Press Release

Outside trading hours - Regulated information*

Brussels, 9 November 2023, 7.00 a.m. CET

KBC Group : Third-quarter result of 877 million euros

KBC Group – overview (consolidated, IFRS)	3Q2023	2Q2023	3Q2022	9M2023	9M2022
Net result (in millions of EUR)	877	966	752	2 725	2 091
Basic earnings per share (in EUR)	2.07	2.29	1.77	6.44	4.93
Breakdown of the net result by business unit (in millions of EUR)					
Belgium	*517*	*576*	*447*	*1 392*	*1 331*
Czech Republic	*200*	*276*	*170*	*661*	*612*
International Markets	*200*	*190*	*145*	*498*	*267*
Group Centre	*-41*	*-76*	*-10*	*174*	*-119*
Parent shareholders' equity per share (in EUR, end of period)	52.2	51.2	46.8	52.2	46.8

'We recorded an excellent net profit of 877 million euros in the third quarter of 2023. Compared to the result of the previous quarter, our total income benefitted from several factors, including better insurance results and a slightly higher level of net fee and commission income, though these were offset by lower levels of net interest income, trading and fair value income and dividend income (following the traditional peak in the previous quarter). Costs, including bank and insurance taxes, were down slightly quarter-on-quarter, while impairment charges went up. Consequently, when adding up the results for the first three quarters of the year, our net profit amounted to 2 725 million euros, up 30% year-on-year.

Our loan portfolio continued to expand, increasing by 2% compared to a year ago, with growth being recorded in each of the group's core countries. Customer deposits were down 2% year-on-year, as they were largely affected by deposit outflows caused by the issuance of the retail State Note ('Staatsbon') in Belgium at the start of September 2023.

On 11 August 2023, we started implementing our share buyback programme of 1.3 billion euros, which we announced in the previous quarter. By early November 2023, we had bought back approximately 5 million shares for a total consideration of around 0.3 billion euros. The share buyback is planned to run until 31 July 2024. In line with our general dividend policy, we will also pay out an interim dividend of 1 euro per share on 15 November 2023 as an advance on the total dividend for financial year 2023.

Our solvency position remained solid, with a fully loaded common equity ratio of 14.6% at the end of September 2023, which already fully incorporates the effect of the share buyback programme of 1.3 billion euros and the net increase in risk-weighted assets following the ECB's model review, as announced in August. Our liquidity position remained excellent, as illustrated by an NSFR of 139% and LCR of 157%.

Lastly, it gives me great pleasure to announce that the independent international research agency Sia Partners has once again named KBC Mobile the best mobile banking and insurance app in Belgium. KBC Mobile has further consolidated the leading position it held last year and secured a top-three position worldwide. And to top things off, Sia Partners also awarded our app with the title of best user experience for car and home insurance.

In that respect, I'd like to sincerely thank all our employees for their contribution to our group's continued success. I also want to thank all our customers, shareholders and all other stakeholders for their trust and support, and assure them that we remain committed to being the reference in bank-insurance and digitalisation in all our home markets.'

Johan Thijs, Chief Executive Officer

Financial highlights in the third quarter of 2023

Net interest income decreased by 2% quarter-on-quarter but was up 7% year-on-year. The net interest margin for the quarter under review amounted to 2.04%, down 7 basis points on the previous quarter and up 14 basis points on the year-earlier quarter. Loan volumes were up 1% quarter-on-quarter and 2% year-on-year. Deposits excluding debt certificates (and also excluding volatile low-margin short-term deposits at KBC Bank's foreign branches as they are driven by short-term cash management opportunities) were down 3% both quarter-on-quarter and year-on-year, due largely to the outflow of deposits caused by the issuance of a 1-year State Note in Belgium. Volume growth figures were calculated on an organic basis (excluding changes in the scope of consolidation and forex effects).

The insurance service result (insurance revenues before reinsurance - insurance service expenses before reinsurance + net result from reinsurance contracts held) amounted to 138 million euros (compared to 122 million euros and 102 million euros in the previous and year-earlier quarters, respectively) and breaks down into 81 million euros for non-life insurance and 58 million euros for life insurance. The non-life combined ratio for the first nine months of 2023 amounted to an excellent 85%, compared to 87% for full-year 2022. Non-life insurance sales increased by 11% year-on-year, while life insurance sales were down 40% on the high level in the previous quarter and up 13% on the level recorded in the year-earlier quarter.

Net fee and commission income was up 1% and 6% on its level in the previous and year-earlier quarters, respectively. Fees for our asset management activities were down slightly quarter-on-quarter (-1%), while banking services-related fees were up 2%, due largely to one-off securities-related fees received on the sale of the State Note in Belgium. Year-on-year, fees for both our asset management activities and our banking service activities increased by 5%.

Trading & fair value income was down 50% on the high level recorded in the previous quarter but was up 65% year-on-year. **Net other income** was slightly below its normal run rate. **Dividend income** was down on the previous quarter's level, as the second quarter traditionally includes the bulk of dividend income for the full year.

Operating expenses including bank and insurance taxes were down 1% on their level in the previous quarter and up 6% on their year-earlier level. The cost/income ratio for the first nine months of 2023 came to 48%, compared to 49% for full-year 2022. In that calculation, certain non-operating items have been excluded and bank and insurance taxes spread evenly throughout the year. Excluding all bank and insurance taxes, the cost/income ratio for the first nine months of 2023 amounted to 41%, compared to 45% for full-year 2022.

The quarter under review included a 36-million-euro net **loan loss impairment charge**, compared to a net release of 23 million euros in the previous quarter and a net charge of 79 million euros in the year-earlier quarter. The credit cost ratio for the first nine months of 2023 amounted to 0.00%, compared to 0.08% for full-year 2022. Impairment on assets *other than loans* amounted to 27 million euros in the quarter under review, compared to 31 million euros in the previous quarter and 23 million euros in the year-earlier quarter.

Our **liquidity position** remained strong, with an LCR of 157% and NSFR of 139%. Our **capital base** remained robust, with a fully loaded common equity ratio of 14.6% (which already includes the full impact of the share buyback programme and the increase in net risk-weighted assets related to the ECB review, as announced in August 2023).

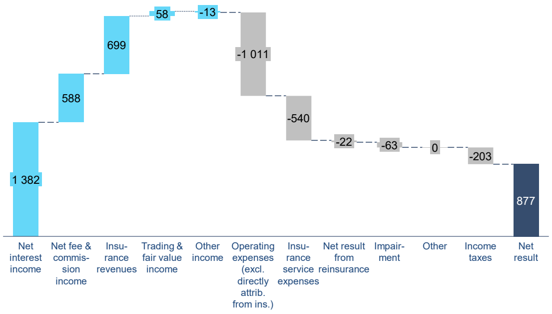
The cornerstones of our strategy

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, while focussing on the joint development of solutions, initiatives and ideas within the group

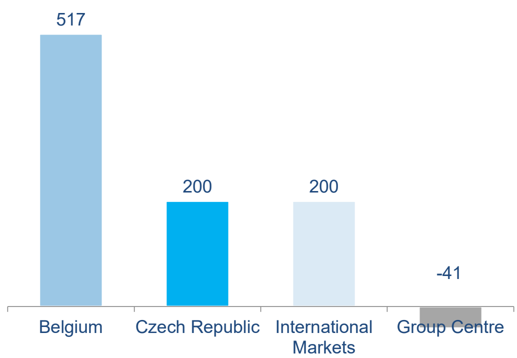
Breakdown of 3Q2023 result

(in millions of EUR)



Contribution of the business units to 3Q2023 group result

(in millions of EUR)



Overview of results and balance sheet

Consolidated income statement, IFRS, KBC Group (simplified; in millions of EUR)	3Q2023	2Q2023	1Q2023	4Q2022	3Q2022	9M2023	9M2022
Net interest income	1 382	1 407	1 324	1 417	1 297	4 113	3 746
Insurance revenues before reinsurance	699	666	631	621	621	1 996	1 802
Non-life	*587*	*567*	*543*	*526*	*527*	*1 696*	*1 524*
Life	*113*	*100*	*88*	*94*	*94*	*301*	*278*
Dividend income	10	30	8	10	22	47	50
Net result from financial instr. at fair value through P&L[1]	58	115	90	90	35	264	163
Net fee and commission income	588	584	576	549	557	1 749	1 669
Insurance finance income and expense	-67	-82	-66	-63	-39	-215	-33
Net other income	44	54	498	-103	3	596	119
Total income	2 715	2 775	3 060	2 520	2 496	8 550	7 515
Operating expenses (excl. directly attributable from insurance)	-1 011	-1 019	-1 501	-1 036	-952	-3 531	-3 291
Total operating expenses without bank and insurance taxes	*-1 101*	*-1 090*	*-1 077*	*-1 143*	*-1 041*	*-3 269*	*-3 016*
Total bank and insurance taxes	*-29*	*-51*	*-571*	*-15*	*-23*	*-651*	*-631*
Minus: op.expenses allocated to insurance service expenses	*119*	*123*	*147*	*121*	*112*	*389*	*356*
Insurance service expenses before reinsurance	*-540*	*-523*	*-490*	*-467*	*-504*	*-1 553*	*-1 441*
Of which Insurance commission paid	*-87*	*-82*	*-77*	*-79*	*-81*	*-246*	*-228*
Non-Life	*-485*	*-457*	*-418*	*-416*	*-445*	*-1 361*	*-1 317*
Life	*-55*	*-66*	*-72*	*-51*	*-59*	*-192*	*-124*
Net result from reinsurance contracts held	-22	-22	-30	-15	-15	-74	-5
Impairment	-63	-8	26	-132	-102	-46	-149
Of which: on financial assets at amortised cost and at fair value through other comprehensive income[2]	*-36*	*23*	*24*	*-82*	*-79*	*11*	*-72*
Share in results of associated companies & joint ventures	0	-1	-3	-2	-3	-4	-7
Result before tax	1 079	1 202	1 062	867	920	3 343	2 621
Income tax expense	-203	-236	-180	-139	-168	-619	-530
Result after tax	877	966	882	727	752	2 725	2 091
attributable to minority interests	0	0	0	0	0	-1	0
attributable to equity holders of the parent	**877**	**966**	**882**	**727**	**752**	**2 725**	**2 091**
Basic earnings per share (EUR)	2.07	2.29	2.08	1.71	1.77	6.44	4.93
Diluted earnings per share (EUR)	2.07	2.29	2.08	1.71	1.77	6.44	4.93

Key consolidated balance sheet figures, IFRS, KBC Group (in millions of EUR)	30-09-2023	30-06-2023	31-03-2023	31-12-2022	30-09-2022
Total assets	358 453	368 077	347 355	354 545	362 204
Loans & advances to customers, excl. reverse repos	181 821	182 005	179 520	178 053	177 098
Securities (equity and debt instruments)	72 764	71 839	70 291	67 160	65 730
Deposits from customers excl. debt certificates & repos	214 203	224 710	219 342	224 407	217 538
Insurance contract liabilities	15 920	16 295	16 282	16 158	16 298
Liabilities under investment contracts, insurance	12 655	12 751	12 164	12 026	12 004
Total equity	23 865	22 853	23 141	21 819	21 027

Selected ratios KBC Group (consolidated)	9M2023	FY2022
Return on equity[3]	17%	13%
Cost/income ratio, group		
- excl. non-operating items & evenly spreading bank & insurance taxes through the year	48%	49%
- excl. all bank and insurance taxes	41%	45%
Combined ratio, non-life insurance	85%	87%
Common equity ratio (CET1), Basel III, Danish Compromise		
- fully loaded	14.6%	15.3%
- transitional	13.5%	14.1%
Credit cost ratio[4]	0.00%	0.08%
Impaired loans ratio	2.0%	2.1%
for loans more than 90 days past due	1.1%	1.1%
Net stable funding ratio (NSFR)	139%	136%
Liquidity coverage ratio (LCR)	157%	152%

1 Also referred to as ‘Trading & fair value income’.
2 Also referred to as ‘Loan loss impairment’.
3 16% in 9M2023 when non-operating items are also excluded and bank and insurance taxes are evenly spread throughout the year.
4 A negative figure indicates a net impairment release (positively affecting results).

Analysis of the quarter (3Q2023)

Total income: 2 715 million euros
-2% quarter-on-quarter and +9% year-on-year

Net interest income amounted to 1 382 million euros in the quarter under review, down 2% quarter-on-quarter but up 7% year-on-year. The quarter-on-quarter decrease was due mainly to lower interest income on inflation-linked bonds, the negative impact on deposits from the issuance of a 1-year Belgian State Note, slightly lower lending income (volume growth more than offset by pressure on lending margins in most core markets), the higher funding cost of participations, increased wholesale funding costs and higher costs related to the minimum required reserves held with the central banks in a number of our core countries. These items were partly offset by the positive impact of the higher commercial transformation result (driven by continued increasing reinvestment yields, and despite higher pass-through on savings accounts in Belgium), as well as the increase in customer term deposits and the higher number of days in the quarter. The year-on-year increase was attributable primarily to the higher transformation result (despite deposit outflows due to the issuance of the State Note in Belgium) and increased customer term deposits at better margins. These items were partly offset by lower lending income (volume growth more than offset by pressure on lending margins), the absence of a TLTRO impact, the sale of the remaining Irish portfolio in February 2023, lower net interest income on inflation-linked bonds, the higher funding cost of participations, increased wholesale funding costs and the higher cost related to the minimum required reserves held with the central banks in most of our core countries. Consequently, the net interest margin for the quarter under review amounted to 2.04%, down 7 basis points quarter-on-quarter but up 14 basis points year-on-year.

Customer loan volume was up 1% quarter-on-quarter and 2% year-on-year. Customer deposits excluding debt certificates were down 4% quarter-on-quarter and 2% year-on-year. When excluding volatile low-margin short-term deposits at KBC Bank's foreign branches (driven by short-term cash management opportunities), customer deposits were down 3% both quarter-on-quarter and year-on-year. These figures include the direct negative impact of the 5.7-billion-euro outflow of customer deposits to the Belgian State Note at the beginning of September 2023. In the growth figures above, the forex-related impact and the effects of changes in the scope of consolidation have been eliminated.

For an indication of the expected net interest income for full-year 2023 and 2024, please refer to the section entitled 'Our guidance'.

The **insurance service result** (insurance revenues before reinsurance - insurance service expenses before reinsurance + net result from reinsurance contracts held; the two latter items are not part of total income) amounted to 138 million euros and breaks down into 81 million euros for non-life insurance and 58 million euros for life insurance. The non-life insurance service result decreased by 9% quarter-on-quarter, as higher service expenses more than offset the higher revenues. However, it was up 20% year-on-year, due to higher insurance revenues more than offsetting increased service expenses and the lower reinsurance result. The life insurance service result increased by 72% quarter-on-quarter and 67% year-on-year, due in both cases to a combination of higher revenues and lower insurance service expenses. **Insurance finance income and expense** amounted to -67 million euros in the quarter under review, compared to -82 million euros in the previous quarter and -39 million euros in the year-earlier quarter (changes related to interest rate movements and stock market developments).

The combined ratio of the non-life insurance activities amounted to an excellent 85% for the first nine months of 2023, compared to 87% for full-year 2022. Non-life insurance sales came to 558 million euros, up 11% year-on-year, with growth in all countries and classes. Sales of life insurance products amounted to 438 million euros and were down 40% on the level recorded in the previous quarter (as that quarter had benefitted from the successful launch of new structured products in Belgium), but up 13% on the year-earlier quarter (thanks mainly to higher sales of unit-linked products in Belgium and Bulgaria). Overall, the share of guaranteed-interest products and unit-linked products in our total life insurance sales in the quarter under review amounted to 49% and 44%, respectively, with hybrid products (mainly in the Czech Republic) accounting for the remainder.

Net fee and commission income amounted to 588 million euros, up 1% and 6% on its level in the previous and year-earlier quarters, respectively. Quarter-on-quarter, fees for our asset management activities fell slightly (-1%, due mainly to lower entry fees) while fees related to banking activities went up 2%, thanks primarily to one-off fees earned on securities (in particular on the sale of the Belgian State Note). Year-on-year, fees for both our asset management and banking activities increased by 5% (the latter again largely driven by fees earned on the sale of the State Note). At the end of September 2023, our total assets under management amounted to 227 billion euros, up 1% quarter-on-quarter (+2 percentage points related to net inflows and -1 percentage point related to the quarter-on-quarter market performance). Assets under management were up 11% year-on-year, with net inflows accounting for +6 percentage points and market performance for +5 percentage points.

Trading & fair value income amounted to 58 million euros, down 50% quarter-on-quarter but up 65% on the year-earlier quarter. The quarter-on-quarter decrease was attributable mainly to the lower dealing room result, the negative change in the market value of derivatives used for asset/liability management purposes and the lower result from investments backing unit-linked insurance contracts under IFRS 17, partly offset by the positive change in market value adjustments (xVA). Year-on-year, the higher dealing room result and the positive result from investments backing unit-linked insurance contracts under

IFRS 17 more than offset the negative change in market value adjustments (xVA) and in the market value of derivatives used for asset/liability management purposes, among other factors.

The **other remaining income items** included dividend income of 10 million euros (down 20 million euros quarter-on-quarter as the bulk of dividend income is traditionally received in the second quarter of the year) and net other income of 44 million euros, somewhat below its 50-million-euro normal run rate (as it included some realised losses on the sale of bonds).

Total operating expenses including bank and insurance taxes: 1 130 million euros

-1% quarter-on-quarter and +6% year-on-year

Total operating expenses including bank and insurance taxes in the third quarter of 2023 amounted to 1 130 million euros, even down slightly by 1% on their level in the previous quarter. Excluding bank and insurance taxes, operating expenses were up only 1%, owing mainly to higher costs for staff, ICT, facilities and depreciation, and partly offset by lower costs for Ireland (consequent on the sale of the Irish portfolios), lower professional fees and seasonally lower marketing expenses.

Operating expenses including bank and insurance taxes were up 6% on their year-earlier level. Excluding bank and insurance taxes, operating expenses were also up 6%, due to higher staff costs (wage drift and indexation, despite the lower number of FTEs), as well as higher ICT costs, facility expenses (mainly energy costs) and depreciation expenses, partly offset by decreased costs for Ireland (given the sale of the Irish portfolios) and lower professional fees, among other things.

When certain non-operating items are excluded and bank and insurance taxes are spread evenly throughout the year, the cost/income ratio for the first nine months of 2023 amounted to 48%, compared to 49% for full-year 2022. When excluding all bank and insurance taxes, the cost-income ratio improved to 41%, compared to 45% for full-year 2022.

For an indication of the operating expenses for full-year 2023, please refer to the section entitled 'Our guidance'.

Loan loss impairment: 36-million-euro net charge

versus a 23-million-euro net release in the previous quarter and a 79-million-euro net charge in the year-earlier quarter

In the quarter under review, we recorded a 36-million-euro net loan loss impairment charge, compared with a net release of 23 million euros in the previous quarter and a net charge of 79 million euros in the year-earlier quarter. The net impairment charge in the quarter under review included a charge of 95 million euros in respect of our loan book, and a 59-million-euro release following the update of the reserve for geopolitical and emerging risks. As a consequence, the outstanding reserve for geopolitical and emerging risks amounted to 291 million euros at the end of September 2023.

For the entire group, the credit cost ratio amounted to 0.00% in the first nine months of 2023 (0.08% excluding the changes in the reserve for geopolitical and emerging risks), compared to 0.08% for full-year 2022 (0.00% excluding the changes in the reserves for geopolitical and emerging risks and for the coronavirus crisis). At the end of September 2023, 2.0% of our total loan book was classified as impaired ('Stage 3'), compared to 2.1% at year-end 2022. Impaired loans that are more than 90 days past due amounted to 1.1% of the loan book, unchanged on their level at year-end 2022.

For an indication of the expected impact of loan loss impairment for full-year 2023, please refer to the section entitled 'Our guidance'.

Impairment on assets *other than loans* amounted to 27 million euros, compared to 31 million euros in the previous quarter and 23 million euros in the year-earlier quarter. The figure for the quarter under review mainly included impairment on software in Belgium and Hungary.

Net result by business unit

Belgium 517 million euros; Czech Rep. 200 million euros; International Markets 200 million euros, Group Centre -41 million euros

Belgium: the net result (517 million euros) was down 10% quarter-on-quarter. This was due primarily to the combined effect of slightly lower total income (comprising higher insurance revenues and net fee and commission income, but lower net interest income, dividend income, trading & fair value income and net other income), somewhat higher costs and insurance service expenses after reinsurance, and higher net impairment charges.

Czech Republic: the net result (200 million euros) was down 26% quarter-on-quarter (excluding forex effects). This was essentially attributable to a combination of lower total income (caused mainly by lower trading & fair value income, net interest income and net other income), higher costs and insurance service expenses after reinsurance, and a small net impairment charge compared to a net release in the previous quarter.

International Markets: the 200-million-euro net result breaks down as follows: 25 million euros in Slovakia, 96 million euros in Hungary and 79 million euros in Bulgaria. For the business unit as a whole, the net result was up 5% on the previous quarter's result, due mainly to a combination of slightly higher total income, lower bank and insurance taxes (as the previous quarter had included an additional tax amount in Hungary), higher other costs and insurance service expenses after reinsurance, and lower net impairment charges.

Group Centre: the net result (-41 million euros) was 36 million euros higher than the figure recorded in the previous quarter owing to a combination of higher total income, lower costs and a small net impairment release compared to a net charge in the previous quarter).

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).

	Belgium		Czech Republic		International Markets	
Selected ratios by business unit	**9M2023**	**FY2022**	**9M2023**	**FY2022**	**9M2023**	**FY2022**
Cost/income ratio, group						
- excl. non-oper. items & spreading bank & ins. taxes evenly through the year	46%	47%	46%	44%	45%	47%
- excl. all bank and insurance taxes	40%	41%	44%	45%	38%	41%
Combined ratio, non-life insurance	83%	85%	83%	83%	96%[2]	91%
Credit cost ratio[1]	0.07%	0.03%	-0.19%	0.13%	-0.08%	0.31%
Impaired loans ratio	2.0%	1.9%	1.4%	1.7%	1.7%	1.9%

1 A negative figure indicates a net impairment release (positively affecting results). See 'Details of ratios and terms' in the quarterly report.
2 Impacted by an additional windfall insurance tax being recorded in Hungary in 9M2023. Excluding this item, the ratio for the first nine months of 2023 would be 92%.

Solvency and liquidity

Common equity ratio 14.6%, NSFR 139%, LCR 157%

At the end of September 2023, total equity came to 23.9 billion euros and comprised 21.6 billion euros in parent shareholders' equity and 2.3 billion euros in additional tier-1 instruments. Total equity was up 2.0 billion euros on its level at the end of 2022. This was accounted for by the combined effect of the inclusion of the profit for the first nine months of 2023 (+2.7 billion euros), the payment of the final dividend for 2022 in May 2023 and the interim dividend payable in November 2023 (-1.7 billion euros combined), the repurchase of own shares (-0.2 billion euros), a net increase in the revaluation reserves (+0.4 billion euros), the issuance of new additional tier-1 instruments in September 2023 (+0.75 billion euros) and a number of smaller 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.

Our solvency position remained solid with a fully loaded common equity ratio (CET1) of 14.6% at 30 September 2023, down from 15.3% at the end of 2022. Note that, as of the third quarter, the ratio includes both the negative effect of the ECB supervisory decision following model reviews, as already announced in August 2023 (increase in risk-weighted assets of 8.2 billion euros, partly netted by a relief of 1.7 billion euros), as well as the full impact of the 1.3-billion-euro share buyback programme. The solvency ratio for KBC Insurance under the Solvency II framework was 202% at the end of September 2023, compared to 203% at the end of 2022. 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 157% and an NSFR ratio of 139%, compared to 152% and 136%, respectively, at the end of 2022.

Analysis of the year-to-date period (9M2023)

Net result for 9M2023: 2 725 million euros

+30% year-on-year

Highlights (compared to the first nine months of 2022, unless otherwise stated):

Net interest income: up 10% to 4 113 million euros. This was attributable in part to the much higher commercial transformation result (despite deposit outflows due to the issuance of the State Note in Belgium), the consolidation of Raiffeisenbank Bulgaria (nine months in 2023 compared to three months in 2022) and the increase in term deposits at better margins, partly offset by lower lending income (as lower margins in most core markets more than offset volume growth), the absence of a TLTRO and ECB tiering impact, the sale of the remaining Irish portfolio in February 2023, lower net interest income on inflation-linked bonds, the higher funding cost of participations, increased wholesale funding costs and the higher cost related to the minimum required reserves held with the central banks in most of our core countries. On an organic basis (excluding changes in the scope of consolidation and forex effects), the volume of customer loans rose by 2% whereas deposits excluding debt certificates were down 2% year-on-year, due largely to deposit outflows related to the issuance of the Belgian State Note in the third quarter of 2023. The net interest margin in the first nine months of 2023 came to 2.06%, up 15 basis points year-on-year.

Insurance service result (insurance revenues before reinsurance - insurance service expenses before reinsurance + net result from reinsurance contracts held): up 4% to 369 million euros. The non-life combined ratio for the first nine months of 2023 amounted to an excellent 85%, compared to 87% for full-year 2022. Non-life insurance sales were up 12% to 1 802 million euros, while life insurance sales were up 22% to 1 643 million euros, due mainly to higher unit-linked insurance sales in Belgium.

Net fee and commission income: up 5% to 1 749 million euros. This was attributable primarily to higher fees for banking services (including the effect of the consolidation of Raiffeisenbank Bulgaria and the sale of the Belgian State Note) and also, to a lesser extent, to higher fees related to asset management services. At the end of September 2023, total assets under management were up 11% to 227 billion euros due to a combination of net inflows (+6 percentage points) and a positive price effect (+5 percentage points).

Trading & fair value income: up 62% to 264 million euros. This was due mainly to a higher result from investments backing unit-linked insurance contracts under IFRS 17 and a higher dealing room result, which more than offset the negative change in market value adjustments (xVA) and in the market value of derivatives used for asset/liability management purposes.

All other income items combined: up 215% to 428 million euros. This came about mainly because of higher net other income, which included a 0.4-billion-euro gain on the sale of the loan and deposit portfolios of KBC Bank Ireland in February 2023.

Operating expenses including bank and insurance taxes: up 7% to 3 920 million euros. This was due in part to the consolidation and integration of the former Raiffeisenbank Bulgaria, wage drift and inflation/indexation, higher ICT expenses, facility costs and depreciation expenses, as well as increased bank and insurance taxes. These items were only partly offset by the extraordinary profit bonus for staff in the reference period and the impact of the sale of the Irish portfolios in February 2023, among other factors. The year-to-date cost/income ratio amounted to 48% when certain non-operating items are excluded and bank and insurance taxes evenly spread throughout the year (49% for full-year 2022). When bank and insurance taxes are fully excluded, the cost-income ratio for the period under review amounted to 41% (45% for full-year 2022).

Loan loss impairment: net release of 11 million euros, compared to a net increase of 72 million euros in the reference period. The first nine months of 2023 included a net charge of 109 million euros in respect of our loan book and a net release of 120 million euros in the reserve for geopolitical and emerging risks. As a result, the credit cost ratio amounted to 0.00%, compared to 0.08% for full-year 2022. Impairment on assets other than loans amounted to 56 million euros, compared to 77 million euros in the reference period.

The **net result** of 2 725 million euros for the first nine months of 2023 breaks down as follows: 1 392 million euros for the Belgium Business Unit (up 61 million euros on its year-earlier level), 661 million euros for the Czech Republic Business Unit (up 49 million euros), 498 million euros for the International Markets Business Unit (up 231 million euros) and 174 million euros for the Group Centre (up 294 million euros, owing primarily to the gain realised on the sale of the loan and deposit portfolios of KBC Bank Ireland in February 2023).

ESG developments, risk statement & economic views

ESG developments

We continue to make progress on our sustainability journey for all our activities as a bank-insurer.

KBC Insurance, for instance, recently committed to invest up to 200 million euros in sustainable infrastructure funds in Europe through an investment facility managed by the European Investment Fund (EIF). This first ever EIF investment partnership with a private player in the climate and infrastructure asset class will support sustainable, climate-relevant infrastructure investments in a wide range of areas, including renewable energy production, storage and distribution, energy efficiency, smart green cities and digital and sustainable transport infrastructure. As regards the distribution of life insurance products to our own customers in Belgium, we have a clear focus on providing products in line with our responsible investing strategies and have received the esteemed ‘Towards Sustainability’ label for our branch 21 individual life insurance products.

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 mostly indirect impact of the war in Ukraine, including the delayed effects of the increase in energy and commodity prices and the supply-side shortages it triggered. This has led to a surge in inflation, resulting in upward pressure on interest rates, lower growth prospects (or even fears of a recession) and some concerns about the creditworthiness of counterparties in the economic sectors most exposed. Geopolitical risks remain elevated, as evidenced by the conflict in Gaza/Israel. All these risks affect global, but especially, European economies, including KBC’s home markets. Rising interest rates were also the main source of some turmoil in the financial sector in the spring of 2023, although that has abated somewhat. Regulatory and compliance risks (including in relation to capital requirements, anti-money laundering regulations, GDPR and ESG/sustainability) 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 and environmental-related risks are becoming increasingly prevalent. 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. Finally, we have seen governments across Europe taking additional measures to support their budgets (via increased tax contributions from the financial sector) and their citizens and corporate sector (by, for instance, implementing interest rate caps on loans or by pushing for higher rates on savings accounts).

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

The US economy expanded strongly in the third quarter by 1.2% (non-annualised). This was driven mainly by growth in private consumption, based on what is currently still robust net job creation. However, partly as a result of the cumulative impact of Fed tightening and the strike in the automotive industry, quarter-on-quarter growth is expected to slow to 0.1% in the fourth quarter of 2023 and -0.1% in the first quarter of 2024.

Growth in the euro area amounted to -0.1% in the third quarter. We expect growth in the euro area to stagnate for the remainder of 2023, due to the impact of the ECB's tightening cycle on credit growth and the weakness in the manufacturing sector and increasingly in the service sector, too.

Third quarter-on-quarter growth in Belgium amounted to 0.5%. Relatively strong domestic demand (based on private consumption, investment and government spending) offset the continued weakness of net exports. For the remainder of 2023, we expect quarterly growth to remain broadly in line with that of the euro area. The Czech economy shrank by 0.3% in the third quarter of 2023 as a result of weakness in private consumption and in the manufacturing sector. We expect a return to modest positive quarter-on-quarter growth in the fourth quarter of 2023. Based on our latest estimates, quarterly growth for the third quarter in KBC's other Central European home markets was clearly positive (Bulgaria 0.2%, Slovakia 0.5% and Hungary 1.2%). This positive dynamic is expected to continue in the fourth quarter of 2023, and persist in 2024.

The main risks to our short-term outlook for European growth include the current geopolitical tensions, with an upside risk for energy and commodity prices. The stronger-than expected persistence of underlying core inflation and the uncertainty regarding the impact of the ECB's tightening cycle on the real economy are also playing a role. Additional risks include the increasing cost of financing high levels of sovereign debt in the euro area against a backdrop of tightened financing conditions and subdued economic growth.

Our view on interest rates and foreign exchange rates

The Fed's latest policy rate hike (to a range of 5.25%-5.50% in early July) is expected to be the peak rate in this hiking cycle. However, the run-down of the Fed's balance sheet (Quantitative Tightening) still contributes to the tightening of monetary policy. Meanwhile, the ECB raised its deposit rate to 4% in September 2023, which is also expected to be the peak in its rate-hiking cycle. Since July 2023, the ECB stopped the reinvestments of maturing assets from its Asset Purchase Programme (APP) portfolio, leading to a 'passive' run-down of this portfolio. Meanwhile, the flexible reinvestments of the ECB's Pandemic Emergency Purchase Programme (PEPP) portfolio will continue until at least the end of 2024.

Both 10-year US and German government bond yields continued their sharp rise during the third quarter, from respectively about 3.80% and 2.40% at the beginning of the third quarter to about 4.80% and 2.80% in late October 2023. The significant increase in US yields (by about 100 basis points) compared to German yields (by about 40 basis points) means that the US-German yield spread has widened considerably from about 140 basis points at the beginning of the third quarter to about 200 basis points by late October 2023.

Short and long-term US-German interest-rate differentials led to a sharp appreciation of the US dollar against the euro from mid-July 2023 on. For the remainder of 2023, we expect the US dollar to remain strong against the euro. However, the euro is expected to gradually start appreciating again from early 2024 on.

Since the start of the third quarter, the Czech koruna (CZK) has continued to depreciate against the euro. This was driven by higher inflation and narrowing short-term interest rate differentials with the euro area, due to the fact that the ECB further raised its deposit rate while the Czech National Bank (CNB) kept its policy rate unchanged at 7%. Expected interest rate support for the CZK decreased further due to the prospect of the CNB carrying out a first rate cut in the fourth quarter of 2023. Moreover, the abandonment by the CNB of its commitment to intervene, if necessary, on the FX markets to support the exchange rate of the CZK weighed on the currency. We expect the weakness of the Koruna to persist in the short term.

During the third quarter, the National Bank of Hungary (NBH) eased its overnight rate further, reducing it to 13% in September 2023. Since the overnight rate was then in line with the base rate, it was abandoned and the base rate resumed its traditional role of policy rate. On 24 October, the NBH continued its rate-cutting cycle by lowering the base rate by 75 basis points to 12.25%. Depending on the extent that inflation further decreases, additional rate cuts are likely by the end of the year.

On balance, the exchange rate of the Hungarian forint against the euro has depreciated since the start of the third quarter. As in previous quarters, this exchange rate was quite volatile. Against the background of still high inflation differentials with the euro area and the NBH's ongoing easing cycle, the forint is expected to remain weak (around current levels) for the remainder of 2023.

Our guidance

Guidance for full-year 2023

- Total income: approximately 11.15 billion euros *(unchanged),* approximately 5.4 billion euros of which in net interest income *(instead of approximately 5.6 billion euros previously, due to (i) the direct negative impact of the State Note issued in Belgium (-0.1 billion euros), (ii) the negative impact mainly from further shifts from current and savings accounts to term deposits and asset management (-0.1 billion euros), and (iii) higher costs related to the minimum required reserves held with central banks (-0.02 billion euros)).*
- Operating expenses without bank and insurance taxes, plus insurance commissions: approximately 4.75 billion euros *(unchanged).*
- Credit cost ratio: 10-15 basis points (excluding any movement in the ECL buffer) *(unchanged).*

Additional guidance

- Indicative impact for full-year 2024:
  - Net interest income: we expect a flattish evolution of net interest income (hence approximately 5.4 billion euros) for 2024, based on the following assumptions:
    - the market forward rates (for short term and long term interest rates)
    - commercial transformation result will continue to benefit from the positive impact of increasing reinvestment yields
    - the deposit outflows following the September 2023 Belgian State Note emission will continue to impact net interest income in 2024
    - conservative assumption re. deposit flow once the Belgian State Note matures
    - further shifts from current accounts and savings accounts to term deposits
    - higher pass-through rates on savings accounts
    - higher costs on minimum required reserves
    - loan volume growth at approximately 3% year-on-year in 2024
    - asset margins will (very) gradually improve
    - higher funding costs
  - Increased Belgian bank tax: the Belgian government recently decided to increase the national bank taxes by (1) higher bank taxes for deposits on the balance sheet above 50 billion euros and (2) the abolishment of the income tax deductibility of the bank taxes. The combined impact for us is roughly -40 million euros and is expected as of 2024 (of which roughly -30 million euros in banking and insurance taxes and -10 million euros in income tax expense). Additionally, a further increase of the bank taxes can be expected based on the latest discussion in the Belgian Parliament driven by an increase of the contribution to the Deposit Guarantee Scheme, which will result in approximately -10 million euros in the fourth quarter of 2023 and -24 million euros in 2024;
  - Liquidation of KBC Bank Ireland: based on the approval received from the Irish Department of Finance in September 2023, the main hurdles to start the legal liquidation process of KBC Bank Ireland have been overcome. The aim is to close this liquidation process in the course of 2024. The formal closing of the liquidation process can give rise to a tax-deductible loss in KBC Bank NV of about 1.3 billion euros in 2024 for which no deferred tax assets are yet recognised, as we consider this as a contingent asset at this moment subject to official authorization of the Irish tax authorities to liquidate KBC Bank Ireland. This could lead to a tax benefit in the income statement of approximately 0.3 billion euros in 2024.
- Indicative view on transitional risk-weighted assets (RWA) evolution under Basel IV (based on current EU consensus for Basel IV, a static balance sheet and all other parameters *ceteris paribus*, without any mitigating actions): on 1 January 2025, we expect a first-time application impact of approximately +2.5 billion euros and by 1 January 2033, we expect a further fully loaded impact of approximately +3.5 billion euros (of which around 2 billion euros due to the output floor).

- Please refer to the company presentation (on www.kbc.com) for details and background information.

Upcoming events	Interim dividend: ex-coupon 13 November 2023, record 14 November 2023, payment 15 November 2023 4Q2023 results: 8 February 2024 Annual report: 2 April 2024 AGM: 2 May 2024 1Q2024 results: 16 May 2024 Other events: www.kbc.com / Investor Relations / Financial calendar
More information on 3Q2023	Quarterly report: www.kbc.com / Investor Relations / Reports Company presentation: www.kbc.com / Investor Relations / Presentations
Information on IFRS 17 implementation	Press release of 18 April 2023: www.kbc.com / Newsroom / Press release archive
Definitions of ratios	'Details of ratios and terms at KBC Group level' in the last section of the quarterly report.

For more information, please contact:

Kurt De Baenst, General Manager, Investor Relations, KBC Group
Tel. + 32 2 429 35 73 - IR4U@kbc.be
Viviane Huybrecht, General Manager, Corporate Communication/Spokesperson, KBC Group
Tel + 32 2 429 85 45 - pressofficekbc@kbc.be

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

KBC Group NV
Havenlaan 2 – 1080 Brussels
Viviane Huybrecht
General Manager
Corporate Communication /Spokesperson
Tel. + 32 2 429 85 45

Press Office
Tel. + 32 2 429 29 15 Ilse De Muyer
Tel. + 32 2 429 32 88 Pieter Kussé
Tel. + 32 2 429 85 44 Sofie Spiessens
Tel. + 32 2 429 29 49 Tomas Meyers
pressofficekbc@kbc.be

KBC press releases are available at www.kbc.com or can be obtained by sending an e-mail to pressofficekbc@kbc.be

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