Earnings Statement

KBC Group, 2Q2012 and 1H 2012

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Date of release: 7 August 2012, 7 a.m. CEST.

Summary:
Good commercial results surpassed by impairment charges recorded on remaining divestments.

The IFRS-based net result reported for the quarter under review came to a net loss of 539 million euros, compared with a net profit of 380 million euros in the previous quarter and 333 million euros in the year-earlier quarter. This means the group has generated a total net loss of 160 million euros for the first six months of 2012, as opposed to a net profit of 1 154 million euros for the corresponding period of 2011.

Excluding all exceptional and non-operating items, KBC ended the second quarter of 2012 with an underlying net profit of 372 million euros, compared with 455 million euros in the previous quarter and 528 million euros in the corresponding quarter of 2011. The underlying results for the first six months of 2012 amounted to 827 million euros, compared to 1 186 million euros for the corresponding period in 2011.

Johan Thijs, Group CEO:

‘The second quarter was marked by a good business performance, considerable progress on the divestment front, significant derisking and a further strengthening of our capital and liquidity position. We recorded 372 million euros in underlying net profit.

Our underlying result has been driven by the good commercial performance of our strategic banking and insurance business model on our home markets in Belgium and Central and Eastern Europe. Net interest income contracted somewhat primarily on account of lower reinvestment yields and higher senior debt costs, but loans and deposits continued to grow at a good rate in our core markets. Fee income remained satisfactory and commercial insurance results remained good. The quarter was also characterised by a low combined ratio and low levels of loan loss impairments. These impairments included lower, though still significant, loan loss provisioning in Ireland.

The closure of the sale of Warta positively influenced the second-quarter earnings by 0.3 billion euros and had a positive impact on capital of 0.7 billion euros, increasing our tier-1 ratio by 0.7%.

Moreover, closure of the sale of KBL European Private Bankers is expected to release a substantial amount of capital (approximately 0.7 billion euros) for us in the third quarter of 2012, increasing our tier-1 ratio by 0.7%.

In addition, we closed the previously announced deal with Banco Santander for the sale of Żagiel, our consumer finance business in Poland, after having received the necessary regulatory approvals.

On the basis of the progress made in the respective divestment processes, a thorough assessment was made of the value of the businesses of Absolut Bank (Russia), NLB (Slovenia), KBC Banka (Serbia), KBC Bank Deutschland (Germany) and Antwerp Diamond Bank (Belgium). Given our determination to continue with the divestments, we have decided to reclassify four of these businesses under IFRS5 and record impairment charges for the divestment files. The impact of these charges on total earnings is 1.2 billion euros, after tax. Given that impairment is largely related to goodwill, the impact on regulatory *capital is substantially lower at 0.6 billion euros. This negative capital impact will be reversed entirely at the time these divestments are closed, mainly through the release of RWAs (5 billion euros in total).*

These decisions have further reduced the volatility of our profit and hence the risk profile of our company.

All of this pushed up our tier-1 capital ratio further, bringing it to 13.6% in the second quarter of 2012. This ratio amounts to 15.4% on a pro forma basis when all the agreements that have been signed, but not yet closed, are included. Our estimated common equity ratio under Basel III at the end of 2013 stands at 9.5% (fully loaded).

We are continuing our efforts to ensure that 4.67 billion euros in state aid (before any penalty) is reimbursed by the end of 2013, as set out in the European plan, with the aim to pay back a substantial part before the end of 2012.

We have improved our already strong liquidity position, with a loan-to-deposit ratio of 83% at the end of June. We have covered all funding needs for 2012 and have strengthened our funding buffer.

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.'

KBC has acted to reduce its exposure to Southern European government bonds by almost half in the second quarter through a substantial reduction of its exposure to Spanish and Italian government bonds.

The main exceptional and non-operating items having an impact on the reported IFRS result for 2Q2012 were:

- **Impact of closing the sale of Warta**
  Closure of the sale of Polish insurance company Warta to Talanx International AG, which was announced on 2 July 2012, positively influenced the second-quarter earnings by 0.3 billion euros and had a positive impact on capital of 0.7 billion euros. As a result, core tier-1 capital for the group at the end of 2Q2012 improved by just under 0.7% compared to the previous quarter.
- **Impact of impairment charges recorded on companies to be divested**
  KBC decided to record impairment charges that impact total earnings by -1.2 billion euros, after tax. This relates to the remaining divestment files of Absolut Bank (Russia), NLB (Slovenia), KBC Banka (Serbia), KBC Bank Deutschland (Germany) and Antwerp Diamond Bank (Belgium). Given that impairment is largely related to goodwill, the impact on regulatory capital is substantially lower at 0.6 billion euros. This negative capital impact will be reversed entirely at the time these divestments are closed, mainly through the release of RWAs (5 billion euros in total).

The main special item having an impact on the underlying result for 2Q2012 was:

- **Ireland**
  Recent economic indicators point towards resilience in Irish exports, continuing strength in the pipeline of FDI and progress in reducing the deficit in public finances. These developments have been reflected in continuing positive assessments by the EU/IMF. While residential mortgage arrears continue to deteriorate, the pace of deterioration has slowed markedly compared to 2011, which is also positively impacting NPL trends. There are tentative early signs of house prices stabilising, but local confidence remains fragile. Commercial collateral values continue to suffer as all Irish banks deleverage in an illiquid market. As a consequence, a loan loss provision of 136 million euros was recorded in 2Q2012. We estimate that full-year impairment charges at KBC Bank Ireland will end up between 500 and 600 million euros.

With a *pro forma* total tier-1 ratio of 15.4% and a core tier-1 ratio of 13.4% (including the impact of the divestment of Kredyt Bank and KBC *epb*), solvency remains solid.

Johan Thijs concludes: 'The second quarter was one in which good commercial performances were shaded by the impairment charges recorded on the remaining divestment files. Our focus firmly remains on catering for our customer base in our core markets in Belgium and Central and Eastern Europe.'

Overview (consolidated)	2Q2011	1Q2012	2Q2012	Cumul. 1H2011	Cumul. 1H2012
Net result, IFRS (in millions of EUR)	333	380	-539	1 154	-160
Basic earnings per share, IFRS (in EUR)[1]	0.54	0.71	-1.99	2.52	-1.28
Underlying net result (in millions of EUR)	528	455	372	1 186	827
Underlying basic earnings per share (in EUR)[1]	1.11	0.93	0.69	2.61	1.62
Breakdown of underlying net result per business unit (in millions of EUR)					
Belgium	238	266	226	518	492
Central & Eastern Europe	146	118	188	269	306
Merchant Banking	63	42	-65	240	-23
Group Centre	81	30	23	158	52
Parent shareholders' equity per share (in EUR, end of period)	33.8	32.2	28.5	33.8	28.5

1 Note: If a coupon is expected to be paid on the core-capital securities sold to the Belgian and Flemish governments, it will be deducted from the numerator (pro rata). If a penalty has to be paid, it will likewise be deducted.

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

Financial highlights for 2Q2012 compared to 1Q2012:

- Good commercial results surpassed by impairment charges recorded on the remaining divestments, leading to a negative reported result.
- Decreased net interest income due to lower reinvestment yield and higher senior debt costs.
- Good growth of loan and deposit volumes.
- Excellent combined ratio at 89% year-to-date.
- Higher sales of unit-linked life products.
- Net fee and commission income slightly up on account of higher fees for mutual funds and successful sales of unit-linked life products.
- Underlying cost/income ratio at 58% year-to-date.
- Credit cost ratio at a low 0.59% year-to-date, almost exclusively accounted for by Ireland. When Ireland is excluded, this ratio stands at 0.18%.
- Strong liquidity with an excellent loan-to-deposit ratio of 83%, even better than the 90% recorded at the end of 1Q2012.
- 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 15.4% (with a core tier-1 ratio of 13.4%).

Financial highlights 2Q2012 (underlying)

Johan Thijs, Group CEO, summarises the ***underlying*** business performance for 2Q2012 as follows:

Gross income benefits from stable fee and commission income and good commercial insurance results.

- Underlying net interest income stood at 1 150 million euros, down 17% year-on-year and 5% quarter-on-quarter. The year-on-year performance was accounted for partly by the deconsolidation of KBL *epb* and Fidea, as well as Centea. Leaving these items out, net interest income was down 10% year-on-year. The net interest margin came to 1.82% for the quarter under review, 11 basis points lower than in the previous quarter and 18 basis points lower than the exceptionally high level of a year earlier. This was due primarily to the sale of high yield Southern European government bonds, as well as increased senior debt costs. 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 +2% quarter-on-quarter; deposits: +5% both year-on-year and quarter-on-quarter). The loan book in the CEE Business Unit increased by 4% year-on-year (thanks to the Czech Republic and Slovakia), and +2% quarter-on-quarter, while deposits rose by 3% year-on-year and stayed flat quarter-on-quarter. The loan portfolio in the Merchant Banking Business Unit was up 1% both year-on-year and quarter-on-quarter, while the deposit base shrunk by 28% 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 2% quarter-on-quarter.
- A very good commercial performance was turned in by both the life and non-life insurance businesses during the quarter under review. In general, gross earned premium minus gross technical charges and the ceded reinsurance result came to 132 million euros, up 6% year-on-year and 12% quarter-on-quarter. When account is taken of the deconsolidation of Fidea and VITIS, this result was up 14% year-on-year.

  The non-life segment was characterised by a good level of premiums, relatively low claims and a modest investment result. The year-to-date combined ratio came to an excellent 89%.

  In the life segment and on a comparable basis, there was a 21% 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 62%.

  It should be noted that the insurance results are also affected by investment income and charges, as well as by general administrative expenses. Investment income, in particular, was modest for both the life and non-life businesses in the quarter under review.
- The net result from financial instruments at fair value amounted to 113 million euros in this quarter, well down on its level in the previous quarter, but up on its year-earlier level. This item was impacted by a significant negative CVA adjustment in the second quarter.
- Net realised gains from available-for-sale assets stood at 6 million for the quarter under review, down on the 42–million-euro average for the last four quarters. This item was characterised by gains on the sale of shares, largely off-set by the losses on the sale of bonds.
- Net fee and commission income amounted to 310 million euros, up 1% quarter-on-quarter but down 21% 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 down only 4% year-on-year. Assets under management stood at 150 billion euros (excluding KBL *epb*), down 4% on the year-earlier figure and 2% on the figure for the first quarter of 2012, due to net outflows.
- Other net income came to 53 million euros.

Operating expenses well under control.

- Operating expenses came to 1 016 million euros in the second quarter of 2012, down 8% on their level in the previous quarter and 12% on their year-earlier level. This was accounted for primarily by the deconsolidation of KBL *epb*, Fidea and Centea for the year-on-year comparison. The quarter-on-quarter performance was also impacted by banking tax items, notably the full-year Hungarian bank tax charged in the first quarter and the amount recovered under the Belgian deposit guarantee scheme (partly offsetting the additional bank tax in Belgium) in the second quarter. Excluding deconsolidated companies and these tax effects, underlying costs increased by 1% compared to the previous quarter. The year-to-date cost/income ratio came to 58%, a clear indication of the ongoing well-controlled cost environment.

Low credit cost overall, loan loss provisions for Ireland reduced though still sizeable.

- Loan loss impairment stood at 198 million euros in the second quarter, up on the 164 million euros recorded a year earlier, but down on the 261 million euros recorded in the previous quarter. The figure came about largely because of the loan loss impairment of 136 million euros in Ireland, whereas the credit cost was low in the other business activities. As a consequence, the annualised credit cost ratio stood at 0.59% year-to-date; this breaks down into a very low 0.04% for the Belgian retail book (compared to 0.10% for FY2011), 0.42% in Central and Eastern Europe (down from 1.59%

for FY2011, which had been affected by Hungary and Bulgaria) and 1.38% for Merchant Banking (marginally up from 1.36% for FY2011). Excluding Ireland, the credit cost ratio for Merchant Banking stands at a low 0.14% (down from 0.59% for FY2011).

- Impairment charges on available-for-sale assets came to 24 million euros and other impairment charges came to 18 million euros in the quarter under review.

Strong solvency capital position under Basel II.

- The group's tier-1 ratio (under Basel II) increased from 13.4% at 31 March 2012 to a strong 13.6% at 30 June 2012 (core tier-1 ratio of 11.8%). Including the effect of divestments for which an agreement has been signed to date (Kredyt Bank and KBL *epb*), the *pro forma* tier-1 ratio is as high as approximately 15.4% (core tier-1 ratio of 13.4%).
- The solvency ratio for KBC Insurance stood at an excellent 314% at 30 June 2012, up from 248% at the end of the previous quarter.

Highlights of underlying performance per business unit.

- The Belgium Business Unit contributed 226 million euros to profit in 2Q2012, compared to 266 million euros in the previous quarter. The quarter was characterised by lower net interest income, due to lower reinvestment yields, good insurance sales, significantly increasing fee income, a low level of loan impairment and a high level of realised gains on shares, but was also affected by losses realised on government bonds. Another factor that had an impact was the recovery of an amount under the Belgian deposit guarantee scheme.
- The CEE Business Unit (Czech Republic, Slovakia, Hungary and Bulgaria) posted a profit of 188 million euros in 2Q2012, compared to 118 million euros in the previous quarter. The results for the second quarter were essentially driven by a low level of loan impairment.
- The Merchant Banking Business Unit recorded a loss of 65 million euros in 2Q2012, compared to a profit of 42 million euros in 1Q2012. The negative result is attributable in part to the high – though decreasing – level of impairment in Ireland, as well as to the negative CVA at KBC Bank Belgium. Excluding KBC Bank Ireland, net profit for the Merchant Banking Business Unit in 2Q2012 would be 27 million euros.
- 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 2Q2012, the Group Centre's net result came to 23 million euros, compared to 30 million euros in the previous quarter. This result was largely driven by Kredyt Bank, Absolut Bank, NLB and Warta.

Impairment charges on divestment files 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 2Q2012 amounted to a negative 0.9 billion euros. Apart from some smaller items, the main non-operating items in 2Q2012 were:
    - Closure of the sale of Polish insurance company Warta to Talanx International AG, which was announced on 2 July 2012, had a positive impact on the second-quarter earnings of 0.3 billion euros, after tax.
    - After a thorough assessment of the value of the businesses of Absolut Bank (Russia), NLB (Slovenia), KBC Banka (Serbia), KBC Bank Deutschland (Germany) and Antwerp Diamond Bank (Belgium), and given the progress made in the divestment processes, KBC decided to record impairment charges for these divestment files. The impact of these charges on total earnings is 1.2 billion euros, after tax.

1H2012: results per heading (IFRS)

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

- The IFRS net result for 1H2012 amounted to -160 million euros, compared to 1 154 million euros a year ago.
- Net interest income amounted to 2 451 million euros compared to 2 801 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%. Customer deposits expanded by 5% in Belgium and by 3% in Central Europe, while the deposit base at Merchant Banking contracted by 28% (primarily in 4Q2011). The net interest margin contracted to 1.82%, 18 basis points lower than the exceptionally high figure a year ago.
- Gross earned premium minus gross technical charges and the ceded reinsurance result came to 251 million euros, up 5% year-on-year.

  For the non-life activities, the year-to-date combined ratio came to an excellent 89% (87% in Belgium, 95% in CEE), an improvement on the 92% for FY2011.

  For the life activities and on a comparable basis, there was a 44% year-on-year increase in the sale of life insurance products (thanks to higher sales of unit-linked products).

  It should be noted that the insurance results are also affected by investment income and charges, as well as by general administrative expenses. Investment income, in particular, was modest for both the life and non-life businesses in the quarter under review.
- Net fee and commission income amounted to 613 million euros in the first half of 2012, up 3% on its level a year ago, thanks, *inter alia*, to the successful sale of unit-linked products. Assets under management stood at 150 billion euros (excluding KBL *epb*), down 4% on the year-earlier figure, due to net outflows.
- The net result from financial instruments at fair value (trading and fair value income) came to 103 million euros in the first half of 2012, compared to 279 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 439 million euros in1H2012, significantly up by 22% on its level a year earlier, due to the very good performance turned in by the dealing room, especially in the first quarter.
- The remaining income components were as follows: dividend income from equity investments amounted to 27 million euros, the net realised result from available-for-sale assets (bonds and shares) stood at 41 million euros and other net income totalled 441 million euros, accounted for primarily by the capital gain realised on the closure of the Warta divestment.
- Operating expenses amounted to 2 165 million euros in 1H2012, 3% lower than the year-earlier figure. This was caused by the divestments in 2011, but mitigated somewhat by such factors as inflation and wage indexation. The underlying cost/income ratio for banking – a measure of cost efficiency – stood at 58% at the end of June 2012, an improvement on the 60% recorded for FY2011.
- Total impairment stood at 1 746 million euros for the first half of 2012. Impairment on loans and receivables amounted to 459 million euros, up on the 260 million euros recorded in 1H2011, essentially due to the high level recorded for Ireland. As a result, the annualised credit cost ratio for 2012 came to 0.59%, which is still an improvement on the figure of 0.82% for FY2011. Impairment on available-for-sale assets stood at 79 million euros. Impairment on goodwill totalled 414 million euros and other impairment charges 794 million euros. These three impairment charges were accounted for by the planned divestment files, primarily NLB, Absolut Bank, Antwerp Diamond Bank, KBC Banka and KBC Bank Deutschland.
- Income tax amounted to 202 million euros for the first half of 2012.
- At the end of the first half of 2012, total equity came to 16.7 billion euros – unchanged on its level at the start of the year – due mainly to the inclusion of the net loss for 1H2012 (-0.2 billion euros), the substantial change in the available-for-sale revaluation reserve (+0.8 billion euros), as well as the deduction of the coupon on non-voting core capital securities subscribed by the Federal and Flemish governments (-0.6 billion euros). The group's tier-1 capital ratio – a measure of financial strength – stood at a sound 13.6% at 30 June 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	Cumul 1H2011	Cumul 1H2012
Net interest income	1 395	1 406	1 341	1 337	1 261	1 190	-	-	2 801	2 451
Interest income	3 047	3 195	2 910	2 732	2 695	2 563	-	-	6 241	5 258
Interest expense	-1 651	-1 789	- 1 569	-1 395	-1 434	-1 374	-	-	-3 440	-2 808
Earned premiums, insurance (before reinsurance)	1 141	974	972	1 033	884	890	-	-	2 115	1 774
Technical charges, insurance (before reinsurance)	-1 012	-840	-812	-877	-752	- 757	-	-	-1 852	-1 509
Ceded reinsurance result	-17	-8	-18	-1	-14	-1	-	-	-25	-14
Dividend income	12	41	17	15	6	21	-	-	53	27
Net result from financial instruments at fair value through profit or loss	472	-194	-892	436	60	43	-	-	279	103
Net realised result from available-for-sale assets	34	42	10	83	32	9	-	-	76	41
Net fee and commission income	300	297	281	287	304	309	-	-	597	613
Fee and commission income	518	530	480	514	492	479	-	-	1 048	970
Fee and commission expense	-218	-233	-200	-227	-188	-170	-	-	-452	-358
Other net income	92	110	-149	3	73	368	-	-	202	441
Total income	2 416	1 829	749	2 317	1 853	2 072	-	-	4 245	3 925
Operating expenses	-1 143	-1 081	-1 077	-1 043	-1 132	-1 033	-	-	-2 224	- 2 165
Impairment	-105	-332	-940	-746	-273	-1 473	-	-	-437	-1 746
on loans and receivables	-97	-164	-473	-599	-261	-198	-	-	-260	-459
on available-for-sale assets	-6	-118	-223	-71	-5	-75	-	-	-124	-79
on goodwill	0	-17	-62	-41	0	-414	-	-	-17	-414
on other	-2	-33	-183	-35	-7	-786	-	-	-35	-794
Share in results of associated companies	1	0	-23	-35	-9	17	-	-	1	8
Result before tax	1 170	416	-1 292	492	439	-417	-	-	1 585	22
Income tax expense	-334	-76	165	-75	-93	-110	-	-	-411	- 202
Net post-tax result from discontinued operations	0	0	-445	26	40	-8	-	-	0	33
Result after tax	835	340	-1 571	443	387	-535	-	-	1 175	-148
attributable to minority interests	14	6	8	6	7	5	-	-	20	12
attributable to equity holders of the parent	**821**	**333**	**-1 579**	**437**	**380**	**-539**	**-**	**-**	**1 154**	**-160**
Belgium	385	158	-348	226	489	204	-	-	543	694
Central & Eastern Europe	141	145	-91	94	119	171	-	-	286	290
Merchant Banking	203	69	-255	-225	17	-65	-	-	272	-48
Group Centre	92	-39	-885	342	-246	-849	-	-	54	-1 096
Basic earnings per share (EUR)	1.98	0.54	-5.08	0.63	0.71	-1.99	-	-	2.52	-1.28
Diluted earnings per share (EUR)	1.98	0.54	-5.08	0.63	0.71	-1.99	-	-	2.52	-1.28

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	285 848	-	-
Loans and advances to customers*	147 625	143 182	143 451	138 284	135 980	133 326	-	-
Securities (equity and debt instruments)*	88 839	85 144	74 062	65 036	65 853	64 227	-	-
Deposits from customers and debt certificates*	192 412	188 116	184 453	165 226	166 551	163 685	-	-
Technical provisions, before reinsurance*	23 870	24 084	21 064	19 914	19 925	19 539	-	-
Liabilities under investment contracts, insurance*	6 568	6 638	6 787	7 014	7 871	8 856	-	-
Parent shareholders’ equity	11 011	11 500	9 834	9 756	10 949	9 687	-	-
Non-voting core-capital securities	7 000	7 000	7 000	6 500	6 500	6 500	-	-
KBC Group ratios (based on underlying results, year-to-date)								
Return on equity				5%		11.7%	-	-
Cost/income ratio, banking				60%		58%	-	-
Combined ratio, non-life insurance				92%		89%	-	-
KBC Group solvency								
Tier-1 ratio				12.3%		13.6%	-	-
Core tier-1 ratio				10.6%		11.8%	-	-

* 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	Cumul 1H2011	Cumul 1H2012
Net interest income	1 374	1 390	1 342	1 298	1 211	1 150	-	-	2 764	2 361
Earned premiums, insurance (before reinsurance)	1 141	975	972	1 033	884	890	-	-	2 116	1 774
Technical charges, insurance (before reinsurance)	-1 016	-843	-817	-880	-752	-757	-	-	-1 859	-1 509
Ceded reinsurance result	-17	-8	-18	-1	-14	-1	-	-	-26	-14
Dividend income	8	37	14	15	5	21	-	-	45	26
Net result from financial instruments at fair value through profit or loss	259	102	10	138	326	113	-	-	361	439
Net realised result from available-for-sale assets	53	42	11	85	31	6	-	-	95	37
Net fee and commission income	399	394	367	374	306	310	-	-	794	616
Other net income	73	72	-210	12	-8	53	-	-	145	46
Total income	2 274	2 161	1 673	2 075	1 989	1 786	-	-	4 434	3 776
Operating expenses	-1 227	-1 155	-1 172	-1 133	-1 110	- 1 016	-	-	-2 382	-2 126
Impairment	- 105	-333	-740	-730	-271	-241	-	-	-439	-512
on loans and receivables	-97	-164	-475	-599	-261	-198	-	-	-261	-459
on available-for-sale assets	-6	-135	-228	-85	-5	-24	-	-	-141	-29
on goodwill	0	0	0	0	0	0	-	-	0	0
on other	-2	-35	-38	-46	-5	-18			-37	-24
Share in results of associated companies	1	0	-23	-35	-9	-9	-	-	1	-19
Result before tax	943	673	-262	177	599	520	-	-	1 615	1 119
Income tax expense	- 271	-138	22	-9	-136	-144	-	-	-410	-280
Result after tax	671	534	-240	167	463	376	-	-	1 206	839
attributable to minority interests	14	6	8	7	7	5	-	-	20	12
attributable to equity holders of the parent	**658**	**528**	**-248**	**161**	**455**	**372**	**-**	**-**	**1 186**	**827**
Belgium	280	238	32	251	266	226	-	-	518	492
Central & Eastern Europe	123	146	-40	98	118	188	-	-	269	306
Merchant Banking	177	63	-196	-153	42	-65	-	-	240	-23
Group Centre	77	81	-44	-35	30	23	-	-	158	52
Basic earnings per share (EUR)	1.50	1.11	-1.17	-0.19	0.93	0.69	-	-	2.61	1.62
Diluted earnings per share (EUR)	1.50	1.11	-1.17	-0.19	0.93	0.69	-	-	2.61	1.62

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	Cumul 1H2011	Cumul 1H2012
Result after tax, attributable to equity holders of the parent, UNDERLYING	658	528	-248	161	455	372	-	-	1 186	827
+ MTM of derivatives for ALM hedging	96	-77	-245	-46	45	-29	-	-	19	16
+ gains/losses on CDOs	124	-86	-618	164	189	-14	-	-	39	175
+ MTM of CDO guarantee and commitment fee	-10	-22	-10	-10	-40	-18	-	-	-31	-58
+ impairment on goodwill	0	-17	-57	-41	0	-16	-	-	-17	-16
+ result on legacy structured derivative business (KBC FP)	14	43	5	-12	-11	-7	-	-	57	-19
+ MTM of own debt issued	-16	-25	185	215	-340	41	-	-	-41	-300
+ Results on divestments	-45	-12	-591	8	81	-868	-	-	-56	-787
Result after tax, attributable to equity holders of the parent: IFRS	821	333	-1 579	437	380	-539	-	-	1 154	-160

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 2Q2012, we successfully continued to implement our strategic refocusing plan:
  - On 11 May 2012, the Management Boards of Kredyt Bank and Bank Zachodni WBK signed the Merger Plan and motion to the Financial Supervisory Commission for its approval of the banks' merger. An exchange parity was established at 6.96 Bank Zachodni WBK shares for 100 Kredyt Bank shares. The merger is subject to the approval of the Financial Supervisory Commission. The merger plan was approved by the shareholders of both companies on 30 July 2012.
  - On 14 May 2012, Business Lease Group, a leading expert in full operational service leasing and mobility services in the Netherlands and Central Europe (Poland, the Czech Republic, Slovakia and Hungary) acquired KBC Autolease Polska Sp. z o.o., a wholly-owned subsidiary of KBC Lease Belgium NV. Given the size and nature of the activities involved, the sale had no material impact on KBC Group's earnings and capital.
  - On 2 July 2012, the closure of the sale of Polish insurance company Warta to Talanx International AG was announced. This positively influenced the second-quarter earnings by 0.3 billion euros and had a positive impact on capital of 0.7 billion euros. As a result, core tier-1 capital for the group at the end of the second quarter of 2012 had improved by just under 0.7%, compared to the previous quarter.
  - On 2 July 2012, after very careful and thorough consideration and in consultation with all relevant parties, KBC decided not to participate in the capital increase proposed by NLB and the Republic of Slovenia.
  - On 31 July 2012, KBC finalised the sale, announced on 10 October 2011, of its private banking subsidiary KBL European Private Bankers to Precision Capital S.A. for a total consideration of approximately 1 billion euros. The sale is expected to release a substantial amount of capital (approximately 0.7 billion euros) for KBC, increasing its tier-1 ratio by 0.7 % in the third quarter of 2012.
  - On 31 July 2012, after having received all the necessary regulatory approvals, KBC Bank finalised the sale of 100% of the shares of Żagiel, its consumer finance business in Poland, to Santander Consumer Finance S.A., the Polish consumer finance subsidiary of Santander Group, for a total purchase price of 10 million Polish zloty.
  - A number of companies are still scheduled for divestment. The divestment processes for KBC Bank Deutschland, KBC Banka, Antwerp Diamond Bank and Absolut Bank are in progress.
  - On the basis of the progress made in the respective divestment processes, a thorough assessment was made of the value of the businesses of Absolut Bank (Russia), NLB (Slovenia), KBC Banka (Serbia), KBC Bank Deutschland (Germany) and Antwerp Diamond Bank (Belgium). Given our determination to continue with the divestments, we have decided to reclassify four of these businesses under IFRS5 and record impairment charges for the divestment files. The impact of these charges on total earnings is 1.2 billion euros, after tax. Given that impairment is largely related to goodwill, the impact on regulatory capital is substantially lower at 0.6 billion euros. This negative capital impact will be reversed entirely at the time these divestments are closed, mainly through the release of RWAs (5 billion euros in total).

- Other main events in 1H2012:

  - 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 strategic plan approved by the European Commission within the agreed timeframe and to repay the Belgian authorities in a timely manner. KBC works toward repaying a substantial part of the federal government state aid before the end of this year and to maintain a regulatory tier-1 capital ratio of 11%, according to Basel II banking capital adequacy rules.

  - Recent economic indicators point towards resilience in Irish exports, continuing strength in the pipeline of FDI and progress in reducing the deficit in public finances. These developments have been reflected in continuing positive assessments by the EU/IMF. While residential mortgage arrears continue to deteriorate, the pace of deterioration has slowed markedly compared to 2011, which is also positively impacting NPL trends. There are tentative early signs of house prices stabilising, but local confidence remains fragile. Commercial collateral values continue to suffer as all Irish banks deleverage in an illiquid market. As a consequence, a loan loss provision of 136 million euros was recorded in 2Q2012. We estimate that full-year impairment charges at KBC Bank Ireland will end between 500 and 600 million euros.
  - As has been the case in previous quarters, KBC has acted to reduce volatility in its results. We almost halved our exposure to Southern European government bonds in the second quarter by reducing our exposure to Spanish and Italian government bonds.

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.
- Downside risks to economic growth in 2012 and 2013 have increased further in the past few months. They are primarily related to the ongoing EMU crisis and the uncertainty about fiscal policy in the US after the November elections (the so-called 'fiscal cliff'). Most importantly, a credible and sustainable solution for the EMU sovereign debt problem remains 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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