

Brussels, 11 August 2022 (07.00 a.m. CEST)

KBC Group: Second-quarter result of 811 million euros

KBC Group – overview (consolidated, IFRS)	2Q2022	1Q2022	2Q2021	1H2022	1H2021
Net result (in millions of EUR)	811	458	793	1 269	1 350
Basic earnings per share (in EUR)	1.92	1.07	1.87	2.99	3.18
Breakdown of the net result by business unit (in millions of EUR)*					
Belgium	564	227	528	790	908
Czech Republic	237	207	168	443	291
International Markets	52	74	140	125	228
Group Centre	-41	-49	-42	-90	-76
Parent shareholders' equity per share (in EUR, end of period)	45.0	51.8	51.8	45.0	51.8

* At the start of 2022, Ireland was moved from the International Markets Business Unit to the Group Centre in view of the pending sale. Past figures have not been restated.

'Five and a half months have now passed since Russia invaded Ukraine and unfortunately the war still shows no sign of ending. The tragedy unfolding in Ukraine is causing immense human suffering and sending shockwaves throughout the global economy. We express our heartfelt solidarity with all victims of this conflict and we hope that a respectful, peaceful and lasting solution can be achieved as soon as possible. While our direct exposure to Ukraine, Belarus and Russia is very limited, we are of course indirectly affected by the macroeconomic impact of this conflict and other geopolitical and emerging risks, including the effect of high gas and oil prices on inflation and economic growth, and the spillover effects for us, our counterparties and our customers. Given this situation, we have further increased our dedicated reserve for geopolitical and emerging risks, bringing it to 268 million euros at the end of the quarter under review.'

Considering these adverse context developments, the past few months have also seen us make further progress in implementing our strategy. As regards the strengthening of our position in our core markets, for instance, we finalised the acquisition of the Bulgarian activities of Raiffeisen Bank International. Raiffeisenbank Bulgaria and our existing Bulgarian subsidiary UBB will merge their operations, allowing us to significantly expand the share of our Bulgarian core market to an estimated 19% in terms of assets. I would like to take this opportunity to warmly welcome all of the new Bulgarian customers and new colleagues who are joining our group. We also took important steps in our digitalisation journey. For example, a year and a half after the successful launch of Kate, the personal digital assistant, we are once again taking the lead in innovation by rolling out the Kate Coin, our proprietary digital coin based on blockchain technology. Private KBC customers in Belgium will soon be able to earn Kate Coins and use them through their Kate Coin wallet in KBC Mobile. Everything takes place in a closed-loop environment, outside of which the Kate Coin has no value. This initiative will initially be implemented within the KBC banking and insurance environment, but over time a whole world of possibilities will open up for application in the wider ecosystem. The first concrete steps are now being taken within KBC in Belgium, and we will eventually roll out the Kate Coin throughout the entire group.

As regards our financial results, we posted an excellent net profit of 811 million euros in the quarter under review. Quarter-on-quarter total income was more or less stable, with the increases in net interest income, technical insurance income, dividend income and net other income being offset by lower trading & fair value income and net fee and commission income. Costs decreased significantly due to the fact that the bulk of the bank taxes for the full year had been recorded in the previous quarter (apart from a new additional tax in Hungary that was booked in the quarter under review). We recorded a small net increase in loan loss impairment, as limited net charges for individual loans (virtually all of which related to the sale transaction in Ireland) and an increase in the reserve for geopolitical and emerging risks were almost entirely offset by the full reversal of the remaining reserve for the coronavirus crisis. Our solvency position remained very solid with a common equity ratio of 15.9% on a fully loaded basis, and our liquidity position was excellent, as illustrated by an NSFR of 142% and an LCR of 158%. In line with our general dividend policy, we will pay out an interim dividend of 1 euro per share in November 2022 as an advance on the total dividend for financial year 2022.

Lastly, our ultimate goal remains to be the reference bank-insurer in all our home markets, thanks to our customer-centric business model and, even more importantly, based on the trust that our customers, employees, shareholders and other stakeholders place in us. That continued trust is truly appreciated and something I wish to thank you for.'



Johan Thijs
Chief Executive Officer

Financial highlights in the second quarter of 2022

- ▶ **Net interest income** increased by 4% quarter-on-quarter and by 14% year-on-year. The net interest margin for the quarter under review amounted to 1.91%, stable quarter-on-quarter and up 12 basis points on the year-earlier quarter. Volumes continued to increase, with loans up 3% quarter-on-quarter and 9% year-on-year, and deposits excluding debt certificates growing by 6% quarter-on-quarter and 9% year-on-year. These volume growth figures were calculated on an organic basis (excluding the changes in the scope of consolidation and forex effects).
- ▶ Technical income from our **non-life insurance activities** (premiums less charges, plus the ceded reinsurance result) was up 1% on the level recorded in the previous quarter and 5% on the year-earlier quarter. The slight quarter-on-quarter increase was due essentially to higher premium income and lower technical charges, though offset largely by a decrease in the ceded reinsurance result. Year-on-year, the lion's share of the increase was related to higher premium income, which more than offset the higher level of technical charges. The combined ratio for the first six months of 2022 amounted to an excellent 85%. Sales of our **life insurance** products were down 22% and 14% on the level recorded in the previous and year-earlier quarter, respectively.
- ▶ **Net fee and commission income** was down 6% on its level in the previous quarter and in line with its year-earlier level. The quarter-on-quarter decrease was due mainly to lower fees from our asset management activities.
- ▶ **Trading & fair value result** was down 38% on the high level recorded in the previous quarter and up threefold on the very low level recorded in the year-earlier quarter. The quarter-on-quarter decline was due mainly to a decrease in dealing room income and a lower result related to the insurer's equity portfolio.
- ▶ **All other income items combined** were 64% and 76% higher than the figure recorded in the previous and year-earlier quarters, respectively, thanks in part to a positive one-off item in net other income. Moreover, the second quarter traditionally includes the bulk of dividend income for the full year.
- ▶ **Costs** excluding bank taxes (the bulk of which are recorded in the first quarter and hence distort the quarter-on-quarter comparison) were down by 3% on their level in the previous quarter and up 4% on their year-earlier level. The resulting cost/income ratio for the first six months of 2022 amounted to 53%. In that calculation, certain non-operating items have been excluded and bank taxes spread evenly throughout the year. Excluding all bank taxes, the cost/income ratio amounted to 47%. Bank taxes in the quarter under review were negatively impacted by a new, 78-million-euro additional bank and insurance levy in Hungary.
- ▶ The quarter under review included a 9-million-euro net **loan loss impairment charge**, compared to a net release of 15 million euros in the previous quarter, and a net release of 130 million euros in the year-earlier quarter. The net charge in the quarter under review included an additional amount for the reserve for geopolitical and emerging risks and limited net charges for individual loans (almost entirely related to the sale transaction in Ireland), which were largely offset by the full release of the remaining reserve for the coronavirus crisis. As a consequence, the credit cost ratio for the first six months of 2022 amounted to -0.01%, compared to -0.18% for full-year 2021 (a negative sign implies a positive impact on the results).
- ▶ Our **liquidity position** remained strong, with an LCR of 158% and NSFR of 142%. Our **capital base** remained robust, with a fully loaded common equity ratio of 15.9%.

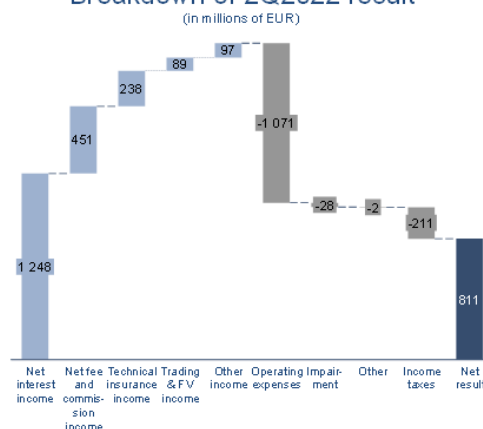
The cornerstones of our strategy



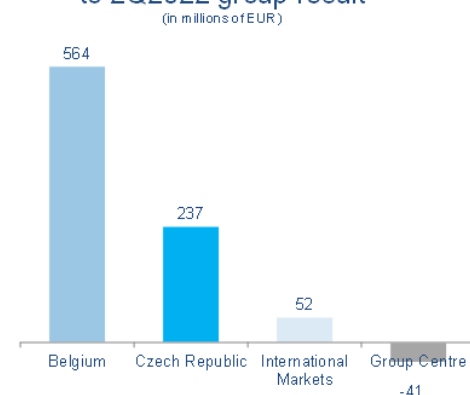
Our strategy rests on the following principles:

- 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
- We build upon the PEARL-values, also focussing on the joint development of solutions, initiatives and ideas within the group

Breakdown of 2Q2022 result



Contribution of the business units to 2Q2022 group result



Overview of results and balance sheet

Consolidated income statement, IFRS							
KBC Group (in millions of EUR)							
	2Q2022	1Q2022	4Q2021	3Q2021	2Q2021	1H2022	1H2021
Net interest income	1 248	1 200	1 177	1 112	1 094	2 448	2 162
Non-life insurance (before reinsurance)	222	197	181	150	213	419	451
<i>Earned premiums</i>	503	487	486	484	463	990	916
<i>Technical charges</i>	-280	-291	-305	-334	-250	-571	-464
Life insurance (before reinsurance)	14	11	10	12	10	24	22
<i>Earned premiums</i>	266	290	375	256	272	556	564
<i>Technical charges</i>	-252	-279	-365	-244	-262	-531	-542
Ceded reinsurance result	2	24	15	23	1	26	-12
Dividend income	21	7	9	11	18	28	25
Net result from financial instruments at fair value through P&L ¹	89	143	-39	28	29	233	156
Net realised result from debt instruments at fair value through other comprehensive income	-14	-2	1	4	-1	-16	1
Net fee and commission income	451	482	479	467	450	934	890
Net other income	90	54	56	77	38	144	91
Total income	2 123	2 116	1 887	1 884	1 853	4 239	3 786
Operating expenses	-1 071	-1 520	-1 078	-1 025	-972	-2 591	-2 293
Impairment	-28	-22	16	45	123	-50	200
<i>Of which: on financial assets at amortised cost and at fair value through other comprehensive income²</i>	-9	15	62	66	130	6	206
Share in results of associated companies & joint ventures	-2	-3	-2	-2	1	-5	-1
Result before tax	1 023	571	823	903	1 005	1 594	1 693
Income tax expense	-211	-113	-160	-302	-211	-325	-342
Result after tax	811	458	663	601	793	1 269	1 350
attributable to minority interests	0	0	0	0	0	0	0
attributable to equity holders of the parent	811	458	663	601	793	1 269	1 350
Basic earnings per share (EUR)	1.92	1.07	1.56	1.41	1.87	2.99	3.18
Diluted earnings per share (EUR)	1.92	1.07	1.56	1.41	1.87	2.99	3.18

Key consolidated balance sheet figures, IFRS						
KBC Group (in millions of EUR)						
	30-06-2022	31-03-2022	31-12-2021	30-09-2021	30-06-2021	
Total assets	369 807	369 903	340 346	354 336	368 596	
Loans & advances to customers, excl. reverse repos	168 984	164 639	159 728	156 712	164 344	
Securities (equity and debt instruments)	66 703	66 789	67 794	66 269	71 098	
Deposits from customers excl. debt certificates & repos	217 293	205 896	199 476	198 021	201 420	
Technical provisions, before reinsurance	18 817	19 092	18 967	18 971	18 976	
Liabilities under investment contracts, insurance	12 153	13 131	13 603	13 213	13 128	
Parent shareholders' equity	18 739	21 608	21 577	22 096	21 600	

Selected ratios		
KBC Group (consolidated)		
	1H2022	FY2021
Return on equity ³	13%	13%
Cost/income ratio, group [when excluding certain non-operating items and evenly spreading bank taxes throughout the year]	61% [53%]	58% [55%]
Combined ratio, non-life insurance	85%	89%
Common equity ratio, Basel III Danish Compromise, fully loaded [transitional]	15.9% [15.1%]	15.5% [16.8%]
Common equity ratio, FICOD fully loaded [transitional]	15.5% [14.8%]	14.8% [16.1%]
Credit cost ratio ⁴	-0.01%	-0.18%
Impaired loans ratio	2.2%	2.9%
for loans more than 90 days past due	1.2%	1.5%
Net stable funding ratio (NSFR)	142%	148%
Liquidity coverage ratio (LCR)	158%	167%

¹ Also referred to as 'Trading & fair value income'.

² Also referred to as 'Loan loss impairment'.

³ 15% for the first half of 2022 when bank taxes are spread evenly throughout the year.

⁴ A negative figure indicates a net impairment release (positively affecting results).

Impact of the still pending sales transaction for KBC Bank Ireland's loan and deposit portfolios on the balance sheet: starting in the third quarter of 2021, all assets and liabilities included in disposal groups were moved to 'Non-current assets held for sale and disposal groups' on the assets side of the balance sheet and to 'Liabilities associated with disposal groups' on the liabilities side of the balance sheet (derecognition upon closure of the deals). Impact on the income statement: the results of the disposal groups continue to be included in the relevant P&L lines until derecognition (closure of the deals). Impact on credit cost ratio and impaired loans ratio: Irish loan portfolio included until closure of the deals. KBC Bank Ireland belonged to the International Markets Business Unit up to and including the fourth quarter of 2021 and was moved to the Group Centre at the start of the first quarter of 2022.

Analysis of the quarter (2Q2022)

Total income

2 123 million euros

- Total income was more or less stable compared to the previous quarter.
- Net interest income, technical insurance income, dividend income and net other income were all up; trading & fair value income and net fee and commission income were down quarter-on-quarter.

Net interest income amounted to 1 248 million euros in the quarter under review, up 4% and 14% on its level in the previous and year-earlier quarters, respectively. Net interest income benefited from factors such as the improving yield environment in euro-denominated countries (quarter-on-quarter, and for the first time in a long while), rate hikes in the Czech Republic and to a lesser extent in Hungary, lending and deposit volume growth (see below), negative interest being charged on more current accounts held by corporations and SMEs, higher income from inflation-linked bonds and the higher number of days in the period under review (quarter-on-quarter only). These factors more than offset the negative effect of a number of other factors, including lower loan margins in virtually all countries and the higher funding cost of participations. The net interest margin for the quarter under review amounted to 1.91%, more or less stable quarter-on-quarter and up 12 basis points on level in the year-earlier quarter.

Customer deposits excluding debt certificates were up 6% quarter-on-quarter and 9% year-on-year on an organic basis (or +1% and +6%, respectively, when excluding volatility in the foreign branches of KBC Bank). The total volume of customer lending rose by 3% quarter-on-quarter and by 9% year-on-year on an organic basis. In the organic growth figures, the forex-related impact and the effects of changes in the scope of consolidation were eliminated.

Technical income from our **non-life insurance activities** (earned premiums less technical charges, plus the ceded reinsurance result) contributed 224 million euros to total income, up 1% and 5% on its performance in the previous and year-earlier quarters, respectively. Compared to the previous quarter, earned premiums were up and technical charges down (as the decrease in storm-related claims more than offset the increase in normal and large claims), but these factors were for the largest part offset by a lower ceded reinsurance result (related to the lower storm-related claims referred to above). Compared to the year-earlier quarter, the increase in the technical non-life result was attributable to the increase in premium income more than offsetting the higher technical charges (the reference period was still impacted by the relatively low level of activity due to the coronavirus crisis, among other factors). Overall, the combined ratio for the first six months of 2022 amounted to an excellent 85%, compared to 89% for full-year 2021.

Technical income from our **life insurance activities** (earned premiums less technical charges, plus the ceded reinsurance result) amounted to 14 million euros, up on the 10 million euros registered in both the previous quarter and the year-earlier quarter. Sales of life insurance products in the quarter under review (426 million euros) were down 22% on the level recorded in the previous quarter, with a decrease in sales of both unit-linked and guaranteed interest life insurance products. Sales were down 14% on their level in the year-earlier quarter, driven entirely by lower sales of unit-linked products. Overall, the share of guaranteed-interest products in our total life insurance sales amounted to 53% in the quarter under review, with unit-linked products accounting for the remaining 47%.

Net fee and commission income amounted to 451 million euros, down 6% on its level in the previous quarter, due to a combination of lower fees for our asset management business (decrease in both management and entry fees, despite net inflows in the quarter under review), slightly lower fees related to banking services (due in part to a drop in securities-related fees and despite higher payment fees) and higher distribution fees paid. Net fee and commission income was more or less at the same level as in the year-earlier quarter, due to a combination of stable fees for asset management services (higher management fees but lower entry fees), higher fees for banking services (mainly for payment services), and offset by an increase in distribution fees paid. At the end of June 2022, our total assets under management amounted to 211 billion euros, down 8% quarter-on-quarter and 7% year-on-year (with net inflows being more than offset by the decrease in asset prices in both cases).

The **net result from financial instruments at fair value** (trading & fair value income) amounted to 89 million euros, compared to a high 143 million euros in the previous quarter and a very low 29 million euros in the year-earlier quarter. The quarter-on-quarter decrease was caused essentially by lower dealing room & other income (the previous quarter had been very strong) and a lower result related to the insurer's equity portfolio (lower realised gains and higher impairment charges), partly offset by positive changes in market value adjustments of derivatives used for asset/liability management purposes. Year-on-year, the increased trading & fair value result was mainly attributable to a combination of higher dealing room income and positive changes in market value adjustments of derivatives used for asset/liability management purposes, partly offset by lower results related to the insurer's equity portfolio.

The **other remaining income** items included dividend income of 21 million euros (up 14 million euros quarter-on-quarter as the bulk of dividends is traditionally received in the second quarter), a net realised result from debt instruments at fair value through other comprehensive income of -14 million euros and net other income of 90 million euros. The latter figure was well above the 50-million-euro normal run rate for this item, due in part to a gain on the sale of a real estate subsidiary (68 million euros), which more than offset losses on the sale of bonds.

Operating expenses

1 071 million euros

- Operating expenses excluding bank taxes were down 3% quarter-on-quarter, but up 4% year-on-year.
- Group cost/income ratio for the first six months of 2022 amounted to 53% when certain non-operating items are excluded and bank taxes spread evenly throughout the year.

Operating expenses in the second quarter of 2022 amounted to 1 071 million euros. They included some 94 million euros in bank taxes, as opposed to 514 million euros in the previous quarter, as the bulk of bank taxes for the entire year is traditionally booked in the first quarter of each year. Compared to the year-earlier quarter, these taxes were also significantly higher though, because the quarter under review included a 78-million-euro charge related to a newly imposed additional bank and insurance tax in Hungary.

Operating expenses excluding bank taxes were down 3% on their level in the previous quarter and up 4% on their year-earlier level. Note that both reference quarters had included significant negative one-off elements such as the 41-million-euro extraordinary staff bonus and accelerated depreciations in Ireland in the previous quarter, and the exceptional 18-million-euro Covid-related bonus for staff in the year-earlier quarter. Disregarding all major one-off items, operating expenses excluding bank taxes were 2% higher than in the previous quarter and 5% higher than in the year-earlier quarter. In both cases, this was caused by a number of factors, including inflationary pressures and wage indexation, and higher ICT costs, professional fees and marketing expenses.

The cost/income ratio for the group came to 61% for the first six months of 2022. When bank taxes are spread evenly throughout the year and certain non-operating items excluded, the ratio amounted to 53%, compared to 55% for full-year 2021. When excluding all bank taxes, the cost-income ratio falls to 47%.

Loan loss impairment

9-million-euro net charge

- Small net loan loss impairment charge in the quarter under review, including an additional amount for the reserve for geopolitical and emerging risks and the full reversal of the remaining reserves for the coronavirus crisis.
- Credit cost ratio for the first six months of 2022 at -0.01%.

In the quarter under review, we recorded a 9-million-euro net loan loss impairment charge, compared with a net release of 15 million euros and 130 million euros in the previous and year-earlier quarters, respectively. The net impairment charge in the quarter under review included the positive impact of the release of the remaining 50-million euro collective impairment previously recorded for the coronavirus crisis and the negative impact of a net charge of 14 million euros for individual loans (almost entirely related to the sale transaction in Ireland) and an additional 45-million-euro charge for geopolitical and emerging risks (net of approximately 20 million euros recoveries on Russian exposures). As a consequence, the outstanding reserve for geopolitical and emerging risks

amounted to 268 million euros at the end of June 2022. We have provided a detailed calculation and background information in Note 1.4 of the 'Consolidated financial statements' section of the quarterly report.

Broken down by country, the net reversal of loan loss impairment in Belgium (25 million euros, partly related to recoveries on Russian exposures) was more than offset by net impairment charges in the other countries (2 million euros in the Czech Republic, 4 million euros in Slovakia, 3 million euros in Hungary, 9 million euros in Bulgaria and 16 million euros for the group Centre, largely related to Ireland).

For the entire group, the credit cost ratio amounted to -0.01% in the first six months of 2022 (-0.02% excluding the amounts recorded for geopolitical and emerging risks and the coronavirus crisis), compared to -0.18% for full-year 2021 (0.09% excluding the amount set aside for the coronavirus crisis). A negative figure implies a positive impact on the result. At the end of June 2022, some 2.2% of our total loan book was classified as impaired ('Stage 3'), compared to 2.9% at year-end 2021. Impaired loans that are more than 90 days past due amounted to 1.2% of the loan book, compared to 1.5% at year-end 2021. The improvement in the impaired loans ratios was largely related to the sale of the bulk of the non-performing Irish mortgage loan book in February 2022.

Impairment on assets other than loans amounted to 19 million euros, compared to 37 million euros in the previous quarter and 6 million euros in year-earlier quarter. The figure for the quarter under review related mainly to the extension of the interest cap regulation in Hungary. The previous quarter's figure had included a one-off impairment on fixed assets of some 24 million euros in Ireland in view of the pending sale there, as well as impairment on real estate in the Belgium Business Unit.

Net result by business unit	Belgium	Czech Republic	International Markets	Group Centre
	564 million euros	237 million euros	52 million euros	-41 million euros

Belgium: at first sight, the net result (564 million euros) was 148% higher quarter-on-quarter. Excluding bank taxes (the bulk of which are recorded in the first quarter and hence distort the quarter-on-quarter comparison), the result was up 14% on the previous quarter. This was due primarily to the combined effect of higher total income (higher net interest income, dividend income and net other income more than offset lower trading & fair value income and net fee and commission income), somewhat higher costs (due in part to wage drift and indexation, as well as higher marketing expenses) and net impairment releases (as opposed to net charges in the previous quarter).

Czech Republic: the net result (237 million euros) was up 14% on its level for the previous quarter, but down 8% when bank taxes are excluded. This was attributable to a combination of lower total income (higher net interest more than offset by lower trading & fair value income, among other factors), somewhat lower costs and a net impairment charge (compared to a net release in the previous quarter).

International Markets: the 52-million-euro net result breaks down as follows: 28 million euros in Slovakia, -6 million euros in Hungary (see below) and 30 million euros in Bulgaria. While the bulk of bank taxes is traditionally recorded in the first quarter, the current quarter's result was also adversely impacted by an additional tax charge in Hungary (totalling 78 million euros). For the business unit as a whole and disregarding all bank taxes, the net result was down 12% quarter-on-quarter. This was attributable to a combination of slightly lower total income (increased net interest income more than offset by lower trading & fair value income and net other income, among other factors), a decrease in costs and higher net impairment charges.

Group Centre: the net result (-41 million euros) was 8 million euros higher than the figure recorded in the previous quarter. Note that, as of 2022, the Group Centre includes the result for Ireland given the pending sale. The net result for Ireland in the quarter under review amounted to -2 million euros and included -17 million euros in various one-off effects related to the ongoing sale transaction, compared to -15 and -32 million euros in the previous quarter, respectively.

Selected ratios by business unit	Belgium		Czech Republic		International Markets ¹	
	1H2022	FY2021	1H2022	FY2021	1H2022	FY2021
Cost/income ratio, group (excluding certain non-operating items and evenly spreading the banking tax throughout the year)	53%	51%	43%	53%	52%	63%
Combined ratio, non-life insurance	85%	90%	85%	87%	86%	86%
Credit cost ratio ²	-0.04%	-0.26%	-0.04%	-0.42%	0.22%	0.36%
Impaired loans ratio	1.9%	2.2%	1.8%	1.8%	2.2%	5.7%

¹ At the start of 2022, Ireland was moved from the International Markets Business Unit to the Group Centre in view of the pending sale. Figures are therefore not fully comparable.

² A negative figure indicates a net impairment release (positively affecting results). See 'Details of ratios and terms' in the quarterly report.

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
	20.2 billion euros	15.9%	158%	142%

At the end of June 2022, total equity came to 20.2 billion euros, comprising 18.7 billion euros in parent shareholders' equity and 1.5 billion euros in additional tier-1 instruments. Total equity was down 2.8 billion euros on its level at the end of 2021. This was accounted for by the combined effect of a number of items, including the profit for the first six months (+1.3 billion euros), payment of the final dividend in May (7.60 euros per share or -3.2 billion euros in total), a decrease in the revaluation reserves (-0.9 billion euros) and a number of minor items. We have provided details of these changes under 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section of the quarterly report.

On 30 June 2022, our fully loaded common equity ratio (Basel III, under the Danish compromise) amounted to 15.9%, compared to 15.5% at the end of 2021. It should be noted that the impact of approximately -1 percentage point on the common equity ratio resulting from the acquisition of Raiffeisenbank Bulgaria will be included as of the third quarter of 2022. The solvency ratio for KBC Insurance under the Solvency II framework was 242% at the end of June 2022, compared to 201% at the end of 2021. We have provided more details and additional information on solvency under 'Solvency' in the 'Additional information' section of the quarterly report.

Our liquidity position remained excellent too, as reflected in an LCR ratio of 158% and an NSFR ratio of 142%, compared to 167% and 148%, respectively, at the end of 2021.

Analysis of the year-to-date period (6M2022)

Net profit

1 269 million euros

- Net profit down 6% on the figure for the year-earlier period.
- Total income up 12% thanks to almost all income components.
- Operating expenses (excluding bank taxes) up 8% year-on-year. Bank taxes up 34% year-on-year.
- Small net release of loan loss impairment (6 million euros), compared to a net release of 206 million euros in the year-earlier period.

Highlights (compared to the first six months of 2021, unless otherwise stated):

- **Net interest income** up 13% to 2 448 million euros. This was attributable in part to lending and deposit volume growth (see below), rate hikes in the Czech Republic and to a lesser extent in Hungary, negative interest being charged on more current accounts held by corporations and SMEs, higher income from inflation-linked bonds and a positive forex effect. These factors were only partly offset by pressure on loan portfolio margins in virtually all countries, the negative impact of decreasing reinvestment yields in euro-denominated countries and the higher funding cost of participations. On an organic basis (excluding changes in the scope of consolidation and forex effects), both the volume of customer lending and deposits excluding debt certificates rose by 9% year-on-year (or 6% for the latter category, when excluding the foreign branches of KBC Bank). The net interest margin in the first six months of 2022 came to 1.91%, up 12 basis points year-on-year.
- **Technical insurance result** up 2% to 469 million euros. The non-life insurance technical result was up 2% on the figure for the year-earlier period, as increased premium income (+8%) and a higher ceded reinsurance result were largely offset by higher technical charges (+23%, due in part to the impact of the storms in the first quarter). The non-life combined ratio for the first six months of 2022 amounted to an excellent 85%, compared to 89% for full-year 2021. Life insurance sales were up slightly, increasing by 1% to 970 million euros thanks to higher sales of unit-linked products.
- **Net fee and commission income** up 5% to 934 million euros. This was attributable primarily to an increase in fees for asset management services and for certain banking services (mainly payment transactions), despite higher distribution fees paid. At the end of June 2022, total assets under management were down 7% to 211 billion euros due to a combination of net inflows (+2%) and a negative price effect (-9%).
- **Trading & fair value income** up 50% to 233 million euros. This was due mainly to higher dealing room results and positive changes in the market value of derivatives used for asset/liability management purposes, partly offset by a lower result related to the insurer's share portfolio.
- **All other income items combined** up 33% to 156 million euros. This came about mainly because of higher net other income (which included a number of positive one-off items).
- **Operating expenses** up 13% to 2 591 million euros. This was due in part to wage drift and inflation/indexation, higher ICT expenses, higher marketing and professional fee expenses, a negative forex effect, an extraordinary profit bonus for staff (compared to a smaller Covid-related bonus in the reference period) and significantly higher bank taxes, partly offset by lower FTEs, among other things. As regards the bank taxes, note that the first six months of 2022 included an extraordinary payment of 24 million euros to the deposit guarantee fund related to Sberbank Hungary and 78 million euros related to a new bank and insurance tax in Hungary. Excluding all major one-off items and forex effects, operating expenses (excluding bank taxes) were up 5% year-on-year. The year-to-date cost/income ratio came to 61%, or an adjusted 53% when certain non-operating items are excluded and bank taxes evenly spread throughout the year (compared to 55% for full-year 2021). When bank taxes are fully excluded, the cost-income ratio for the period under review amounted to 47%.

- **Loan loss impairment:** a net release of 6 million euros, compared to a net release of 206 million in the reference period. The first six months of 2022 included the full release of the remainder of the previously recorded provision for the coronavirus crisis, a small net release for individual loans and the booking of a new provision for geopolitical and emerging risks. As a result, the credit cost ratio for the whole group amounted to -0.01%, compared to -0.18% for full-year 2021 (a negative figure implies a positive impact on the result). Impairment on assets other than loans amounted to 56 million euros, up from 5 million euros in the reference period, due to a one-off impairment on fixed assets in Ireland in view of the pending sale, impairment charges on real estate in the Belgium Business Unit and the effect of the extension of the interest cap regulation in Hungary.
- The 1 269-million-euro **net result** for the first six months of 2022 breaks down as follows: 790 million euros for the Belgium Business Unit (down 117 million euros on its year-earlier level), 443 million euros for the Czech Republic Business Unit (up 153 million euros), 125 million euros for the International Markets Business Unit (down 83 million euros on a comparable basis, i.e. excluding Ireland) and -90 million euros for the Group Centre (down 35 million euros on a comparable basis, i.e. including Ireland).

Recent ESG developments

In the second quarter, we were able yet again to achieve one of our previously set sustainability ambitions ahead of schedule, with renewables now accounting for 66% of our energy-sector loan portfolio (our target was 65% by 2030). Among our achievements in the first half of 2022 was the closure of three Belgian project finance deals in the wind energy sector. In accordance with our climate commitments, we will set new climate-related targets for a number of key sectors and activities by the end of the third quarter of 2022.

We actively involve our customers in our climate journey. During the first six months of this year, for instance, KBC relationship managers for corporate customers and large SMEs in Belgium were actively engaged in sustainability matters with over 1 300 customers. More and more of these customers also requested and received an estimate of their own carbon footprint from us, as a starting point for drawing up an action plan to define a more sustainable future for their businesses.

We are also taking appropriate steps in this regard in our other core markets. In Bulgaria, for instance, we pioneered an educational programme together with the Economics Faculty of Sofia University, aimed at providing systematic knowledge to KBC employees in Bulgaria on a broad range of ESG topics and also involving a wide range of stakeholders, such as business customers, journalists and students. In June, we successfully completed the first edition of this programme, with the second edition planned to start in September this year.

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 factors are considered to constitute the main challenges for the financial sector. These stem primarily from the impact of the war in Ukraine, not just directly, but even more so indirectly due to the resulting increase in energy and commodity prices and supply-side shortages, which were already stressed following the coronavirus pandemic. This has led to a surge in inflation, resulting in upward pressure on interest rates, volatility on financial markets, lower growth prospects (with the increased likelihood of a recession or stagflation scenario) and some concerns on the creditworthiness of counterparties in the economic sectors most exposed. These risks affect global, but especially, European economies, including KBC's home markets. Regulatory and compliance risks (including capital requirements, anti-money laundering regulations and GDPR) also 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, while climate-related risks are becoming increasingly prevalent. 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. The war in Ukraine has again increased vigilance in this area.

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 economic growth

After recording negative, quarter-on-quarter real GDP growth (-0.4%) in the first quarter of 2022, the US economy shrunk again in the second quarter, this time by -0.2% quarter-on-quarter due largely to a run-down of inventories and subdued investment activity. However, the latest producer and consumer confidence indicators suggest a further weakening of economic growth in the coming quarters, driven by high inflation and tightening financial conditions. Meanwhile, after strong growth in the first quarter (+0.6% quarter-on-quarter), euro area growth in the second quarter even slightly accelerated to +0.7% quarter-on-quarter. This was largely accounted for by the service sector, such as tourism, in Southern European countries. In the second quarter, economic growth slowed in both Belgium and the Czech Republic, but still remained positive at +0.2% quarter-on-quarter. As for the second half of 2022, we expect the war in Ukraine to impact the European economy more severely than its US counterpart. Therefore, economic stagnation in the euro area in the quarters ahead cannot be ruled out.

The main risk to our short-term outlook for European growth relates to the possibility that a severe disruption of Russian gas supplies will cause critical energy shortages. This would lead to an additional upward price shock for energy, further weighing on consumption and business activity, with the additional risk of selective gas rationing and potential sectoral shutdowns. Other risks continue to include general, post-pandemic supply chain disruptions, new waves of Covid infections and vulnerability caused by high levels of debt in what are tightening financing conditions worldwide.

Our view on interest rates and foreign exchange rates

To fight increasing inflationary pressure, the Fed continued to raise its policy rate in the second quarter by 50 basis points in early May and by 75 basis points in mid-June and end-July each. We expect the Fed to continue raising its policy rate in the coming quarters. Moreover, the run-down of the Fed's balance sheet ('Quantitative Tightening') has started in June and will be fully phased in by September. Meanwhile, the ECB also ended net purchases under its general Asset Purchase Programme at the end of June and raised its policy rates at the end of July by 50 basis points to address above-target inflation rates in the euro area. We expect this move to be the start of a cycle of rate normalisation.

Both US and German 10-year yields rose, on balance, by about 50 basis points during the second quarter in a largely synchronised move. By mid-June, yields had risen by as much as approximately 100 basis points, before falling again to their current levels, which are now pricing in the increasing risk of recession. These movements in the second quarter were driven primarily by changing market expectations about how Fed and ECB monetary policy would react to exceptionally high inflation rates. In the second quarter, the euro continued to depreciate against the

US dollar, heading towards parity before tentatively stabilising. The weakening euro was the result of widening interest rate differentials and the fact that the European economy is more severely affected by the ongoing energy crisis. Since these factors are likely to persist in the coming quarters, we expect the euro to further depreciate to below parity with the US dollar.

The Czech koruna (CZK) depreciated slightly against the euro in the second quarter. It depreciated sharply for a time in mid-May, but received support through targeted FX interventions by the Czech National Bank (CNB). In its fight against strong inflationary pressures, the CNB raised its policy rate in two steps, increasing it from 5% at the beginning of the second quarter to the current rate of 7%. We expect one more rate hike of 50 basis points, which will probably be the peak of the current tightening cycle. Further targeted FX interventions by the CNB, when necessary, are expected to stabilise the koruna against the euro in the coming quarters.

The Hungarian forint (HUF) depreciated significantly against the euro. The weakness of the HUF is related to significant domestic inflationary pressures, as well as elevated degrees of (global) risk aversion. To address inflation and prevent the HUF from weakening even further (thus adding to the inflationary pressure), the National Bank of Hungary raised its base rate from 4.4% at the beginning of the second quarter to its current level of 10.75%. This tightening cycle is expected to continue in the quarters to come.

Guidance

Based on our latest set of macroeconomic and business assumptions (impacted by the invasion of Russia in Ukraine, causing major macroeconomic and financial shocks and very volatile markets) we have updated our short-term guidance:

- We are increasing our full year 2022 guidance for 'total income' from 8.0 billion euros to approximately 8.4 billion euros (both figures exclude the 0.2 billion euros positive one-off effect upon closing the sale of substantially all of KBC Bank Ireland's performing loan assets and its deposit book, due to a delay of transaction approval) of which approximately 5.05 billion euros net interest income (compared to 4.55 billion euros initially guided).
- We are increasing our full year 2022 guidance for 'operating expenses excluding bank taxes' from 4.0 billion euros to 4.15 billion euros (including one-offs) due to higher than initially expected inflation, the delay of transaction approval in Ireland and the one-off staff bonus of 41 million euros booked in the first quarter of 2022.
- This implies that the jaws in 2022 (between y-o-y topline growth and operational expenses growth) increased from roughly 2.5% initially to roughly 4.0%
- We confirm our guidance for the 'credit cost ratio' for 2022 of between 10 and 25 bps.

We have also updated our 3-year and long-term financial guidance (IFRS17 impact not taken into account yet):

- CAGR 2021-2024 for 'total income': approximately +7% (up from 4.5%)
- CAGR 2021-2024 for 'operating expenses excluding bank taxes': approximately +3% (up from 1.5%)
- Combined ratio non-life insurance: ≤ 92% as of now (unchanged)
- Surplus capital (fully loaded CET1 ratio, Danish Compromise): >15% as of now (unchanged)
- Credit cost ratio through-the-cycle: 25-30 bps (unchanged)

A full overview, including regulatory solvency targets, is provided in the 'General Investor Presentation 2Q2022', on www.kbc.com

Upcoming events	<ul style="list-style-type: none"> • 3Q2022 results: 9 November 2022 • 4Q2022 results: 9 February 2023 • Other events: www.kbc.com / Investor Relations / Financial calendar
More information on 2Q2022	<ul style="list-style-type: none"> • Quarterly report: www.kbc.com / Investor Relations / Reports • Company presentation: www.kbc.com / Investor Relations / Presentations
Detailed information on coronavirus & Ukraine crisis	<ul style="list-style-type: none"> • Quarterly report, Note 1.4 in 'Consolidated financial statements according to IFRS' • Company presentation
Definitions of ratios	<ul style="list-style-type: none"> • 'Details of ratios and terms at KBC Group level' in the last section of the quarterly report.

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

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