



Brussels, 8 August 2019 (07.00 a.m. CEST)

KBC Group: Second-quarter result of 745 million euros

KBC Group - overview (consolidated, IFRS)	2Q2019	1Q2019	2Q2018	1H2019	1H2018
Net result (in millions of EUR)	745	430	692	1 175	1 248
Basic earnings per share (in EUR)	1.76	0.98	1.61	2.75	2.91
Breakdown of the net result by business unit (in millions of EUR)					
Belgium	388	176	437	564	680
Czech Republic	248	177	145	425	316
International Markets	104	70	163	175	299
Group Centre	4	7	-53	11	-48
Parent shareholders' equity per share (in EUR, end of period)	42.8	43.1	39.9	42.8	39.9

We generated a net profit of 745 million euros in the second quarter of 2019. This is a good result, which – compared to the previous quarter – benefited from increased net fee and commission income, higher non-life insurance results, the seasonal uptick in dividends received, lower costs (due to most of the bank taxes being recorded in the first quarter of the year) and lower loan loss impairment charges. On the one hand, the quarter benefited from a number of positive one-off items, the bulk of which concerned the 82-million-euro gain related to the acquisition of the remaining 45% stake in the Czech building savings bank, ČMSS (see further). On the other hand, trading and fair value income was heavily impacted by several factors, including lower long-term interest rates. On a comparable scope basis, our loans to customers increased by 4% year-on-year, and deposits including debt certificates were roughly stable (excluding debt certificates, deposits were up 3%). Sales of our non-life and life insurance products went up year-on-year, each by 8%. Our solvency position, which does not include the profit for the first half of 2019, remained strong too, with a common equity ratio of 15.6%. If we had included the profit for the first half of the year, taking into account the 59% dividend payout ratio of last year, our common equity ratio would have amounted to 15.9%. Lastly, in line with our dividend policy, we decided to pay an interim dividend of 1 euro per share on 15 November 2019 as an advance payment on the total dividend for 2019.

From this solid position, we are at the same time also preparing for the future. With more and more customers opting for digital channels, we are gradually aligning our omni-channel distribution network with this changing customer behaviour. As already announced, we are in the process of converting a number of smaller branches into unstaffed ones and closing some of the existing unstaffed branches in Flanders. At the same time, we continue to invest in our full-service branches, in KBC Live and in our digital channels. We also optimised our group-wide governance model at management level and we are in the process of further improving operational efficiency throughout the entire organisation in order to take customer service to an even higher level. This adaptation is essential in response to the new environment in which organisations are expected to be more agile, take decisions more quickly and thus continue to meet the expectations of customers and society.

In the quarter under review, we finalised two deals that we had announced in the previous quarter. We completed the sale of our Irish subsidiary's legacy portfolio of performing corporate loans worth roughly 260 million euros, which means that KBC Bank Ireland is now in a position to fully concentrate on its core retail and micro SME customers. That deal had a negligible impact on our profit and capital ratios. We also closed the acquisition of the remaining 45% stake in the Czech building savings bank ČMSS, for 240 million euros. That had an impact of -0.3 percentage points on our common equity ratio. Due to the revaluation of our existing 55% stake in ČMSS, we were able to book a one-off gain of 82 million euros in the second quarter*. Our Czech group company ČSOB now owns 100% of ČMSS and is thus consolidating its position as the largest provider of financial solutions for housing purposes in the Czech Republic.

I'd like to wrap up by repeating that we are truly grateful for the trust that our customers place in our company. The fact that we were named 'Best Bank in Western Europe' by Euromoney a few weeks ago is a clear illustration that we are the reference in the financial sector. Rest assured that we will remain fully committed and focused in our efforts to continue to be the reference in customer-centric bank-insurance in all our core countries.



Johan Thijs
Chief Executive Officer

* As of June 2019, the results of ČMSS have been fully consolidated in each P/L line (before then, – hence also in April and May 2019 -, the results of ČMSS had been recorded at 55% under 'Share in results of associated companies & joint-ventures'). The one-off gain of 82 million euros, which related to the revaluation of the already existing 55% stake, was recorded under 'Net other income'. ČMSS has also been fully consolidated in the balance sheet since June 2019 (before then, it had been recorded according to the equity method under 'Investments in associated companies and joint ventures').

Financial highlights in the second quarter of 2019

- ▶ Commercial bank-insurance franchises in our core markets performed well.
- ▶ Lending volumes were up 1% quarter-on-quarter and 4% year-on-year, with growth recorded in all business units. Deposits including debt certificates were down 2% quarter-on-quarter and stable year-on-year. The figures have been calculated on a 'comparable scope' basis.
- ▶ Net interest income increased slightly compared to the previous quarter and was up 1% year-on-year. In both cases, it benefited from a number of factors, including loan volume growth, short-term interest rate increases in the Czech Republic, the full consolidation of ČMSS since June and lower funding costs (year-on-year). At the same time, it continued to suffer from pressure on margins in the outstanding loan portfolio and lower reinvestment yields in our euro-area core countries.
- ▶ Sales of our non-life insurance products were up 8% year-on-year. Technical income from these non-life insurance activities (premiums less charges, plus the ceded reinsurance result) went up 14% on its level of the previous quarter thanks in part to higher earned premiums. It was down 7% year-on-year as higher premiums were offset by higher claims and charges. The combined ratio for the first half of the year amounted to 92%, compared to 88% for full-year 2018. Sales of our life insurance products were up 8% year-on-year and down 11% on the relatively high level recorded in the previous quarter.
- ▶ Net fee and commission income was up 6% quarter-on-quarter, due *inter alia* to higher asset management-related fees, higher fees for banking services and the impact of the full consolidation of ČMSS. Net fee and commission income was only slightly down on the year-earlier quarter.
- ▶ All other remaining income items combined were in line with the figure recorded in the previous quarter and up 43% year-on-year. The quarter under review included weak trading and fair value income, as well as a high level of net other income, which benefited from the positive 82-million-euro one-off effect of the revaluation of the 55% participation in ČMSS (related to the acquisition of the remaining 45% stake in that company). Additionally, dividend income benefited from its seasonal uptick, as the bulk of dividends are traditionally received in the second quarter of the year.
- ▶ Excluding bank taxes (the bulk of which was recorded in the first quarter of the year), costs rose 5% quarter-on-quarter, roughly half of which was due to one-off items and the ČMSS impact. Year-on-year, costs were up 2%. When non-operating items are excluded and bank taxes evenly spread throughout the year, the cost/income ratio amounted to 59% in the first half of 2019, compared to 57% for full-year 2018.
- ▶ The quarter under review included a 36-million-euro loan loss impairment charge, compared to a 67-million-euro charge in the previous quarter and a net release of impairments of 21 million euros in the year-earlier quarter. The annualised cost of credit amounted to a benign 0.12% in the first half 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 15.6%, or 15.9% when including the net result for the half of the year, taking into account the payout ratio of 59% (dividend + AT1 coupon) for full-year 2018. Our leverage ratio amounted to 6.1% at the end of June 2019.

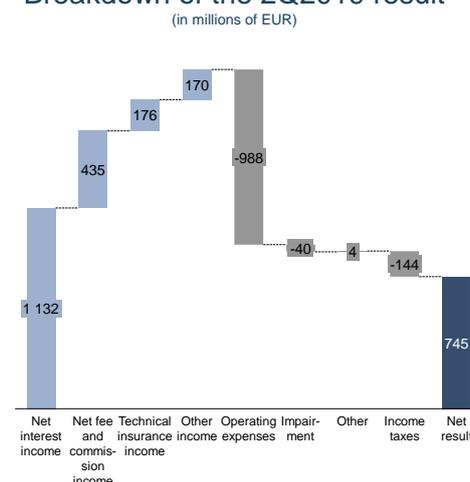
The cornerstones of our strategy



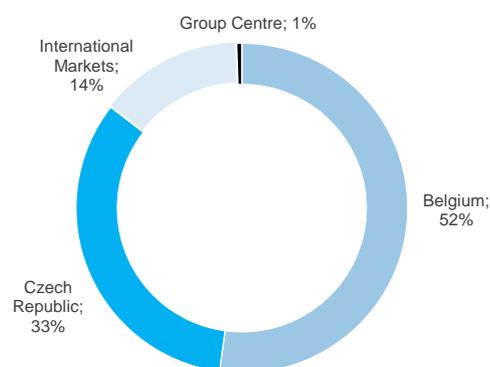
Our strategy rests on four principles:

- 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 2Q2019 result



Contribution of the business units to the group result (2Q2019)





Overview of results and balance sheet

Consolidated income statement, IFRS KBC Group (in millions of EUR)	2Q2019	1Q2019	4Q2018	3Q2018	2Q2018	1H2019	1H2018
Net interest income	1 132	1 129	1 166	1 136	1 117	2 261	2 242
Non-life insurance (before reinsurance)	174	161	198	197	202	335	364
<i>Earned premiums</i>	425	415	409	403	392	840	770
<i>Technical charges</i>	-251	-254	-211	-205	-190	-505	-406
Life insurance (before reinsurance)	1	-3	-3	-9	1	-2	-5
<i>Earned premiums</i>	317	351	416	293	315	668	651
<i>Technical charges</i>	-316	-354	-418	-302	-314	-669	-656
Ceded reinsurance result	1	-7	-12	-6	-14	-5	-23
Dividend income	39	12	15	12	34	51	55
Net result from financial instruments at fair value through P&L ¹	-2	99	2	79	54	97	150
Net realised result from debt instruments at fair value through other comprehensive income	0	2	0	0	8	2	9
Net fee and commission income	435	410	407	424	438	845	889
Net other income	133	59	76	56	23	192	94
Total income	1 913	1 862	1 848	1 888	1 863	3 775	3 775
Operating expenses	-988	-1 296	-996	-981	-966	-2 283	-2 257
Impairment	-40	-69	-43	2	1	-109	58
<i>Of which: on financial assets at amortised cost and at fair value through other comprehensive income²</i>	-36	-67	-30	8	21	-103	84
Share in results of associated companies & joint ventures	4	5	4	2	3	8	10
Result before tax	889	503	814	911	901	1 392	1 585
Income tax expense	-144	-73	-192	-211	-210	-217	-337
Result after tax	745	430	621	701	692	1 175	1 248
attributable to minority interests	0	0	0	0	0	0	0
attributable to equity holders of the parent	745	430	621	701	692	1 175	1 248
Basic earnings per share (EUR)	1.76	0.98	1.44	1.63	1.61	2.75	2.91
Diluted earnings per share (EUR)	1.76	0.98	1.44	1.63	1.61	2.74	2.91
Key consolidated balance sheet figures KBC Group (in millions of EUR)	30-06-2019	31-03-2019	31-12-2018	30-09-2018	30-06-2018		
Total assets	289 548	292 332	283 808	304 740	301 934		
Loans and advances to customers, excl. reverse repos	154 169	148 517	147 052	146 011	145 346		
Securities (equity and debt instruments)	63 746	63 706	62 708	63 030	63 936		
Deposits from customers & debt certificates, excl. repos	199 138	197 987	194 291	194 056	192 951		
Technical provisions, before reinsurance	18 652	18 589	18 324	18 533	18 595		
Liabilities under investment contracts, insurance	13 381	13 334	12 949	13 444	13 428		
Parent shareholders' equity	17 799	17 924	17 233	16 878	16 616		
Selected ratios KBC group (consolidated)	1H2019	FY2018					
Return on equity	14% ³	16%					
Cost/income ratio, banking (when excluding certain non-operating items and evenly spreading the bank tax)	63% (59%)	57.5% (57%)					
Combined ratio, non-life insurance	92%	88%					
Common equity ratio, Basel III Danish Compromise (fully loaded)	15.6% ⁴	16.0%					
Common equity ratio, FICOD (fully loaded)	14.5%	14.9%					
Leverage ratio, Basel III (fully loaded)	6.1%	6.1%					
Credit cost ratio ⁵	0.12%	-0.04%					
Impaired loans ratio	3.7%	4.3%					
for loans more than 90 days past due	2.1%	2.5%					
Net stable funding ratio (NSFR)	133%	136%					
Liquidity coverage ratio (LCR)	140%	139%					
<small>1 Also referred to as 'Trading and fair value income'. 2 Also referred to as 'Loan loss impairment'. 3 15.4% when evenly spreading the bank tax throughout the year. 4 When including the net result of the first half of the year, taking into account the full-year 2018 payout ratio of 59% (div. + AT1 coupon), the ratio is 15.9%. 5 A negative figure indicates a net impairment release (with a positive impact on the results).</small>							

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 (2Q2019)

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 1 132 million euros in the quarter under review, slightly up on the figure recorded in the previous quarter and up 1% year-on-year. Net interest income benefited from the positive effect of loan volume growth, increased short-term interest rates in the Czech Republic, lower customer funding costs (year-on-year), a higher number of days compared to the previous quarter, and the full consolidation of ČMSS as of June ('ČMSS impact' – accounting for 7 million euros). These items were for a large part offset by the continued pressure on loan portfolio margins in most core countries (notwithstanding some new business margin recovery), the negative effect of lower reinvestment yields in our core countries in the euro area and the lower netted positive impact of ALM FX swaps, among other factors.

As already mentioned, interest income continued to be supported by loan volume growth: the total volume of customer lending rose by 4% quarter-on-quarter and by 6% year-on-year. On a comparable scope basis (i.e. disregarding effects from scope changes such as the sale of parts of the Irish loan book in the past and the full consolidation of ČMSS as of June 2018), customer lending rose by 1% quarter-on-quarter and 4% year-on-year, with growth in all business units. Customer deposits including debt certificates were up 1% quarter-on-quarter and 3% year-on-year. On a comparable scope basis, this item was down 2% quarter-on-quarter and roughly stable year-on-year (caused by a decrease in debt certificates in both cases). The net interest margin came to 1.94% for the quarter under review, down 4 and 6 basis points, respectively, on the level recorded in the previous and year-earlier quarters.

Technical income from our non-life insurance activities (earned premiums less technical charges, plus the ceded reinsurance result) contributed 176 million euros to total income. It was up to a significant extent (+14%) on the previous quarter thanks to higher earned premiums in almost all countries, in combination with lower technical charges (lower storm-related and other claims, partly offset by the negative impact of a re-assessment of claims provisions) and a higher ceded reinsurance result. Technical non-life insurance income was down 7% on the year-earlier quarter, as the increase in earned premium income and ceded reinsurance result was offset by higher technical charges, partly due to the aforementioned negative impact of a re-assessment of claims provisions. Overall, the combined ratio for the first six months of 2019 came to 92%, compared to 88% for full-year 2018.

Technical income from our life insurance activities stood at 0 million euros, compared to -3 million euros in the previous quarter and 0 million euros in the year-earlier quarter. Sales of life insurance products in the quarter under review (459 million euros) were down 11% on the relatively high level recorded in the previous quarter, due to lower sales of both guaranteed-interest and unit-linked life insurance products in Belgium, though this was partly offset by slightly higher sales of unit-linked products in the Czech Republic. Compared to the year-earlier quarter, sales of life insurance products were up 8%, driven by higher sales of unit-linked products in Belgium and to a lesser extent in the Czech Republic. Overall, the share of guaranteed-interest products in our total life insurance sales stood at 57% in the quarter under review, with unit-linked products accounting for the remaining 43%.

At 435 million euros, net fee and commission income was up 6% on its level in the previous quarter and only slightly down on the figure recorded in the year-earlier quarter. The quarter-on-quarter increase came about mainly because of increased fees related to asset management services (higher management fees more than offset the lower entry fees), increased banking services-related fees, lower paid distribution fees for insurance and the ČMSS impact (2 million euros). Compared to a year earlier, fees related to asset management services were down, but this was largely offset by higher banking services-related fees. At the end of June 2019, our total assets under management stood at 210 billion euros, roughly stable quarter-on-quarter as improving asset prices (+2%) fully offset net outflows (-2%). Year-on-year, total assets under management were down 2% (+2% price improvement, -4% net outflow).

All other remaining income items amounted to an aggregate 170 million euros, as opposed to 172 million euros in the previous quarter and 119 million euros in the year-earlier quarter.

The figure for the quarter under review included seasonally high dividend income of 39 million euros, since the second quarter of the year traditionally includes the bulk of received dividends. It also comprised 133 million euros in net other income, significantly higher than in both reference quarters as it included a 82-million-euro one-off gain related to the revaluation of the already existing stake in ČMSS (triggered by the acquisition of the remaining participation in that company), whereas the year-earlier quarter figure had been negatively impacted to the tune of 38 million euros by the settlement of a legacy legal case. Furthermore, the other remaining income items comprised a negative 2-million-euro net result from financial instruments at fair value (trading and fair value income), significantly below the positive 99 million euros and 54 million euros registered in the previous and year-earlier quarters, respectively. This was due to a combination of weak dealing room income, a decrease in the value of derivatives used for asset/liability management purposes and lower results on equity instruments of the insurance company.



Operating expenses

988 million euros

The comparison of expenses is distorted by the upfront recognition in the first quarter of the year of the bulk of bank taxes for the full year. Excluding bank taxes, operating expenses in the second quarter were up 5% compared to the previous quarter, roughly half of which is accounted for by one-off items and the ČMSS impact. When certain non-operating items are excluded and bank taxes evenly spread throughout the year, the cost/income ratio for the year-to-date period amounted to 59%.

Operating expenses in the second quarter of 2019 stood at 988 million euros. The quarter-on-quarter comparison is distorted by the upfront recognition in the first quarter of most of the bank taxes for the full year (30 million euros in the second quarter of 2019, 382 million euros in the first quarter of 2019, 24 million euros in the second quarter of 2018). Excluding bank taxes, operating expenses increased by 5% quarter-on-quarter and 2% year-on-year. The quarter-on-quarter increase was caused by several factors including one-off items (12 million euros), wage drift, higher expense for depreciation, the ČMSS impact (5 million euros) and by the fact that the previous quarter had benefited from seasonally low professional fees, marketing and facilities expenses and a positive one-off item of 8 million euros. The year-on-year increase was for the larger part related to one-off items in the quarter under review and the ČMSS impact.

When certain non-operating items are excluded and the bank tax evenly spread throughout the year, the cost/income ratio of our banking activities came to 59% for the year-to-date period, compared to 57% for full-year 2018. Including the non-operating items and the bank taxes actually recorded, the cost/income ratio of our banking activities stood at 63%.

Loan loss impairment

36-million-euro net increase

Net loan loss impairment charge of 36 million euros, down on the 67 million euros recorded in the previous quarter. Benign credit cost ratio of 0.12% for the year-to-date period.

In the second quarter of 2019, we recorded a 36-million-euro net impairment charge, compared with a net charge of 67 million euros in the previous quarter and a net release of 21 million euros in the second quarter of 2018. Broken down by country, loan loss impairment charges in the second quarter of 2019 came to 30 million euros in Belgium (quarter-on-quarter decrease, as the previous quarter had been impacted by a few corporate loan cases), 4 million euros in the Czech Republic, 8 million euros in Slovakia, 1 million euros in Bulgaria and virtually zero in Ireland (where 12 million euros of net impairment releases were offset by charges related to the sale of part of the legacy loan portfolio), while there were small net impairment releases of 3 million euros in Hungary and 5 million euros in the Group Centre. For the entire group, the credit cost ratio amounted to 0.12% for the first half of the year, 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 has continued to improve since the start of the year. At the end of June 2019, some 3.7% of our total loan book was classified as impaired (4.3% at year-end 2018). Impaired loans that are more than 90 days past due fell to 2.1% of the loan book, compared with 2.5% at year-end 2018. A large part of the drop in impaired loans is related to the accounting write-off of certain fully provisioned legacy loans in Ireland in the second quarter.

Impairment on assets other than loans stood at 4 million euros, in line with the 1 million euros recorded in the previous quarter and an improvement on the 20 million euros in the second quarter of 2018. The latter had been impacted by the review of residual values of financial car leases under short-term contracts in the Czech Republic and by a legacy property file in Bulgaria.

Net result

by business unit

	Belgium	Czech Republic	International Markets	Group Centre
	388 million euros	248 million euros	104 million euros	4 million euros

Belgium: the net result (388 million euros) was significantly up quarter-on-quarter, as the comparison was distorted by most of the bank taxes for the full year being recorded upfront in the first quarter of 2019 (273 million euros compared to just 4 million euros in the second quarter). Excluding bank taxes, the net result was up 6% quarter-on-quarter. This included somewhat lower net interest income, higher non-life technical income, increased net fee and commission income, seasonally higher dividend income and lower loan loss impairment charges. These positive items were partly offset by lower trading and fair value income and increased expenses (related in part to one-off items), among other things.



Press Release

Outside trading hours - Regulated information*

Czech Republic: the net result (248 million euros) was up 40% on its level for the previous quarter. Excluding bank taxes, it was up 21%, mainly on account of the one-off revaluation gain of 82 million euros on the already existing 55% participation in ČMSS following the acquisition of the remaining 45% stake, as well as higher net interest income and net fee and commission income. These positive items were partly offset by the lower trading and fair value result, higher costs and loan loss impairment charges (compared to a net loan loss release in the previous quarter).

International Markets: the 104-million-euro net result breaks down as follows: 11 million euros in Slovakia, 55 million euros in Hungary, 29 million euros in Bulgaria and 9 million euros in Ireland. For the business unit as a whole, the net result was up 48% quarter-on-quarter. Excluding bank taxes, the result was down 6% and included more or less stable total income, flat costs (despite high wage inflation) and increased loan loss impairment. The latter related primarily to Ireland, where loan loss impairments went up from a net release of 12 million euros in the previous quarter to virtually zero in the quarter under review (as 12 million euros of net impairment releases were offset by charges related to the sale of part of the legacy loan portfolio).

Group Centre: the net result (4 million euros) was down by 3 million euros quarter-on-quarter. That was accounted for mainly by the combination of a positive one-off item in the tax line, higher technical non-life insurance results and lower trading and fair value income.

Selected ratios by business unit	Belgium		Czech Republic		International Markets	
	1H2019	FY2018	1H2019	FY2018	1H2019	FY2018
Cost/income ratio, banking excluding certain non-operating items and spreading the bank tax evenly	58%	58%	46%	46%	68%	65%
Combined ratio, non-life insurance	92%	87%	94%	97%	86%	90%
Credit cost ratio*	0.20%	0.09%	0.04%	0.03%	-0.01%	-0.46%
Impaired loans ratio	2.3%	2.6%	2.5%	2.4%	9.8%	12.2%

* 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
	19.3 billion euros	15.6%	140%	133%

At the end of June 2019, total equity stood at 19.3 billion euros, comprising 17.8 billion euros in parent shareholders' equity and 1.5 billion euros in additional tier-1 instruments. Total equity was down 0.3 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 half-year period (+1.2 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), payment of the final dividend for 2018 in May 2019 (-1.0 billion euros) and changes in various revaluation reserves (an aggregate +0.5 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 30 June 2019 amounted to 15.6%, without recognition of the net profit for the first half of 2019. When we include the net profit for that period, taking into account the payout ratio of 59% (dividend + AT1 coupon) full-year 2018, the common equity ratio amounted to 15.9% at the end of June 2019, compared to 16% at the end of 2018. It should be noted that the acquisition of the remaining 45% stake in ČMSS lowered our common equity ratio by approximately 0.3 percentage points in the period under review. Our leverage ratio (Basel III, fully loaded) came to 6.1%. The solvency ratio for KBC Insurance under the Solvency II framework was a sound 201% at the end of June 2019. Our liquidity position remained excellent too, as reflected in an LCR ratio of 140% and an NSFR ratio of 133% at the end of June 2019.

Analysis of the year-to-date period (1H2019)

Net result

1 175 million euros

The net result for the first six months of 2019 was down 6% compared to the corresponding period of 2018. Total income was in line with the year-earlier period, with the increase in net interest income and in net other income (viz. one-off gain related to ČMSS in the second quarter) offsetting the decrease in the other income lines. Operating expenses were slightly up (+1%, due largely to higher bank taxes) and loan loss impairment charges amounted to 103 million euros, significantly up on the net impairment release of 84 million euros in the year-earlier period.

Highlights (compared to the first half of 2018):

- Somewhat higher net interest income (up 1% to 2 261 million euros), thanks to *inter alia* lower funding costs, higher commercial lending volumes, the positive impact of short-term interest increases in the Czech Republic and the ČMSS impact, which offset pressure on portfolio margins, the negative effects of lower reinvestment yields in our core euro-area countries and the lower netted positive impact of ALM FX swaps. The volume of deposits and debt certificates was roughly unchanged (growth in deposits offset by decrease in debt certificates), whereas lending volumes increased by 4%, with growth in all business units. These volume figures have been calculated on a comparable scope basis. The net interest margin in the first half of 2019 came to 1.96%, down 5 basis points year-on-year.
- A slight decrease in the contribution to profit made by the technical insurance result (down 2% to 328 million euros). Life insurance sales (975 million euros) were up by 6%, with increased sales of both guaranteed-interest and unit-linked products. Non-life sales were up 8% year-on-year. The non-life insurance technical result was slightly down on the figure for the year-earlier period, as higher premium income and the increase in the ceded reinsurance result were offset by higher technical charges. The year-to-date non-life combined ratio stood at 92%, compared to 88% for full-year 2018.
- Lower net fee and commission income (down 5% to 845 million euros), attributable primarily to lower fees for asset management services (predominantly lower management fees) and somewhat higher paid distribution fees, partly offset by higher banking services-related fees and the ČMSS impact. At the end of June 2019, total assets under management stood at 210 billion euros, down 2% on the level recorded a year earlier (+2% price improvement, -4% net outflow).
- A higher level of all other income items combined (up 11% to 342 million euros) caused mainly by a significantly higher level of net other income (including the ČMSS-related positive one-off gain of 82 million euros in the period under review), which more than offset lower trading and fair value income, among other things.
- Slightly higher operating expenses (up 1% to 2 283 million euros) mainly as a result of increased bank taxes. Other items explaining the year-on-year difference are higher staff costs (due to wage drift and one-off items), higher expense for ICT, professional fees and depreciation, and the ČMSS impact. It should be noted that the reference period had included an 11-million euros negative one-off item related to facilities expenses. As a result, the year-to-date cost/income ratio came to 63%, or an adjusted 59% when bank taxes are evenly spread throughout the year and certain non-operating items are excluded (compared to 57.5% and 57%, respectively, for full-year 2018).
- A significant net increase in loan loss impairment charges (net addition of 103 million euros in the first half of 2019, compared to a net release of 84 million euros in the year-earlier period). This was due largely to Ireland (12-million-euro net release of impairment in the period under review, compared to a 81-million-euro net release in the reference period) and Belgium (net addition of 113 million euros in the period under review, compared to 40 million euros in the reference period). As a result, the annualised credit cost ratio for the whole group stood at 0.12%, compared to -0.04% for full-year 2018 (a negative figure indicates a positive impact on the results).
- The 1 175-million-euro net result for the first half of 2019 breaks down as follows: 564 million euros for the Belgium Business Unit (-17% compared to the year-earlier period), 425 million euros for the Czech Republic Business Unit (+35%, for a large part owing to the positive one-off gain of 82 million euros related to ČMSS), 175 million euros for the International Markets Business Unit (-42%) and 11 million euros for the Group Centre (compared to a negative 48 million euros in the first half of 2018). The result for the International Markets Business Unit for the first half of 2019 includes 22 million euros for Ireland, 79 million euros for Hungary, 29 million euros for Slovakia and 42 million euros for Bulgaria.



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, making it increasingly likely that the low interest rate environment will persist for longer than anticipated. Regulatory and compliance risks (including anti-money laundering regulation and GDPR) 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

A weaker economic outlook with elevated risks and below-target inflation levels have led to a shift in major central banks' forward guidance towards additional or renewed monetary stimuli. Following the recent 25 basis points rate cut, we expect additional rate cuts by the Fed in the near future. Since euro area inflation will remain below the ECB's medium-term target and risk factors such as trade conflicts are impacting European growth momentum, the ECB will most likely ease its policy stance going forward too. The expected additional ECB easing will come on top of the ongoing accommodative impact of the ECB's 'full reinvestment' policy, which keeps its balance sheet at an elevated level.

Market expectations about additional monetary stimuli have been the driving force behind recent declines in long(er)-term interest rates. We view the recent rapid decline in long-term yields as a market reaction to the expectations on the pace of monetary easing. Therefore we expect the upward potential for longer-term interest rates to be limited.

The Czech National Bank has been tightening its monetary policy with a somewhat sooner-than-expected rate hike earlier this year (+25 basis points to 2% on 2 May). This reflected an environment of buoyant Czech growth and inflation. However, looser monetary policy abroad is also playing a role, as marked deviations from the ECB path have become less likely. Therefore, we expect the Czech National Bank to have a more accommodative policy in the coming years.

Our view on economic growth

In line with global economic developments, the European economy is currently going through a slowdown. Decreasing unemployment rates and growing labour shortages in some European economies, combined with gradually rising wage inflation, may continue to support private consumption. Investment may also remain supportive for growth. The main factors 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.



Press Release

Outside trading hours - Regulated information*

Guidance

- Solid returns for all business units.
- 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 the end of 2018), corresponding to RWA inflation of 9% and an impact on the common equity ratio of -1.3 percentage points.
- As regards our dividend policy, KBC will pay an interim dividend of 1 euro per share in November 2019 as an advance payment on the total dividend (payment date: 15 November 2019; record date: 14 November 2019; ex coupon date: 13 November 2019). The payout ratio policy (i.e. dividend + AT1 coupon) of at least 50% of consolidated profit is reconfirmed.

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