          | -12        | -372             | 50               |
| + MTM of own debt issued                                                                                | -2         | 33         | -34        | 41         | -16        | -25        | 185        | 215        | 39               | 359              |
| + Results on divestments                                                                                | 0          | -338       | -44        | 206        | -45        | -12        | -591       | 8          | -176             | -640             |
| + other                                                                                                 | -32        | -18        | 2          | 46         | 0          | 0          | 0          | 0          | -4               | 0                |
| Result after tax, attributable to equity holders of the parent: IFRS                                    | 442        | 149        | 545        | 724        | 821        | 333        | -1 579     | 437        | 1 860            | 13               |

## 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, the group is continuing with the sale or run-down of a number of (non-core) activities (see below).
- In 4Q2011, we successfully continued to implement our strategic refocusing plan:
  - On 19 January 2012, KBC reached an agreement with Talanx International AG for the sale of all the shares in KBC's Polish insurance subsidiary TUIR Warta S.A. for a total consideration of 770 million euros, adjusted for changes in net asset value between 30 June 2011 and the date of closure. Closure of the transaction is subject to the customary regulatory approvals and is expected to be completed in the second half of 2012. The deal is expected to release almost 0.7 billion euros in capital for KBC, resulting in an increase in the tier-1 ratio of slightly less than 0.7%. When closed, the transaction will have a positive impact of approximately 0.3 billion euros on KBC's profit and loss account.
  - On 17 January 2012, KBC Asset Management reached an agreement with both Kredyt Trade Sp z.o.o. (a 100% subsidiary of Kredyt Bank) and WARTA to buy those companies' stakes in Polish asset management company KBC TFI. As a result of the two transactions, KBC Asset Management NV will become a 100% shareholder of KBC TFI.
  - On 17 October 2011, KBC reached an agreement with J.C. Flowers & Co. for the sale of its subsidiary Fidea. Closure of the transaction is subject to the customary regulatory approval, which is expected in the first half of 2012.
  - 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'). Closure of the transaction is subject to the customary regulatory approval, which is expected in the first half of 2012.
  - A number of companies are still scheduled for divestment. The divestment processes for Kredyt Bank and KBC Bank Deutschland are in progress, while the preparations for Antwerp Diamond Bank are well under way.
  - On 2 January 2012, KBC repaid 500 million euros in state aid (with a 15% penalty) to the Belgian Federal Government.
  - 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 4Q2011:
  - The continued deteriorating credit position of Greece in the financial markets led to an additional impairment of 62 million euros (after tax) being recorded on our Greek government bond portfolio (71% of the nominal amount impaired), while a provision of 47 million euros (after tax) was set aside for the contingent intention to reimburse retail clients who bought 5-5-5 investment 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 recorded an additional impairment of 82 million euros (pre-tax) on this portfolio in the fourth quarter, reflecting an anticipated 30% participation rate in the scheme.
  - In Ireland, the domestic economy weakened in late 2011 and is expected to remain challenging in 2012. Consumer sentiment, business sentiment and spending were all hit by the poorer global backdrop and ongoing severe austerity measures taken in Ireland itself. As a consequence, a loan loss provision of 164 million euros after tax (228 million euros, pre-tax) was recorded in 4Q2011.
  - The tightening of corporate ABS credit spreads between end-September and end-December resulted in a valuation mark-up of 0.2 billion euros (after tax) on the CDO and ABS exposure.
  - The widening of KBC's credit spread in the last quarter of 2011 resulted in a positive 0.2 billion euros (after tax) marked-to-market adjustment in relation to KBC's own credit risk.
  - The capital exercise proposed by the EBA and agreed by the Council on 26 October 2011 requires banks to strengthen their capital positions by building up a temporary capital buffer against sovereign debt exposures to reflect current market prices. In this regard, KBC Bank already meets the 9% core tier-1 threshold and will continue to ensure that appropriate capital levels are maintained.
  - We reduced our CDO and ABS exposure by 0.2 billion euros in the fourth quarter of 2011 and by a further 1.7 billion euros in January 2012. This was achieved by early terminations and sales at limited cost.
  - We continued to cut back our exposure to Southern European government bonds in the fourth quarter, reducing it by a substantial 1.9 billion euros, or almost 30% quarter-on-quarter.

## Statement of risk

- The implementation of CRD3 led to an additional 6.1 billion euros of risk-weighted assets.
- 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](http://www.kbc.com).
- For 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.

## 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 2011, most relevant items in the change of the scope of consolidation relate to Centea, which contributed 34 million euros to profit (reported, after-tax) and Secura, which contributed 25 million euros to profit (reported, after-tax).

## Financial calendar for 2012

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|                                            |                  |
|--------------------------------------------|------------------|
| 2011 Annual Report available as of         | 3 April 2012     |
| 2011 Risk Report available as of           | 3 April 2012     |
| Annual General Meeting                     | 3 May 2012       |
| Ex-dividend date                           | 9 May 2012       |
| Payment date                               | 14 May 2012      |
| KBC Group – Publication of 1Q 2012 results | 10 May 2012      |
| KBC Group – Publication of 2Q 2012 results | 7 August 2012    |
| KBC Group – Publication of 3Q 2012 results | 8 November 2012  |
| KBC Group – Publication of 4Q 2012 results | 14 February 2013 |

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An extended version of the financial calendar, including analyst and investor meetings, is available at [www.kbc.com/ir/calendar](http://www.kbc.com/ir/calendar).

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

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