Press Release

Outside trading hours - Regulated information*

Brussels, 16 May 2019 (07.00 a.m. CEST)

KBC Group: First-quarter result of 430 million euros

KBC Group - overview (consolidated, IFRS)	1Q2019	4Q2018	1Q2018
Net result (in millions of EUR)	430	621	556
Basic earnings per share (in EUR)	0.98	1.44	1.30
Breakdown of the net result by business unit (in millions of EUR)			
Belgium	*176*	*361*	*243*
Czech Republic	*177*	*170*	*171*
International Markets	*70*	*93*	*137*
Group Centre	*7*	*-3*	*5*
Parent shareholders' equity per share (in EUR, end of period)	43.1	41.4	40.9

We generated a net profit of 430 million euros in the first quarter of 2019. This is a good result, considering that we – as usual – recorded the bulk of the bank taxes for the full year in the first quarter (382 million euros in the first quarter of 2019). Excluding the bank taxes, the net result even surpassed the previous quarter's net result by 9%, thanks to a slight increase in total income and lower costs (excluding bank taxes), despite somewhat higher loan loss impairment charges. Adjusted for the sale of a legacy portfolio in Ireland last year, lending to customers increased by 5% year-on-year, and deposits including debt certificates rose by 6%. Sales of non-life and life insurance products also went up year-on-year by 9% and 4%, respectively. Our solvency position, which does not include the profit of the first quarter of 2019, remained strong too, with a common equity ratio of 15.7%. Our dividend policy (payout ratio of at least 50%) remains unchanged.

As regards sustainability, we are in continuous dialogue with our customers and stakeholders, aiming to fully live up to society's expectations. In March, for instance, we tightened up our policy towards tobacco and decided not only to exclude the tobacco industry from our lending, insurance and SRI activities, but also start the process to eliminate it from our conventional investment funds and proprietary investment portfolio. Besides that, we signed up to the United Nations charter for tobacco-free financing, which fits in perfectly with the two key focus areas of Health and Population Ageing in our sustainability strategy.

In line with our general strategy, we continued to focus on our core activities and markets. In the weeks following the quarter-end, for instance, we reached an agreement for the sale of our Irish subsidiary's legacy performing corporate loan portfolio of roughly 260 million euros. The transaction is expected to close in the course of 2019, and further solidifies KBC Bank Ireland's core business focus on retail and micro SME clients. A few days later, our Czech subsidiary ČSOB reached an agreement to acquire the remaining 45% stake in the Czech building savings bank ČMSS for 240 million euros. The transaction will have an impact of approximately -0.3 percentage points on KBC Group's common equity ratio. Furthermore, the revaluation of our already existing 55% stake in ČMSS will lead to a one-off gain of roughly 80 million euros on the closing date. As a result of this transaction, ČSOB will hold 100% of ČMSS and consolidates its position as the largest provider of financial solutions for housing purposes in the Czech Republic. The agreement is expected to close before the end of the second quarter of 2019.

Ultimately, our success is based on the trust that our clients continue to place in us. I'd like to explicitly thank each and every one of them for their long-standing confidence and to assure them that we're more focused than ever in our efforts to become the reference in bank-insurance in all our core countries.

Johan Thijs
Chief Executive Officer

* This news item contains information that is subject to the transparency regulations for listed companies.

Financial highlights in the first quarter of 2019

- Commercial bank-insurance franchises in our core markets performed well.
- Lending volumes were up 1% quarter-on-quarter and 5% year-on-year (adjusted for the sale of part of the Irish loan book in the last quarter of 2018), with year-on-year increases in all business units. Deposits including debt certificates were up 2% quarter-on-quarter and 6% year-on-year, with year-on-year increases in all business units.
- Net interest income was more or less flat year-on-year. It was down 3% quarter-on-quarter, due to several factors, including pressure on loan margins and the low reinvestment yields in our euro area core countries, which more than offset the positive effect of general loan volume growth, the positive impact of interest rate increases in the Czech Republic, and lower funding costs.
- Earned premium income from our non-life insurance activities went up 10% year-on-year, but this was offset by higher technical charges, due in part to storms and large fire claims. The combined ratio for the quarter under review amounted to a good 93%, compared to 88% for full-year 2018. Sales of our life insurance products were up by 1% and 4% on their level in the previous and year-earlier quarters, respectively.
- Net fee and commission income was slightly up (1%) quarter-on-quarter. It was down 9% year-on-year, mainly due to generally lower asset management-related entry and management fees.
- All other remaining income items combined were up 85% quarter-on-quarter, owing essentially to higher trading and fair value income. Year-on-year, such other income items decreased by 9%, mainly due to lower dividend and net other income.
- Excluding bank taxes (the bulk of which are recorded in the first quarter of the year), costs were down 4% quarter-on-quarter (partly a seasonal effect) and 1% year-on-year. In both cases, one-off items account for part of the variance. When certain non-operating items are excluded and the bank taxes are evenly spread throughout the year, the cost/income ratio amounted to 57% in the first quarter of 2019, in line with the figure for full-year 2018.
- The quarter included a 67-million-euro loan loss impairment charge, compared to a 30-million-euro charge in the previous quarter and a net release of impairments of 63 million euros in the year-earlier quarter. The annualised cost of credit for the quarter amounted to a still benign 0.16% in the first quarter of 2019, compared to -0.04% for full-year 2018 (a negative figure indicates a positive impact on the results).
- Our liquidity position remained strong, as did our capital base, with a common equity ratio of 15.7%, or 15.8% when including the net result for the first quarter, taking into account the full-year 2018 payout ratio of 59% (dividend + AT1 coupon). Our leverage ratio amounted to 6.0% at the end of March 2019.

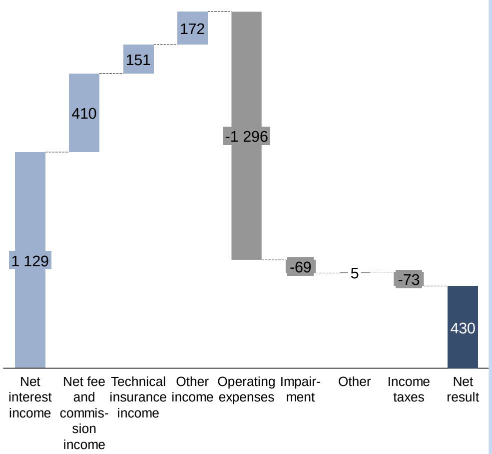
The cornerstones of our strategy

Our strategy rests on four principles:

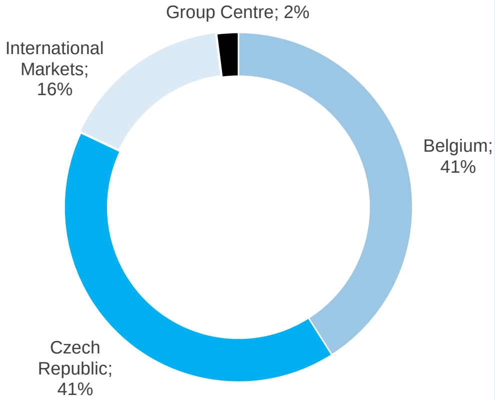
- We place our customers at the centre of everything we do.
- We look to offer our customers a unique bank-insurance experience.
- We focus on our group's long-term development and aim to achieve sustainable and profitable growth.
- We meet our responsibility to society and local economies.

Breakdown of the 1Q2019 result

(in millions of EUR)



Contribution of the business units to the group result (1Q2019)



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Overview of results and balance sheet

Consolidated income statement, IFRS KBC Group (in millions of EUR)	1Q2019	4Q2018	3Q2018	2Q2018	1Q2018
Net interest income	1 129	1 166	1 136	1 117	1 125
Non-life insurance (before reinsurance)	161	198	197	202	162
Earned premiums	*415*	*409*	*403*	*392*	*378*
Technical charges	*-254*	*-211*	*-205*	*-190*	*-216*
Life insurance (before reinsurance)	-3	-3	-9	1	-7
Earned premiums	*351*	*416*	*293*	*315*	*336*
Technical charges	*-354*	*-418*	*-302*	*-314*	*-343*
Ceded reinsurance result	-7	-12	-6	-14	-9
Dividend income	12	15	12	34	21
Net result from financial instruments at fair value through P&L[1]	99	2	79	54	96
Net realised result from debt instruments at fair value through other comprehensive income	2	0	0	8	1
Net fee and commission income	410	407	424	438	450
Net other income	59	76	56	23	71
Total income	1 862	1 848	1 888	1 863	1 912
Operating expenses	-1 296	-996	-981	-966	-1 291
Impairment	-69	-43	2	1	56
Of which: on financial assets at amortised cost and at fair value through other comprehensive income[2]	*-67*	*-30*	*8*	*21*	*63*
Share in results of associated companies & joint ventures	5	4	2	3	6
Result before tax	503	814	911	901	683
Income tax expense	-73	-192	-211	-210	-127
Result after tax	430	621	701	692	556
attributable to minority interests	0	0	0	0	0
attributable to equity holders of the parent	**430**	**621**	**701**	**692**	**556**
Basic earnings per share (EUR)	0.98	1.44	1.63	1.61	1.30
Diluted earnings per share (EUR)	0.98	1.44	1.63	1.61	1.30
Key consolidated balance sheet figures KBC Group (in millions of EUR)	**31-03-2019**	**31-12-2018**	**30-09-2018**	**30-06-2018**	**31-03-2018**
Total assets	292 332	283 808	304 740	301 934	304 022
Loans and advances to customers, excl. reverse repos	148 517	147 052	146 011	145 346	142 512
Securities (equity and debt instruments)	63 706	62 708	63 030	63 936	66 050
Deposits from customers and debt certificates, excl. repos	197 987	194 291	194 056	192 951	188 034
Technical provisions, before reinsurance	18 589	18 324	18 533	18 595	18 754
Liabilities under investment contracts, insurance	13 334	12 949	13 444	13 428	13 338
Parent shareholders' equity	17 924	17 233	16 878	16 616	17 119
Selected ratios KBC group (consolidated)	**1Q2019**	**FY2018**			
Return on equity	10%[3]	16%			
Cost/income ratio, banking (when excluding certain non-operating items and evenly spreading the bank tax)	72% (57%)	57.5% (57%)			
Combined ratio, non-life insurance	93%	88%			
Common equity ratio, Basel III Danish Compromise (fully loaded)	15.7%[4]	16.0%			
Common equity ratio, FICOD (fully loaded)	14.7%	14.9%			
Leverage ratio, Basel III (fully loaded)	6.0%	6.1%			
Credit cost ratio[5]	0.16%	-0.04%			
Impaired loans ratio	4.3%	4.3%			
for loans more than 90 days past due	2.4%	2.5%			
Net stable funding ratio (NSFR)	138%	136%			
Liquidity coverage ratio (LCR)	140%	139%			

1 Also referred to as 'Trading and fair value income'.
2 Also referred to as 'Loan loss impairment'.
3 14.5% when evenly spreading the bank tax throughout the year.
4 When including the net result of the first quarter, taking into account the full-year 2018 payout ratio of 59% (dividend + AT1 coupon), the ratio is 15.8%.
5 A negative figure indicates a net impairment release (with a positive impact on the results).

We provide a full overview of our IFRS consolidated income statement and balance sheet in the 'Consolidated financial statements' section of the quarterly report. Condensed statements of comprehensive income, changes in shareholders' equity, as well as several notes to the accounts, are also available in the same section. As regards the (changes in) definition of ratios, see 'Details of ratios and terms' in the quarterly report.

Analysis of the quarter (1Q2019)

Total income 1 862 million euros	Total income increased by 1% quarter-on-quarter. Overall, trading and fair value income and – to a lesser extent – net fee and commission income increased, while net interest income, non-life insurance technical income and net other income fell compared to the previous quarter.

Net interest income amounted to 1 129 million euros in the quarter under review, down 3% quarter-on-quarter and roughly flat year-on-year. In general, net interest income continued to suffer from the pressure on commercial loan margins in most core countries, the negative effect of low reinvestment yields (in our core countries in the euro area), the lower number of days (quarter-on-quarter) and the lower netted positive impact of ALM FX swaps, while it benefited from loan volume growth, the effects of interest rate increases in the Czech Republic and lower funding costs. As already mentioned, interest income continued to be supported by loan volume growth: the total volume of customer lending rose by 1% quarter-on-quarter and 5% year-on-year (adjusted for the sale of part of the Irish loan book in the last quarter of 2018), with increases in all business units. Customer deposits including debt certificates were up 2% quarter-on-quarter and 6% year-on-year, with increases in all business units (for the year-on-year figures). The net interest margin came to 1.98% for the quarter under review, down 4 and 3 basis points on the level recorded in the previous and year-earlier quarters, respectively.

Technical income from our non-life insurance activities (earned premiums less technical charges, plus the ceded reinsurance result) contributed 154 million euros to total income. It was more or less flat compared to the year-earlier quarter, and it was down 18% on the previous quarter, as higher earned premium income and a better ceded reinsurance result were more than offset by a significant increase in technical charges, mainly caused by storms (in Belgium and to a lesser extent the Czech Republic) and large fire claims (in Belgium). Overall, the combined ratio for the first quarter of 2019 came to a good 93%, compared to an excellent 88% recorded for full-year 2018.

Technical income from our life insurance activities stood at -3 million euros, compared to -4 million euros in the previous quarter and -7 million euros in the year-earlier quarter. Despite the previous quarter benefiting from high volumes in tax-incentivised pension savings products in Belgium, sales of life insurance products in the quarter under review (516 million euros) were still up 1% on the level recorded in the previous quarter, thanks to higher sales of unit-linked life insurance products in Belgium. Compared to the year-earlier quarter, sales of life insurance products were up 4%, driven by higher sales of guaranteed interest products (in Belgium and also in Bulgaria, where UBB Life has been included in the scope of consolidation). Overall, the share of guaranteed-interest products in our total life insurance sales stood at 59% in the first quarter of 2019, with unit-linked products accounting for the remaining 41%.

At 410 million euros, net fee and commission income was slightly up (1%) on its level for the previous quarter and down 9% compared to the year-earlier quarter. The latter drop was mainly due to asset management activities, which generated lower entry and management fees compared to a year ago. Compared to the previous quarter though, asset management related fees went up (mainly increased entry fees), partly offset by lower banking services-related fees (mostly related to seasonally lower payment service income). At the end of March 2019, our total assets under management stood at 210 billion euros, up 5% quarter-on-quarter as a result of improving asset prices. Year-on-year, total assets under management were still down 2%.

All other remaining income items amounted to an aggregate 172 million euros, as opposed to 93 million euros in the previous quarter and 189 million euros in the year-earlier quarter. They included a 99-million-euro net result from financial instruments at fair value (trading and fair value income). This figure was up 97 million euros on its level in the previous quarter, due mainly to a higher net result related to equity instruments in the insurer's portfolio, improved dealing room income (especially in Belgium) and less negative effects of various valuation adjustments. Compared to the first quarter of 2018, trading and fair value income was up 4%. The other remaining income items in the first quarter of 2019 also included 12 million euros in dividend income and a net realised result of 2 million euros from debt instruments at fair value through OCI, as well as 59 million euros in net other income. This latter item was down 18 million euros and 13 million euros, respectively, on the previous and year-earlier quarters, which had both benefited from the positive impact of the settlement of legacy legal cases (the first quarter of 2019 also includes a positive effect related to a legal case, but for a smaller amount).

Operating expenses

1 296 million euros

Excluding bank taxes, operating expenses in the first quarter were down 4% compared to the previous quarter. When certain non-operating items are excluded and the banking taxes are evenly spread throughout the year, the cost/income ratio came to 57%.

Operating expenses in the first quarter of 2019 stood at 1 296 million euros. The quarter-on-quarter comparison is distorted by the traditional upfront recognition in the first quarter of most of the banking taxes for the full year (382 million euros in the first quarter of 2019, 41 million euros in the fourth quarter of 2018, and 371 million euros in the first quarter of 2018). Excluding bank taxes, operating expenses fell 4% quarter-on-quarter and 1% year-on-year. The 4% quarter-on-quarter decrease was related to lower staff expenses (due, in part, to a positive one-off item in Belgium to the tune of 8 million euros) and seasonally lower professional fees, ICT costs and marketing expenses. The 1% year-on-year decrease is due to lower staff expenses in Belgium and lower facilities costs (in both cases partly due to one-off items in the current or reference periods), partly offset by higher ICT costs and other factors.

When certain non-operating items are excluded and the banking tax is evenly spread throughout the year, the cost/income ratio of our banking activities came to 57%, in line with the figure recorded for full-year 2018. Including the non-operating elements and the bank tax in the first quarter, the cost/income ratio of our banking activities stood at 72%.

Loan loss impairment

67-million-euro net increase

Net loan loss impairment charge of 67 million euros, largely attributable to a few corporate loans in Belgium. Still benign credit cost ratio of 0.16% for the quarter under review.

In the first quarter of 2019, we recorded a 67-million-euro net impairment charge, compared with a net charge of 30 million euros in the previous quarter and a net release of 63 million euros in the first quarter of 2018. Broken down by country, loan loss impairment charges in the first quarter of 2019 came to 82 million euros in Belgium (increase due to a few corporate loans), 3 million euros in Slovakia, 0 million euros in Hungary, 2 million euros in Bulgaria, and net releases of 12 million in Ireland (because of the increase in house prices and overall portfolio improvement), 2 million euros in the Czech Republic and 6 million euros in the Group Centre. For the entire group, the credit cost ratio amounted to 0.16% for the quarter under review, compared to -0.04% for full-year 2018 (a negative figure indicates a net release and, hence, has a positive effect on the results).

The impaired loans ratio was roughly unchanged. At the end of March 2019, some 4.3% of our total loan book was classified as impaired (also 4.3% at year-end 2018). Impaired loans that are more than 90 days past due decreased to 2.4% of the loan book, compared with 2.5% at year-end 2018.

Impairment on assets other than loans stood at only 1 million euros. This figure compares with 13 million euros in the previous quarter and 6 million euros in the first quarter of 2018, both of which included impairment charges related to the review of residual values of short-term financial car leases in the Czech Republic.

Net result by business unit

Belgium	Czech Republic	International Markets	Group Centre
176 million euros	177 million euros	70 million euros	7 million euros

Belgium: the net result (176 million euros) was significantly down quarter-on-quarter, as it was distorted by most of the bank taxes for the full year being recorded upfront in the first quarter of 2019 (273 million euros). Excluding bank taxes, the net result was even up 2% quarter-on-quarter, with higher trading and fair value income and fee and commission income, a positive one-off tax effect, and slightly lower costs offsetting lower non-life insurance technical income (affected by storm and fire-related claims), net interest income and net other income and higher loan loss impairment charges (related to corporate loans).

Czech Republic: the net result (177 million euros) was up 4% on its level for the previous quarter. Excluding bank taxes, it was up 21%, mainly on account of higher net interest income and net other income (including a one-off item), lower costs and lower impairment charges for loans and other assets.

International Markets: the 70-million-euro net result breaks down as follows: 18 million euros in Slovakia, 25 million euros in Hungary, 13 million euros in Bulgaria and 14 million euros in Ireland. For the business unit as a whole and excluding the banking tax effect, the net result was up 5% quarter-on-quarter, with higher results for Bulgaria (higher non-life technical result, lower costs and impairments, etc.) and Slovakia (higher net other income and lower impairments, etc.) more than offsetting a lower result for Ireland (lower net interest income, increased costs, lower loan loss impairment releases, etc.), while Hungary's net result (excluding bank tax effect) remained more or less in line with the previous quarter.

Selected ratios by business unit	Belgium 1Q2019	Belgium FY2018	Czech Republic 1Q2019	Czech Republic FY2018	International Markets 1Q2019	International Markets FY2018
Cost/income ratio, banking excluding certain non-operating items and spreading the banking tax evenly	56%	58%	44%	46%	69%	65%
Combined ratio, non-life insurance	93%	87%	93%	97%	84%	90%
Credit cost ratio[1]	0.30%	0.09%	-0.02%	0.03%	-0.11%	-0.46%
Impaired loans ratio	2.6%	2.6%	2.4%	2.4%	11.8%	12.2%

A full results table is provided in the 'Additional information' section of the quarterly report. A short analysis of the results per business unit is provided in the analyst presentation (available at www.kbc.com).

Equity, solvency and liquidity

Total equity	Common equity ratio (fully loaded)	Liquidity coverage ratio	Net stable funding ratio
19.4 billion euros	15.7%	140%	138%

At the end of March 2019, total equity stood at 19.4 billion euros (17.9 billion euros in parent shareholders' equity and 1.5 billion euros in additional tier-1 instruments), down 0.2 billion euros on its level at the end of 2018. This was due to the combined effect of a number of items, including profits for the quarter (+0.4 billion euros), the call of an additional tier-1 instrument and issuance of a new additional tier-1 instrument (-1.4 billion euros and +0.5 billion euros, respectively) and changes in various revaluation reserves (an aggregate +0.3 billion euros). We have provided details of the changes in the 'Consolidated financial statements' section of the quarterly report (under 'Consolidated statement of changes in equity').

Our common equity ratio at 31 March 2019 amounted to 15.7%, without recognition of the net profit of the first quarter of 2019. When we include the net profit for the first quarter, taking into account the full-year 2018 payout ratio of 59%* (dividend + AT1 coupon), the common equity ratio amounted to 15.8% for the quarter under review, compared to 16% at the end of 2018, essentially due to an increase in risk-weighted assets. Note that our dividend policy (payout ratio of at least 50%) remains unchanged. Our leverage ratio (Basel III, fully loaded) came to 6.0%. The solvency ratio for KBC Insurance under the Solvency II framework was a sound 210% at end of March 2019. Our liquidity position remained excellent too, as reflected in an LCR ratio of 140% and an NSFR ratio of 138% at the end of March 2019.

* Interim profit recognition based on the ECB Umbrella Decision, which states that the dividend to be deducted is the highest of (i) maximum pay-out according to dividend policy, (ii) average pay-out ratio over the last 3 years or (iii) last year's pay-out ratio.

Risk statement, economic views and guidance

Risk statement

As we are mainly active in banking, insurance and asset management, we are exposed to a number of typical risks for these financial sectors such as – but not limited to – credit default risk, counterparty credit risk, concentration risk, movements in interest rates, currency risk, market risk, liquidity and funding risk, insurance underwriting risk, changes in regulations, operational risk, customer litigation, competition from other and new players, as well as the economy in general. KBC closely monitors and manages each of these risks within a strict risk framework, but they may all have a negative impact on asset values or could generate additional charges beyond anticipated levels.

At present, a number of items are considered to constitute the main challenges for the financial sector. These relate to recent macroeconomic and political developments, such as Brexit and trade conflicts, all of which affect global and European economies, including KBC's home markets. Economic growth and interest rate forecasts have been lowered, with a heightened risk that the low interest rate environment will persist for longer than anticipated. Regulatory and compliance risks remain a dominant theme for the sector, as does enhanced consumer protection. Digitalisation (with technology as a catalyst) presents both opportunities and threats to the business model of traditional financial institutions. Finally, cyber risk has become one of the main threats during the past few years, not just for the financial sector, but for the economy as a whole.

We provide risk management data in our annual reports, quarterly reports and dedicated risk reports, all of which are available at www.kbc.com.

Our view on interest rates and foreign exchange rates

Given the heightened downside risks to the outlook for the euro area economy, any significant tightening of ECB policy entailing an initial rate rise is still some distance away. The ECB's first step towards a normalisation of its policy rate will likely only be taken in 2020 at the earliest. Over the past few months, the outlook for the US economy has remained steady despite some mounting risks. However, the combination of increased global economic uncertainties and the Fed's more subdued outlook for headline inflation have made the case for a less aggressive Fed going forward. Given this shift in guidance, we don't expect any further rate hikes. The short-term factors that supported the US dollar against the euro are waning now that the Fed has taken a more cautious stance. In the medium to long run, expectations of an ECB rate hike and the consequences of late-cyclical fiscal stimuli in the US could lead to an appreciation of the euro against the US dollar.
Despite a still generally positive outlook for the global economy, uncertainty has increased about the economic conditions going forward. Investors continue to seek safe-haven assets, and long-term benchmark yields have fallen. With inflation expectations somewhat lower, safe haven trends persisting, and technical and policy factors at play that keep German bonds scarce, it is difficult to see a likely trigger for sharply increasing benchmark yields.
Unlike the dovish stance of the ECB, the Czech National Bank has been tightening its monetary policy with a somewhat sooner-than-expected rate hike earlier this year (+25 bps to 2% on 2 May). This reflects a buoyant Czech growth and inflation environment. Given these favourable conditions, the Czech currency is expected to appreciate moderately. We expect one more increase in the Czech policy rate before the end of 2020.

Our view on economic growth

In line with global economic developments, the European economy is currently going through a slowdown. However, this is likely temporary and we expect a rebound in 2020. Decreasing unemployment rates and growing labour shortages in some European economies, combined with gradually rising wage inflation, will continue to support private consumption. Investments will also remain an important driver of growth. The main elements that could substantially impede European economic sentiment and growth remain the risk of further economic de-globalisation, including an escalation of trade conflicts, Brexit and political turmoil in some euro area countries.

Guidance	• Solid returns for all business units. • The acquisition of the remaining 45% of ČMSS in the Czech Republic is expected to close before the end of the second quarter of 2019. The transaction will affect our strong common equity ratio by approximately -0.3 percentage points. The revaluation of our 55% stake in CMSS will lead to a one-off P&L gain, estimated at approximately 80 million euros. • Basel IV impact (as of 1 January 2022) for KBC is estimated to increase risk-weighted assets (RWA) by roughly 8 billion euros (on a fully loaded basis at year-end 2018), corresponding to RWA inflation of 9% and an impact on the common equity ratio of -1.3 percentage points.

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