Earnings statement

KBC Group, 1Q 2012

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Date of release: 10 May 2012, 7 a.m. CEST.

Summary:
Good result in the first quarter combined with significant de-risking of the company.

KBC ended the first three months of 2012 with a net profit of 380 million euros, compared with a net profit of 437 million euros in the previous quarter and 821 million euros in the corresponding quarter of 2011. The 'underlying' net result for the quarter under review (after excluding one-off and exceptional items) came to 455 million euros, well up on the net profit of 161 million euros in 4Q2011 and down on the 658 million euros in 1Q2011.

Johan Thijs, Group CEO:

'KBC has started 2012 by posting a solid level of profit in the first quarter. We recorded a good 455 million euros in underlying profit and took another sizeable step forward in the implementation of our divestment plan, mainly in Poland. This has enabled us to continue to de-risk our company.

All this resulted in our tier-1 capital ratio increasing by 0.8% to 13.1% in the first quarter of 2012. This tier-1 ratio amounts to 15.5% on a pro forma basis, when all agreements that have been signed but not yet closed are included.

This has been achieved against a background of particularly challenging market conditions. Despite this, 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 Belgium and Central and Eastern Europe. Net interest income remained solid and insurance results remained good. The dealing rooms, in particular, had an excellent quarter. The quarter was also characterised by low levels of impairment. However, the result was also affected by additional loan loss provisioning in Ireland, as well as by the additional and final losses recorded on our Greek government bond position.

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

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, plus a 15% penalty. We are continuing our efforts to ensure that the 4.7 billion euros in state aid (before any penalty) is reimbursed 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.'

As has been the case in previous quarters, KBC has acted to reduce volatility in its results. We reduced our CDO and ABS exposure by 2.2 billion euros in the first quarter of 2012. This was achieved by early terminations and sales.

The main exceptional factors having an impact on the reported IFRS result for 1Q2012 were:

- **Impact of the credit spread on CDO exposure**
  During the first quarter, corporate and ABS credit spreads tightened further, as had been the case during the fourth quarter of 2011. After the cost of reducing the CDO exposure was also taken into account, 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 improvement of the credit spread on KBC debt between year-end 2011 and the end of the first quarter resulted in a negative marked-to-market adjustment of 0.3 billion euros.

The main one-off items having an impact on the underlying result for 1Q2012 were:

- **Greece: one-off impact**
  As a result of the exchange offer of Greek bonds (PSI debt restructuring), KBC recorded an additional and final negative result of 21 million euros after tax (28 million, pre-tax) on its Greek government bond portfolio in this market.
  KBC also recorded a charge of 37 million euros after tax (56 million, pre-tax) above the provision already booked in 2011 on the repurchase on a voluntary basis the bonds (KBC IFIMA 5/5/5 and KBC Group 5-5-5) sold to retail customers, provided a credit event occurred. These structured bonds were launched in the spring of 2008, have a term to maturity of five years and a gross coupon of 5%. All holders of these bonds had been informed in March 2011 of this intention. The ISDA Determination Committee decided that a relevant CDS Credit Event occurred on 9 March 2012. As a consequence, KBC has repurchased the bonds of all bond holders on the basis of the invested capital less any coupons paid by the issuer. The difference between the auction price of 19 March 2012 and the invested capital less any coupons paid by the issuer has been provisioned for during this and previous quarters.

The main special item having an impact on the underlying result for 1Q2012 was:

- **Ireland**
  The Irish 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 195 million euros was recorded in 1Q2012.

Despite the particularly challenging market conditions, implementation of the strategic plan gained further momentum, as illustrated by the agreement that was signed for the sale of Warta. The deal 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 deal will have a positive impact of approximately 0.3 billion euros on KBC's income statement.

The investment agreement between KBC Bank and Banco Santander to merge the Polish banking subsidiaries, Bank Zachodni WBK and Kredyt Bank, clearly reflects KBC's progress in executing the divestment programme. Upon the deconsolidation of Kredyt Bank as a result of the proposed merger, and after the committed reduction of KBC's participation to below 10% shortly after the registration of the merger, approximately 0.7 billion euros of capital will be released (based on market valuations at the time the deal was announced), which corresponds with a *pro forma* tier-1 impact at KBC-group consolidated level of approximately +0.8%. Assuming a full exit, the *pro forma* tier-1 impact at KBC-group consolidated level is estimated at approximately +0.9%. Moreover, based on these market valuations, the deal will positively affect KBC's income statement by approximately 0.1 billion euros, which will be recognised when the deal is completed.

In addition, KBC closed the previously announced deal with affiliates of J.C. Flowers & Co. for the sale of Fidea, after receiving the necessary regulatory approvals.

With a *pro forma* total tier-1 ratio of 15.5% and a core tier-1 ratio of 13.6% (including the impact of the divestment of Warta, Kredyt Bank and KBL *epb*), solvency remains solid.

Johan Thijs concludes: 'The first quarter was a continuation of the solid performance turned in by our underlying business in previous quarters. Our focus firmly remains on catering for our customer base in our core markets in Belgium and Central and Eastern Europe.'

Overview (consolidated)	1Q2011	4Q2011	1Q2012
Net result, IFRS (in millions of EUR)	821	437	380
Earnings per share, basic, IFRS (in EUR)[1]	1.98	0.63	0.71
Underlying net result (in millions of EUR)	658	161	455
Underlying earnings per share, basic (in EUR)[1]	1.50	-0.19	0.93
Breakdown of underlying net result per business unit (in millions of EUR)			
Belgium	280	251	266
Central & Eastern Europe	123	98	118
Merchant Banking	177	-153	42
Group Centre	77	-35	30
Parent shareholders' equity per share (in EUR, end of period)	32.4	28.7	32.2

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; if a penalty premium is paid, it is deducted too.

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

Financial highlights for 1Q2012 compared to 4Q2011:

- Good result characterised by sound underlying business.
- Net interest income (net of divestments) sustained by higher loan and deposit volumes in Belgium.
- Margins only slightly impacted by reduced FX loan book in Hungary.
- Net fee and commission income stable on account of higher fees for mutual funds and successful sales of unit-linked life products.
- Combined ratio stands at an excellent 89% year-to-date.
- Increased premium income driven by higher sales of unit-linked life products.
- Very good dealing room performance.
- Underlying cost/income ratio at 58% year-to-date (56% excluding the impact of the provision for 5-5-5 investment products).
- Credit cost ratio at a low 0.66% year-to-date, almost exclusively accounted for by Ireland. When Ireland is excluded, this ratio stands at 0.18%.
- Strong liquidity with a loan-to-deposit ratio of 90%, a good improvement from 94% at the end of 2011.
- Solvency: continued strong capital base: *pro forma* tier-1 ratio – including the effect of divestments for which an agreement has been signed to date – at approximately 15.5% (with a core tier-1 ratio of 13.6%).

Financial highlights 1Q2012 (underlying)

Johan Thijs, Group CEO, summarises the ***underlying*** business performance for 1Q2012 as follows:

Gross income benefits from sustained net interest income and stable fee and commission income, good technical insurance results, and very good dealing room results.

- Underlying net interest income stood at 1 211 million euros, down 12% year-on-year and 7% quarter-on-quarter. This performance was accounted for primarily by the deconsolidation of KBL *epb* and Fidea, as well as Centea for the year-on-year comparison. Leaving these items out, net interest income was down only 1% quarter-on-quarter and 4% year-on-year. The net interest margin came to 1.93% for the quarter under review, 2 basis points lower than in the previous quarter but equal to the level of a year earlier. In the Belgium Business Unit, both deposit and credit volumes were up quarter-on-quarter and year-on-year (credit: +6% year-on-year and +1% quarter-on-quarter; deposits +4% year-on-year and marginally up quarter-on-quarter). The loan book in the CEE Business Unit increased by 2% year-on-year (thanks to the Czech Republic and Slovakia), but stayed flat quarter-on-quarter (due in part to the decline caused by Hungary), while deposits increased by 3% year-on-year and contracted by 2% quarter-on-quarter. The loan portfolio in the Merchant Banking Business Unit was flat year-on-year and slightly up quarter-on-quarter, while the deposit base shrunk by 34% year-on-year (primarily in the last quarter of 2011, caused mainly by reduced short-term deposits in our New York branch and at KBC Bank Ireland), but was up 18% quarter-on-quarter.
- A 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 118 million euros, up 9% year-on-year but down 22% quarter-on-quarter. This was accounted for by the deconsolidation of Fidea. Disregarding this item, the technical insurance result was up 15% year-on-year, but down 20% quarter-on-quarter, due to technical items. The year-to-date combined ratio came to an excellent 89%. On a comparable basis, there was a 19% quarter-on-quarter increase in the sale of life insurance products (thanks to higher sales of unit-linked products). Year-on year, these sales rose by as much as 26%.
- The net result from financial instruments at fair value amounted to 326 million euros in this quarter, well up on its level both in the previous quarter and a year earlier, due to the very good performance turned in by the dealing rooms in the quarter under review and a positive CVA adjustment in this quarter.
- Net realised gains from available-for-sale assets stood at 31 million for the quarter under review, down on the 48–million-euro average for the last four quarters. This item was characterised by increased gains on shares, mitigated by the losses on bonds (mainly Greek ones).
- Net fee and commission income amounted to 306 million euros, down 18% quarter-on-quarter and 23% year-on-year. This was accounted for primarily by the deconsolidation of KBL *epb* and Fidea, as well as Centea for the year-on-year comparison. Leaving these items out, income was flat quarter-on-quarter and down only 4% year-on-year. Assets under management stood at 153 billion euros (excluding KBL *epb*), down 3% on the year-earlier figure but up 3% compared to the last quarter of 2011.
- Other net income came to a negative 8 million euros. We recorded a provision of 37 million euros after tax (56 million euros, pre-tax) on the voluntary repurchase of bonds (KBC IFIMA 5/5/5 and KBC Group 5-5-5) sold to retail customers, provided a credit event occurred. This item was also affected by a loss of 34 million euros after tax (51 million euros, pre-tax) realised on the sale of ABS.

Operating expenses lower on account of divestments.

- Operating expenses came to 1 110 million euros in the first quarter of 2012, down 2% on their level in the previous quarter and 10% on their year-earlier level. This was accounted for primarily by the deconsolidation of KBL *epb* and Fidea, as well as Centea for the year-on-year comparison. The quarter-on-quarter performance was also impacted by the Hungarian banking tax. Excluding the banking tax effect, FX impact and other one-off items, underlying costs decreased by 3% quarter-on-quarter and increased by 3% year-on-year. The year-to-date cost/income ratio came to 58% (56% excluding the impact of the 5-5-5 investment product), a clear indication of a well-controlled cost environment.

Low credit cost overall, with the exception of significant loan loss provisions for Ireland.

- Loan loss impairment stood at 261 million euros in the first quarter, up on the 97 million euros recorded a year earlier, but down on the 599 million euros recorded in the previous quarter. The figure came about largely because of the loan loss impairment of 195 million euros in Ireland, whereas the credit cost was low in the other regions. As a consequence, the annualised credit cost ratio stood at 0.66% year-to-date; this breaks down into virtually zero for the Belgian retail book (compared to 0.10% for FY2011), 0.60% in Central and Eastern Europe (down from 1.59% for FY2011, which had been affected by Hungary and Bulgaria) and 1.57% for Merchant Banking (up from 1.36% for FY2011). Excluding Ireland, the credit cost ratio for Merchant Banking stands at a very low 0.09% (down from 0.59% for FY2011).
- Other impairment charges came to 10 million euros in the quarter under review.

Strong solvency capital position under Basel II.

- The group's tier-1 ratio (under Basel II) came to a strong 13.1% at 31 March 2012 (core tier-1 ratio of 11.4%). Including the effect of divestments for which an agreement has been signed to date (Warta, Kredyt Bank and KBL *epb*), the *pro forma* tier-1 ratio even stands at approximately 15.5% (core tier-1 ratio of 13.6%).

Highlights of underlying performance per business unit.

- The Belgium Business Unit contributed 266 million euros to profit in 1Q2012, which was 15 million euros more than in 4Q2011. The quarter was characterised by stable net interest income, good insurance results, increasing fee income, a very low level of loan impairment and a high level of realised gains on shares. It was also characterised by additional charges above the provision already booked in 2011 for the reimbursement of retail customers who had bought 5-5-5 investment products, and to losses realised on Greek government bonds in the investment portfolio, following the Greek debt exchange.
- The CEE Business Unit (Czech Republic, Slovakia, Hungary and Bulgaria) posted a profit of 118 million euros in 1Q2012, compared to 98 million euros in the previous quarter. The results were driven by a good trading result, a relatively low level of loan impairment, the full-year charge for the Hungarian banking tax and the losses realised following the Greek debt exchange.
- The Merchant Banking Business Unit recorded a profit of 42 million euros in 1Q2012, compared to a 153-million-euro loss in 4Q2011. This was due to the very good level of income generated by the dealing rooms. However, this performance was offset by the high level of impairment in Ireland, an additional charge above the provision already booked in 2011 for the reimbursement of retail customers who had bought 5-5-5 investment products, as well as losses on the accelerated sale of ex-Atomium bonds. Excluding KBC Bank Ireland, the 1Q2012 result for Commercial Banking would be 123 million euros, a good performance given the year-on-year reduction in capital consumption.
- 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 1Q2012, the Group Centre's net result came to 30 million euros, compared to -35 million euros in the previous quarter, despite the deconsolidation of KBL *epb* and Fidea in this quarter and thanks to lower impairment charges at Kredyt Bank, Absolut Bank, Nova Ljubljanska banka and Antwerp Diamond Bank, as well as strong results at Warta.

Negative 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 1Q2012 amounted to a negative 0.1 billion euros. Apart from some smaller items, the main non-operating items in 1Q2012 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 negative 0.3 billion euros marked-to-market adjustment in relation to KBC's own credit risk.

First quarter of 2012: results per heading (IFRS)

Explanations per heading of the ***IFRS*** income statement for the first quarter of 2012 (see summary table on the next page):

- The IFRS net result for 1Q2012 amounted to 380 million euros, compared to 437 million euros a quarter ago and 821 million euros a year ago.
- Net interest income amounted to 1 261 million euros compared to 1 337 million euros in the fourth quarter of 2011 and 1 395 million euros a year earlier. The decline was caused primarily by the deconsolidation of KBL *epb*, Fidea and Centea. Year-on-year, credit volumes grew by 3%, and mortgages by as much as 4%. Customer deposits expanded by 4% in Belgium and by 3% in Central Europe, while the deposit base at Merchant Banking contracted by 34% (primarily in 4Q2011). The net interest margin was stable at 1.93% in terms of its year-on-year comparison.
- Net of technical charges and the ceded reinsurance result, technical insurance income came to 118 million euros, up 5% year-on-year but down 24% quarter-on-quarter. This was accounted for by the deconsolidation of Fidea. The year-to-date combined ratio came to an excellent 89% (82% in Belgium, 95% in CEE), an improvement on the 92% for FY2011. On a comparable basis, there was a 19% quarter-on-quarter increase in the sale of life insurance products (thanks to higher sales of unit-linked products). Year-on year, these sales rose by as much as 26%.
- Net fee and commission income amounted to 304 million euros in 1Q2012, up 6% on its 4Q2011 level and 1% on its 1Q2011 level. Besides the successful sale of unit-linked products, assets under management stood at 153 billion euros (exclusive of KBL *epb*), down 3% on the year earlier figure but up 3% compared to the last quarter of 2011.
- The net result from financial instruments at fair value (trading and fair value income) came to 60 million euros in the first quarter of 2012, compared to 436 million euros in the previous quarter and 472 million euros a year earlier. On an underlying basis (i.e. excluding exceptional items such as value adjustments to structured credit, fair valuing of our own debt, 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 326 million euros in this quarter, significantly up on its level both in the previous quarter and a year earlier, due to the very good performance turned in by the dealing room in the quarter under review.
- The remaining income components were as follows: dividend income from equity investments amounted to 6 million euros, the net realised result from available-for-sale assets (bonds and shares) stood at 32 million euros and other net income totalled 73 million euros.
- Operating expenses amounted to 1 132 million euros in 1Q2012, 8% higher than the previous quarter but 1% lower than the year-earlier figure. This was caused by the divestments in 2011, but mitigated somewhat by such factors as inflation, wage indexation and the banking tax. The underlying cost/income ratio for banking – a measure of cost efficiency – stood at 58% at the end of March 2012, down on the 60% recorded for FY2011.
- Total impairment stood at 273 million euros for the first quarter of 2012. Impairment on loans and receivables amounted to 261 million euros, down on the 599 million euros recorded in 4Q2011, despite the high level recorded in this quarter for Ireland. As a result, the annualised credit cost ratio for 2012 came to 0.66%, an improvement on the figure of 0.82% for FY2011. Other impairment charges totalled 12 million euros.
- Income tax amounted to 93 million euros for the quarter.
- At the end of the first quarter of 2012, total equity came to 18.0 billion euros, a 1.2-billion-euro increase compared to the start of the year, due mainly to the inclusion of the net profit for 1Q2012 and the change in the available-for-sale revaluation reserve (1.1 billion euros, combined). The group's tier-1 capital ratio – a measure of financial strength – stood at a sound 13.1% at 31 March 2012.

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 2011	2Q 2011	3Q 2011	4Q 2011	1Q 2012	2Q 2012	3Q 2012	4Q 2012
Net interest income	1 395	1 406	1 341	1 337	1 261	-	-	-
Interest income	3 047	3 195	2 910	2 732	2 695	-	-	-
Interest expense	-1 651	-1 789	- 1569	-1 395	-1 434	-	-	-
Earned premiums, insurance (before reinsurance)	1 141	974	972	1 033	884	-	-	-
Technical charges, insurance (before reinsurance)	-1 012	-840	-812	-877	-752	-	-	-
Ceded reinsurance result	-17	-8	-18	-1	-14	-	-	-
Dividend income	12	41	17	15	6	-	-	-
Net result from financial instruments at fair value through profit or loss	472	-194	-892	436	60	-	-	-
Net realised result from available-for-sale assets	34	42	10	83	32	-	-	-
Net fee and commission income	300	297	281	287	304	-	-	-
Fee and commission income	518	530	480	514	492	-	-	-
Fee and commission expense	-218	-233	-200	-227	-188	-	-	-
Other net income	92	110	-149	3	73	-	-	-
Total income	2 416	1 829	749	2 317	1 853	-	-	-
Operating expenses	-1 143	-1 081	-1 077	-1 043	-1 132	-	-	-
Impairment	-105	-332	-940	-746	-273	-	-	-
on loans and receivables	-97	-164	-473	-599	-261	-	-	-
on available-for-sale assets	-6	-118	-223	-71	-5	-	-	-
on goodwill	0	-17	-62	-41	0	-	-	-
on other	-2	-33	-183	-35	-7	-	-	-
Share in results of associated companies	1	0	-23	-35	-9	-	-	-
Result before tax	1 170	416	-1 292	492	439	-	-	-
Income tax expense	-334	-76	165	-75	-93	-	-	-
Net post-tax result from discontinued operations	0	0	-445	26	40	-	-	-
Result after tax	835	340	-1 571	443	387	-	-	-
attributable to minority interests	14	6	8	6	7	-	-	-
attributable to equity holders of the parent	**821**	**333**	**-1 579**	**437**	**380**	**-**	**-**	**-**
Belgium	385	158	-348	226	489	-	-	-
Central & Eastern Europe	141	145	-91	94	119	-	-	-
Merchant Banking	203	69	-255	-225	17	-	-	-
Group Centre	92	-39	-885	342	-246	-	-	-
Earnings per share, basic (EUR)	1.98	0.54	-5.08	0.63	0.71	-	-	-
Earnings per share, diluted (EUR)	1.98	0.54	-5.08	0.63	0.71	-	-	-

Highlights, consolidated balance sheet and ratios, KBC Group (in millions of EUR or %)	31-03-2011	30-06-2011	30-09-2011	31-12-2011	31-03-2012	30-06-2012	30-09-2012	31-12-2012
Total assets	322 493	312 899	305 109	285 382	290 635			
Loans and advances to customers*	147 625	143 182	143 451	138 284	135 980			
Securities (equity and debt instruments)*	88 839	85 144	74 062	65 036	65 853			
Deposits from customers and debt certificates*	192 412	188 116	184 453	165 226	166 551			
Technical provisions, before reinsurance*	23 870	24 084	21 064	19 914	19 925			
Liabilities under investment contracts, insurance*	6 568	6 638	6 787	7 014	7 871			
Parent shareholders' equity	11 011	11 500	9 834	9 756	10 949			
Non-voting core-capital securities	7 000	7 000	7 000	6 500	6 500			
KBC Group ratios (based on underlying results, year-to-date)								
Return on equity				5%	12.5%			
Cost/income ratio, banking				60%	58%			
Combined ratio, non-life insurance				92%	89%			
KBC Group solvency								
Tier-1 ratio				12.3%	13.1%			
Core tier-1 ratio				10.6%	11.4%			

* 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 2011	2Q 2011	3Q 2011	4Q 2011	1Q 2012	2Q 2012	3Q 2012	4Q 2012
Net interest income	1 374	1 390	1 342	1 298	1 211			
Earned premiums, insurance (before reinsurance)	1 141	975	972	1 033	884			
Technical charges, insurance (before reinsurance)	-1 016	-843	-817	-880	-752			
Ceded reinsurance result	-17	-8	-18	-1	-14			
Dividend income	8	37	14	15	5			
Net result from financial instruments at fair value through profit or loss	259	102	10	138	326			
Net realised result from available-for-sale assets	53	42	11	85	31			
Net fee and commission income	399	394	367	374	306			
Other net income	73	72	-210	12	-8			
Total income	2 274	2 161	1 673	2 075	1 989			
Operating expenses	-1 227	-1 155	-1 172	-1 133	-1 110			
Impairment	- 105	-333	-740	-730	-271			
on loans and receivables	-97	-164	-475	-599	-261			
on available-for-sale assets	-6	-135	-228	-85	-5			
on goodwill	0	0	0	0	0			
on other	-2	-35	-38	-46	-5			
Share in results of associated companies	1	0	-23	-35	-9			
Result before tax	943	673	-262	177	599			
Income tax expense	- 271	-138	22	-9	-136			
Result after tax	671	534	-240	167	463			
attributable to minority interests	14	6	8	7	7			
attributable to equity holders of the parent	**658**	**528**	**-248**	**161**	**455**			
Belgium	280	238	32	251	266			
Central & Eastern Europe	123	146	-40	98	118			
Merchant Banking	177	63	-196	-153	42			
Group Centre	77	81	-44	-35	30			
Earnings per share, basic (EUR)	1.50	1.11	-1.17	-0.19	0.93			
Earnings per share, diluted (EUR)	1.50	1.11	-1.17	-0.19	0.93			

Reconciliation between underlying result and result according to IFRS KBC Group (in millions of EUR)	1Q 2011	2Q 2011	3Q 2011	4Q 2011	1Q 2012	2Q 2012	3Q 2012	4Q 2012
Result after tax, attributable to equity holders of the parent, UNDERLYING	658	528	-248	161	455			
+ MTM of derivatives for ALM hedging	96	-77	-245	-46	45			
+ gains/losses on CDOs	124	-86	-618	164	189			
+ MTM of CDO guarantee and commitment fee	-10	-22	-10	-10	-40			
+ impairment on goodwill (and associated companies)	0	-17	-57	-41	0			
+ result on legacy structured derivative business (KBC FP)	14	43	5	-12	-11			
+ MTM of own debt issued	-16	-25	185	215	-340			
+ Results on divestments	-45	-12	-591	8	81			
Result after tax, attributable to equity holders of the parent: IFRS	821	333	-1 579	437	380			

Other information

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 has made considerable progress in the sale or run-down of a number of (non-core) activities (see below).

- In 1Q2012, we successfully continued to implement our strategic refocusing plan:
  - On 30 March 2012, KBC closed the previously announced deal with affiliates of J.C. Flowers & Co. for the sale of Fidea, after receiving the necessary regulatory approvals.
  - On 8 March 2012, Value Partners Ltd., a Hong Kong-based and listed asset management firm, reached an agreement with KBC Asset Management NV to acquire its 49% stake in KBC Goldstate. The deal was approved by Chinese Regulator CSRC and was closed on March 26. Given the size and nature of the activities involved, the deal has no material impact on the KBC group's earnings and capital.
  - On 28 February 2012, KBC Bank NV and Banco Santander S.A. announced that they had entered into an investment agreement to combine their Polish banking subsidiaries, Bank Zachodni WBK S.A. and Kredyt Bank S.A. Upon the deconsolidation of Kredyt Bank as a result of the proposed merger, and after the committed reduction of KBC's participation to below 10% shortly after the registration of the merger, approximately 0.7 billion euros of capital will be released (based on market valuations at the time the deal was announced). Moreover, based on these valuations, the deal will positively affect KBC's income statement by approximately 0.1 billion euros, which will be recognised when the deal is completed.
  - On 23 January 2012, KBC Private Equity and the other shareholders of Dynaco Group NV reached an agreement with Assa Abloy AB regarding the acquisition of Dynaco. The deal has been closed and generated a capital gain of 21 million euros.
  - On 20 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, to be adjusted for changes in net asset value between 30 June 2011 and the date of closure. Closure of the deal 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 deal will have a positive impact of approximately 0.3 billion euros on KBC's income statement.
  - On 17 January 2012, KBC Asset Management reached an agreement with both Kredyt Trade Sp z.o.o. (a fully owned 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 becomes the sole shareholder of KBC TFI.
  - A number of companies are still scheduled for divestment. The divestment process for KBC Bank Deutschland is in progress, while the preparations for Absolut Bank and Antwerp Diamond Bank are under way.

  - On 2 January 2012, KBC repaid 500 million euros in state aid (plus 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 1Q2012:
  - As a result of the exchange offer of Greek bonds (PSI debt restructuring), KBC recorded an additional and final negative result of 21 million euros after tax (28 million, pre-tax) on its Greek government bond portfolio in this quarter. KBC also recorded a charge of 37 million euros after tax (56 million, pre-tax) above the provision already booked in 2011 on the repurchase on a voluntary basis of the bonds (KBC IFIMA 5/5/5 and KBC Group 5-5-5) sold to retail customers, provided a credit event occurred. These structured bonds were launched in the spring of 2008, have a term to maturity of five years, a gross coupon of 5% 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. The ISDA Determination Committee decided that a relevant CDS Credit Event occurred on 9 March 2012. As a consequence, KBC has repurchased the bonds of all bond holders on the basis of the invested capital less any coupons paid by the issuer. The difference between the auction price of 19 March 2012 and the invested capital less any coupons paid by the issuer has been provisioned for during this and previous quarters.
  - 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 195 million euros was recorded in 1Q2012.
  - The tightening of corporate ABS credit spreads between end-December and end-March resulted in a valuation mark-up of 0.2 billion euros (after tax) on the CDO and ABS exposure, net of costs for the collapse of two CDOs with a nominal value of 1.7 billion euros.

- The tightening of KBC's credit spread in the first quarter of 2012 resulted in a negative 0.3 billion euros (after tax) marked-to-market adjustment in relation to KBC's own credit risk.
- We reduced our CDO and ABS exposure by 2.2 billion euros in the first quarter of 2012. This was achieved by early terminations and sales at limited cost.

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 2012, the main risk for economic growth remains the potential for contagion of a re-emerging EMU-debt 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 to stabilise the financial sector.

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

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Note for the editor:

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