



Earnings statement

KBC Group, 1Q 2011

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Date of release: 12 May 2011, 7 a.m. CEST.

Summary:

Good start to the year – 1Q net profit up 13% to 821 million euros

KBC ended the first three months of 2011 with a net profit of 821 million euros, compared with a net profit of 724 million euros in the previous quarter and 442 million euros in the corresponding quarter of 2010. The 'underlying' net result for the quarter under review (after excluding one-off and exceptional items) came to 658 million euros, compared with 168 million euros in 4Q2010 and 543 million euros in 1Q2010.

Jan Vanhevel, Group CEO: *'KBC has started 2011 with a satisfyingly high level of profit. This was driven by good revenues generated by all of our business units, a controlled cost environment and a substantially lower level of impairment charges. Our banking and insurance businesses in our Belgian and core Central and Eastern European home markets turned in a sound performance, while the Merchant Banking Business Unit bounced back, thanks to robust market activities.'*

The first quarter results of 821 million euros were characterised by a healthy level of net interest income, solid net gains from financial instruments at fair value, and slightly lower net fee and commission income. Costs remained well under control and loan losses were significantly lower than in the previous quarter. The most noteworthy exceptional items included in the results for the first quarter were the positive marked-to-market valuations of our ALM hedges and the positive value adjustments to our CDO portfolio. Overall, the first quarter represents a continuation of the solid performance we have recorded in the past couple of quarters.'

Overview	1Q2010	4Q2010	1Q2011
Net result, IFRS (in millions of EUR)	442	724	821
Earnings per share, basic, IFRS (in EUR) ¹	0.86	1.69	1.98
Underlying net result (in millions of EUR)	543	168	658
Underlying earnings per share, basic (in EUR)	1.16	0.06	1.50
Breakdown of underlying net result per business unit (in millions of EUR)			
Belgium	279	255	280
Central & Eastern Europe	110	131	101
Merchant Banking	85	-228	177
Group Centre	70	11	99
Parent shareholders' equity per share (in EUR, end of period)	31.4	32.8	32.4

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

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

Financial highlights for 1Q2011 compared to 4Q2010:

- Profit up by more than 13%.
- Good level of net interest income with increased volumes.
- Slightly reduced fee and commission income on account of lower AUM, caused by price effects and limited net outflow of funds.
- Excellent combined ratio of 85% thanks to low claims; higher level of earned premiums in the CEE life insurance business.
- Robust level of income generated by the dealing room.
- Lower operating expenses, despite the effect of the Hungarian bank tax being booked for full year 2011. Cost/income ratio at a favourable 55%.
- Exceptionally low loan loss provisions in all business units, with the most marked drop in Merchant Banking (including Ireland).
- Strong liquidity position.
- 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 13.7%.

Financial highlights 1Q2011 (underlying)

Jan Vanhevel, Group CEO, summarises the **underlying** business performance for 1Q2011 as follows:

Gross income benefited from good net interest income, a lower level of insurance claims and strong dealing room results.

- Underlying net interest income stood at 1 374 million euros, up 2% year-on-year (and up by as much as 3%, excluding Secura, which was sold in 4Q2010) but down 6% on the high level of 4Q2010. Compared to 4Q2010, the net interest margin narrowed, but that was partly due to positive exceptional items in 4Q2010. Disregarding these factors, interest margins remained roughly stable in the Belgium and CEE Business Units, as did credit and deposit volumes. Compared to 1Q2010, customer deposits grew in all the business units, except the Group Centre (as planned), while the loan book increased in the Belgium Business Unit, was roughly flat in the CEE Business Unit and contracted in the Merchant Banking Business Unit, as a result of the intentional reduction in international lending. Mortgage lending rose substantially year-on-year by more than 6%, with a significant increase in both the Belgium and CEE Business Units.
- Net of technical charges and the ceded reinsurance result, technical insurance income came to 108 million euros, up 51% year-on-year and 5% quarter-on-quarter. The combined ratio improved substantially, shifting from 100% for FY2010 to an excellent 85% for 1Q2011.
- The net result from financial instruments at fair value stood at a strong 259 million euros, lower than in the year-earlier quarter but more than double the quarter-earlier figure, thanks to a significantly better dealing room performance in the quarter under review.
- Net fee and commission income amounted to 399 million euros, down 4% quarter-on-quarter and 7% year-on-year. This revenue item is still not at the level of one year ago, but the quarterly results have been driven primarily by sales of balanced funds and life insurance contracts.
- The other income components come to an aggregate 134 million euros, significantly up on the -50 million euros recorded in the previous quarter, which was affected by a one-off provision for irregularities at the leasing business in the UK.

Operating expenses remain under control despite Hungarian bank tax, while impairment is substantially lower, mainly on account of Ireland.

- Operating expenses came to 1 227 million euros for the first quarter of 2011, up 6% on their year-earlier level but down 6% quarter-on-quarter. Excluding the booking in 1Q2011 of the Hungarian bank tax for full year 2011, costs were down 11% quarter-on-quarter and roughly flat year-on-year. The cost-cutting measures taken in the aftermath of the financial crisis have had their full effect. All in all, costs remain under control.
- Loan loss impairment stood at 97 million euros in the first quarter, down roughly 70% year-on-year and 80% quarter-on-quarter. As a consequence, the annualised credit cost ratio stood at an exceptionally favourable 0.24% and breaks down into an excellent 0.08% for the Belgian retail book (down from 0.15% for FY2010), 0.51% in Central and Eastern Europe (down from 1.22% for FY2010 – thanks to, *inter alia*, an exceptional reversal of impairment related to the sale of part of the consumer finance portfolio in Poland) and 0.43% for Merchant Banking (down from 1.38% for FY2010, which had been impacted by exceptional impairment charges for Ireland).

Excess capital to the tune of 4.8 billion euros.

- At the end of 1Q2011, the KBC group had generated capital of roughly 4.8 billion euros in excess of the 10% tier-1 target (including the effect of divestments for which a sale agreement has been signed to date).

Highlights of underlying performance per business unit.

- The Belgium Business Unit contributed 280 million euros to profit in 1Q2011, up 25 million euros on the 4Q2010 figure, thanks in part to lower operating expenses, lower impairment and a better technical result in the non-life insurance business.
- The profit contribution of the Central and Eastern Europe Business Unit amounted to 101 million euros in 1Q2011, compared to 131 million euros for 4Q2010. However, the first quarter was adversely impacted by the booking of the Hungarian bank tax for the full year, which more than offsets the lower operating expenses in the region. Lower impairment (partly related to a one-off amount released following the sale of part of the consumer finance portfolio in Poland), and the generally stable level of total income also contributed to the good bottom-line figure.
- The Merchant Banking Business Unit contributed a robust 177 million euros to profit in 1Q2011, compared to -228 million euros in the previous quarter (which had been impacted by 125 million euros (after tax) being set aside for irregularities at KBC Lease UK and by additional impairment charges to the tune of 0.3 billion euros being recorded for Ireland). The first quarter result was also supported by a very strong performance by the dealing room.

- It should be noted that all planned divestments of 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 1Q2011, the Group Centre's net result came to 99 million euros, compared to 11 million euros in the previous quarter (significant improvement in the contribution to the results by KBL *epb*, Absolut Bank, NLB, etc.).

Positive value adjustments dominate one-off exceptional items.

- The quarter was also characterised by a number of one-off or exceptional items that were not part of the normal course of business and were therefore excluded from the underlying results. Their combined impact in 1Q2011 amounted to a positive 0.2 billion euros.
- Apart from some smaller items, the main non-operating item in 1Q2011 was the valuation mark-up of 0.1 billion euros on the CDO exposure, resulting mainly from a tightening of corporate credit spreads between the end of December 2010 and the end of March 2011. Besides this, there was a marked-to-market increase of 0.1 billion euros in the value of the trading derivatives used for hedging purposes, resulting from a tightening of government credit spreads in the euro area.

First three months of 2011: results per heading (IFRS)

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

- The IFRS net result for 1Q2011 amounted to a very strong 821 million euros, compared to 442 million euros a year ago and 724 million euros a quarter ago.
- Net interest income amounted to 1 395 million euros, down 8% year-on-year and 13% quarter-on-quarter. On a comparable basis, credit volumes contracted by more than 8% year-on-year in Merchant Banking, in line with our intention to scale down our international loan book. The loan book in Belgium grew by 4% year-on-year (reflecting the economic recovery) with mortgage loans up by as much as 8%. Loan volumes in CEE were flat (the decrease in Hungary being offset by increases in the Czech Republic and Slovakia, among other factors), with mortgage loans going up by 5%. Customer deposits were up 6% in Belgium and 3% in CEE. The net interest margin widened from 1.82% at the end of March 2010 to 1.93% at the end of the first quarter of this year.
- Earned insurance premiums, before reinsurance, stood at 1 141 million euros, the same level as the previous quarter and down 9% on 1Q2010. Net of technical charges and the ceded reinsurance result, technical insurance income came to 112 million euros. The first quarter of 2011 was characterised by a relatively low level of claims. The combined ratio for the group's insurance companies came to an excellent 85% for 1Q2011, compared to 100% for FY2010.
- Net fee and commission income amounted to 300 million euros, down 2% quarter-on-quarter and 7% year-on-year. Sales of commission-based products were somewhat subdued in the first quarter of 2011. Assets under management stood at 205 billion euros at the end of the first quarter, slightly down on their quarter-on-quarter and year-on-year levels on account of both negative price and limited net entry effects.
- The net result from financial instruments at fair value (trading and fair value income) came to 472 million euros, compared to -11 million euros a year earlier and 429 million in the previous quarter. On an underlying basis (i.e. excluding exceptional items such as value adjustments to structured credit, losses 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 259 million euros.
- The remaining income components were as follows: dividend income from equity investments amounted to 12 million euros, the net realised result from available-for-sale assets (bonds and shares) stood at 34 million euros and other net income totalled 92 million euros. In total, this is in line with the year-earlier figure.
- Operating expenses amounted to 1 143 million euros in 1Q2011, 7% higher than in 1Q2010 and 4% down on the previous quarter. The cost comparison is distorted by the booking in 1Q2011 of the Hungarian bank tax for FY2011 (62 million euros). The underlying cost/income ratio for banking – a measure of cost efficiency – stood at 55%, in line with the 56% registered for FY2010.
- Impairment stood at 105 million euros, down substantially on its year-on-year and quarter-on-quarter levels (some 70% and 80%, respectively). As was the case in the reference quarters, impairment almost entirely related to loans and receivables. As a result, the annualised credit cost ratio for 1Q2011 amounted to an exceptionally low 0.24%, down on the figure of 0.91% for FY2010. Other impairment charges totalled 8 million euros in this quarter and related mainly to available-for-sale assets.
- Income tax amounted to 334 million euros for 1Q2011.
- At the end of the first quarter of 2011, total equity came to 18.5 billion euros, a small decrease of 0.1 billion euros compared to the start of the year, due mainly to the inclusion of the positive result for the quarter (0.8 billion euros), and offset by the dividend and state coupon payments (-0.9 billion euros, combined) and the change in the revaluation reserve for available-for-sale assets and cash flow hedges (-0.1 billion euros, combined). The group's tier-1 capital ratio – a measure of financial strength – stood at a sound 13.3% at end-March 2011. Including the effect of sale agreements announced to date (Centea), the *pro forma* tier-1 ratio amounts to approximately 13.7%.

Table of results according to IFRS

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

Consolidated income statement according to IFRS, KBC Group (in millions of EUR)	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011	3Q 2011	4Q 2011
Net interest income	1 519	1 567	1 562	1 598	1 395	-	-	-
Interest income	2 621	2 651	2 627	2 642	3 047	-	-	-
Interest expense	-1 103	-1 085	-1 065	-1 045	-1 651	-	-	-
Earned premiums, insurance (before reinsurance)	1 248	1 144	1 074	1 150	1 141	-	-	-
Technical charges, insurance (before reinsurance)	-1 163	-1 123	-957	-1 018	-1 012	-	-	-
Ceded reinsurance result	-9	50	-23	-26	-17	-	-	-
Dividend income	15	40	21	21	12	-	-	-
Net result from financial instruments at fair value through profit or loss	-11	-721	227	429	472	-	-	-
Net realised result from available-for-sale assets	19	30	11	29	34	-	-	-
Net fee and commission income	322	336	259	307	300	-	-	-
Fee and commission income	549	578	480	549	518	-	-	-
Fee and commission expense	-227	-242	-221	-242	-218	-	-	-
Other net income	98	182	65	107	92	-	-	-
Total income	2 038	1 504	2 239	2 597	2 416	-	-	-
Operating expenses	-1 072	-1 044	-1 130	-1 190	-1 143	-	-	-
Impairment	-383	-299	-420	-555	-105	-	-	-
on loans and receivables	-355	-278	-357	-492	-97	-	-	-
on available-for-sale assets	-1	-16	-5	-9	-6	-	-	-
on goodwill	-27	-1	-13	-47	0	-	-	-
on other	0	-3	-45	-6	-2	-	-	-
Share in results of associated companies	-2	-9	-5	-46	1	-	-	-
Result before tax	581	153	683	806	1 170	-	-	-
Income tax expense	-164	304	-124	-97	-334	-	-	-
Net post-tax result from discontinued operations	31	-302	-7	24	0	-	-	-
Result after tax	448	155	553	733	835	-	-	-
attributable to minority interests	6	6	8	8	14	-	-	-
attributable to equity holders of the parent	442	149	545	724	821	-	-	-
Belgium	283	131	321	453	385	-	-	-
Central & Eastern Europe	99	119	76	146	117	-	-	-
Merchant Banking	64	73	173	-138	203	-	-	-
Group Centre	-3	-174	-24	264	116	-	-	-
Earnings per share, basic (EUR)	0.86	0.00	1.17	1.69	1.98	-	-	-
Earnings per share, diluted (EUR)	0.86	0.00	1.17	1.69	1.98	-	-	-

Highlights, consolidated balance sheet and ratios, KBC Group (in millions of EUR or %)	31-03- 2010	30-06- 2010	30-09- 2010	31-12- 2010	31-03- 2011	30-06- 2011	30-09- 2011	31-12- 2011
Total assets	340 128	350 232	328 590	320 823	322 493	-	-	-
Loans and advances to customers*	153 640	157 024	149 982	150 666	147 625	-	-	-
Securities (equity and debt instruments)*	101 984	95 910	96 876	89 395	88 839	-	-	-
Deposits from customers and debt certificates*	203 367	205 108	198 825	197 870	192 412	-	-	-
Technical provisions, before insurance*	23 222	22 384	22 843	23 255	23 870	-	-	-
Liabilities under investment contracts, insurance*	7 908	6 496	6 488	6 693	6 568	-	-	-
Parent shareholders' equity	10 677	10 259	11 245	11 147	11 011	-	-	-
Non-voting core-capital securities	7 000	7 000	7 000	7 000	7 000	-	-	-
KBC Group ratios (based on underlying results, year-to-date)								
Return on equity				11%	18%	-	-	-
Cost/income ratio, banking				56%	55%	-	-	-
Combined ratio, non-life insurance				100%	85%	-	-	-
KBC Group solvency								
Tier-1 ratio				12.6%	13.3%	-	-	-
Core tier-1 ratio				10.9%	11.6%	-	-	-

* 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 (Centea)

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
Net interest income	1 344	1 394	1 406	1 459	1 374	-	-	-
Earned premiums, insurance (before reinsurance)	1 249	1 146	1 075	1 151	1 141	-	-	-
Technical charges, insurance (before reinsurance)	-1 168	-1 129	-962	-1 022	-1 016	-	-	-
Ceded reinsurance result	-9	50	-23	-26	-17	-	-	-
Dividend income	8	36	12	18	8	-	-	-
Net result from financial instruments at fair value through profit or loss	320	147	264	124	259	-	-	-
Net realised result from available-for-sale assets	24	41	6	28	53	-	-	-
Net fee and commission income	429	454	367	417	399	-	-	-
Other net income	85	68	62	-96	73	-	-	-
Total income	2 282	2 205	2 206	2 051	2 274	-	-	-
Operating expenses	-1 158	-1 150	-1 214	-1 311	-1 227	-	-	-
Impairment	-356	-298	-361	-510	-105	-	-	-
on loans and receivables	-355	-278	-356	-492	-97	-	-	-
on available-for-sale assets	-1	-17	-5	-10	-6	-	-	-
on goodwill	0	0	0	0	0	-	-	-
on other	0	-3	0	-7	-2	-	-	-
Share in results of associated companies	-1	-9	-5	-46	1	-	-	-
Result before tax	767	749	626	184	943	-	-	-
Income tax expense	-218	-189	-173	-7	-271	-	-	-
Result after tax	549	559	453	177	671	-	-	-
attributable to minority interests	6	6	8	9	14	-	-	-
attributable to equity holders of the parent	543	554	445	168	658	-	-	-
Belgium	279	298	220	255	280	-	-	-
Central & Eastern Europe	110	112	53	131	101	-	-	-
Merchant Banking	85	121	156	-228	177	-	-	-
Group Centre	70	23	16	11	99	-	-	-
Earnings per share, basic (EUR)	1.16	1.19	0.87	0.06	1.50	-	-	-
Earnings per share, diluted (EUR)	1.16	1.19	0.87	0.06	1.50	-	-	-

Reconciliation between underlying result and result according to IFRS ¹ KBC Group (in millions of EUR)	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011	3Q 2011	4Q 2011
Result after tax, attributable to equity holders of the parent, UNDERLYING	543	554	445	168	658	-	-	-
+ MTM of derivatives for ALM hedging	-57	-179	16	41	96	-	-	-
+ gains/losses on CDOs	176	326	221	304	124	-	-	-
+ MTM of CDO guarantee and commitment fee	-33	-18	-23	6	-10	-	-	-
+ impairment on goodwill (and associated companies)	-27	-1	-43	-47	0	-	-	-
+ loss on legacy structured derivative business (KBC FP)	-126	-210	6	-42	14	-	-	-
+ MTM of own debt issued	-2	33	-34	41	-16	-	-	-
+ Results on divestments	0	-338	-44	206	-45	-	-	-
+ other	-32	-18	2	46	0	-	-	-
Result after tax, attributable to equity holders of the parent: IFRS	442	149	545	724	821	-	-	-

1 As of this report, the amounts stated here are after taxes and minority interests. A breakdown of this reconciliation table per business unit is provided in the 'Underlying results per business unit' section of the Extended quarterly report.

Other information

Strategy highlights and main events

- KBC posted a robust result in the first quarter of 2011, reassuring that the underlying business strategy is working and reflecting the gradual recovery of the economies in the markets KBC is active in.
- In the first quarter of 2011, we continued to implement our strategic refocusing plan. At the beginning of March, it was announced that Crédit Agricole (Belgium) would acquire Centea, one of the strongest savings banks in Belgium. This deal will free up around 0.4 billion euros of capital for KBC, primarily by reducing risk-weighted assets by 4.2 billion euros, which will ultimately boost KBC's tier-1 ratio by around 0.4% (impact calculated on 31 December 2010). Finalisation of the deal depends on the customary approval of the regulator(s) and is likely to occur in the coming months. In addition to this, Value Partners Ltd., a Hong-Kong based and listed asset management firm, reached an agreement with KBC Asset Management (KBC AM) in April 2011 for the acquisition of KBC AM's 55.46% stake in KBC Concord Asset Management Co. Ltd.
- On 21 May 2010, the KBC group announced that it had reached an agreement with the Hinduja Group for the sale of its private banking subsidiary, KBL *epb*. As is customary, the Hinduja Group had submitted the deal for approval to the Luxembourg regulator (the CSSF) and the regulators in the nine other European countries where KBL *epb* operates. The CSSF confirmed on 14 March 2011 that it was stopping its evaluation of the acquisition, after concluding that its decision would have been to object to it. In practice, this means that the sale of KBL *epb* to the Hinduja Group will not go ahead. We have since restarted the sales process for KBL *epb*.
- A number of companies are still scheduled for divestment as part of the planned reduction in the international loan portfolio. The sales process for Fidea is ongoing, the sale process for KBC Bank Deutschland has started and the files for the sales process for Antwerp Diamond Bank are being prepared.
- Preparations to float a minority stake in our Czech banking subsidiary are on track and we are on stand-by to launch the IPO programme once optimal conditions have been identified for a successful transaction.
- As stated on previous occasions, KBC intends to redeem the core capital securities issued to the State largely by retaining earnings and releasing capital currently tied up in non-core assets that are earmarked for divestment or run-off. KBC also intends to maintain a regulatory tier-1 capital ratio of 10%, 8% of which is core capital, according to the Basel II banking capital adequacy rules.
- The financial calendar, including the dates of earnings releases as well as analysts and investor meetings, is available at www.kbc.com.

Statement of risk

- Mainly active in banking, insurance and asset management, KBC is exposed to a number of typical risks such as – but not exclusively – credit default risk, movements in interest rates, capital markets risk, currency risk, liquidity risk, insurance underwriting risk, operational risk, exposure to emerging markets, changes in regulations, customer litigation, as well as the economy in general. It is part of the business risk that the macroeconomic environment and the ongoing restructuring plans may have a negative impact on asset values or could generate additional charges beyond anticipated levels.
- Risk management data are provided in KBC's annual reports, the extended quarterly reports and the dedicated risk reports, all of which are available at www.kbc.com.
- For the remainder of 2011, special areas of attention from a macroeconomic point of view will remain the price of oil and inflationary expectations going forward, rising interest rates, the future political will for fiscal consolidation in the EU, the risk of contagion of the EMU sovereign risk to other countries, and the deterioration of US public finances.

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Note for the editor:

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