KBC Bank
Half-Year Report - 1H2019

Company name

'KBC' or 'KBC Bank' as used in this report refer to the consolidated bank entity (i.e. KBC Bank NV including all companies that are included in the scope of consolidation). 'KBC Bank NV' refers solely to the non-consolidated entity. KBC Group or the KBC group refers to the parent company of KBC Bank (see below).

Difference between KBC Bank and KBC Group

KBC Bank is a subsidiary of KBC Group. Simplified, the KBC Group's legal structure has one single entity – KBC Group NV – in control of two underlying companies, viz. KBC Bank and KBC Insurance.

Forward-looking statements

The expectations, forecasts and statements regarding future developments that are contained in this report are, of course, based on assumptions and are contingent on a number of factors that will come into play in the future. Consequently, the actual situation may turn out to be (substantially) different.

Glossary of ratios used (including the alternative performance measures)

See separate section at the end of this report.

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Management certification

'I, Rik Scheerlinck, Chief Financial Officer of KBC Bank, certify on behalf of the Executive Committee of KBC Bank NV that, to the best of my knowledge, the abbreviated financial statements included in the interim report are based on the relevant accounting standards and fairly present in all material respects the financial condition and results of KBC Bank NV including its consolidated subsidiaries, and that the interim report provides a fair overview of the main events, the main transactions with related parties in the period under review and their impact on the abbreviated financial statements, and an overview of the main risks and uncertainties for the remainder of the current year.'

Contents

This report contains information that is subject to transparency regulations for listed companies. 30 August 2019, 8 a.m. CEST.

Report for the first six months of 2019

KBC Bank

Profit of 919 million euros for first half of 2019

Key data, KBC Bank (consolidated, in millions of EUR)		1H2019	1H2018
Result after tax, excluding minority interests		**919**	**947**
by business unit:	Belgium	358	379
	Czech Republic	401	297
	International Markets (Slovakia, Hungary, Bulgaria, Ireland)	148	280
	Group Centre	12	-9
Balance sheet and solvency		**30-06-2019**	**31-12-2018**
Total assets		253 337	248 940
Total equity		15 440	16 709
Common equity ratio (Basel III, fully loaded)		14.1%	14.8%

Financial highlights for the first half of 2019, compared with the first half of 2018

- Net interest income up 2% year-on-year and net interest margin at 1.96%. Customer loans up by 4%, deposits including debt certificates stable (on a comparable scope basis - see further).
- Net fee and commission income down by 2%, due to lower asset management related fees.
- All other income items combined up by 5% year-on-year. Net other income up thanks to a positive one-off item related to ČMSS (see below). Trading and fair value income down.
- Operating expenses up 2% year-on-year. Cost/income ratio at 59% (when bank taxes are spread evenly throughout the year and excluding certain non-operating items).
- 102 million euros in net loan loss impairment charges, compared to a net impairment release of 82 million euros in the reference period. Credit cost ratio at 0.12%.
- Strong liquidity and capital base. Common equity ratio of 14.1%.

Business highlights for the first half of 2019

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.

We also finalised a number of important acquisition and disposal transactions in the period under review.

- With the 48.14% minority participation in KBC Asset Management (KBC AM), which used to be held by KBC Group (KBC Bank's parent company) being transferred to KBC Bank in April 2019, KBC Bank is now the sole shareholder of KBC AM. This transaction was in the form of a share sale, after which KBC Group has carried out a capital increase at KBC Bank.

  It had no impact on most components of P/L and balance sheet, since KBC Bank already held a controlling interest in KBC AM and that entity has consequently been fully consolidated. The only impact related to the P/L lines 'profit attributable to the equity holders of the parent' and 'profit attributable to minority interests' (where minority interests have no longer been calculated since the second quarter of 2019), and to the balance sheet (minority interest in KBC AM no longer included in total equity, goodwill paid was deducted directly from retained earnings which was largely offset by the capital increase).

- In May 2019, we also finalised 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.

  *As a consequence, the **results** of ČMSS have been fully consolidated in each P/L line as of June 2019 (before then,– hence also for 5 months in the 1H2019 period under review -, 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').*

- Finally, in June 2019, 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. The deal had a negligible impact on our profit and capital ratios.

Analysis of the results and balance sheet

A full overview of the IFRS consolidated income statement and balance sheet is provided in the 'Consolidated financial statements' section of this interim report. Condensed statements of comprehensive income, changes in shareholders' equity and cash flow, as well as several notes to the accounts, are also available in the same section.

Consolidated income statement, KBC Bank (in millions of EUR)	**1H2019**	**1H2018**
Net interest income	2 026	1 989
Dividend income	19	18
Net result from financial instruments at fair value through profit and loss[1]	33	86
Net realised result from debt instruments at fair value through other comprehensive income	1	8
Net fee and commission income	1 026	1050
Net other income	150	83
Total income	3 255	3 233
Operating expenses	-2 036	-2 001
Impairment	-107	57
Of which: on financial assets at amortised cost and at fair value through other comprehensive income[2]	*-102*	*82*
Share in results of associated companies and joint ventures	6	8
Result before tax	1 118	1 297
Income tax expense	-166	-262
Result after tax	953	1 035
attributable to minority interests	34	88
attributable to equity holders of the parent (group share)	**919**	**947**
Breakdown of result after tax, attributable to equity holders of the parent		
Belgium	358	379
Czech Republic	401	297
International Markets (Slovakia, Hungary, Bulgaria, Ireland)	148	280
Group Centre	12	-9

1 Also referred to as 'trading and fair value income'
2 Also referred to as 'loan loss impairments'

Highlights, consolidated balance sheet, KBC Bank (in millions of EUR)	30-06-2019	31-12-2018
Total assets	253 337	248 940
Loans and advances to customers, excl. reverse repos	151 946	144 810
Securities (equity and debt instruments)	45 109	44 387
Deposits from customers and debt securities, excluding repos	199 937	194 837
Risk weighted assets (Basel III, fully loaded)	86 946	85 474
Total equity	15 440	16 709
of which parent shareholders' equity	13 939	14 150

Selected ratios, KBC Bank (consolidated)	1H2019	FY2018
Cost/income ratio (between brackets: when spreading the bank tax evenly throughout the year and excluding certain non-operating items)	63% (59%)	57,5% (57%)
Common equity ratio according to Basel III (fully loaded)	14.1%	14.8%
Leverage ratio according to Basel III (fully loaded)	5.1%	5.2%
Credit cost ratio*	0.12%	-0.04%
Impaired loans ratio	3.7%	4.3%
for loans more than 90 days overdue	2.1%	2.5%
Net stable funding ratio (NSFR)	133%	136%
Liquidity coverage ratio (LCR)	140%	139%

* A negative figure indicates a net impairment release (with positive impact on results).

Analysis of the main items in our profit and loss account

- Net interest income stood at 2 026 million euros in 1H2019, up 2% year-on-year. The net interest margin came to 1.96% year-to-date, 5 basis points lower than the level recorded in 1H2018. Net interest income in the period under review benefited from lower funding costs, loan volume growth (see below), the positive effect of short-term interest rate increases in the Czech Republic and the full consolidation of ČMSS since June 2019 ('ČMSS impact': 7 million euros). These items more than offset the negative impact of low reinvestment yields in our core countries in the euro area, portfolio loan margin pressure (notwithstanding some new business margin recovery since the end of 2018) and the lower netted positive impact of ALM FX swaps. Both customer lending and deposit volumes increased: loans and advances to customers, excluding reverse repos, went up by 6% year-on-year and deposits from customers and debt certificates, excluding repos, went up by 3%. On a comparable scope basis (i.e. disregarding effects from changes in scope such as the sale of parts of the Irish loan book in the past and the full consolidation of ČMSS since June 2019), customer lending rose by 4% year-on-year, with growth in all business units, while customer deposits including debt certificates were roughly stable (3% growth in deposits offset by decrease in debt certificates).
- Net fee and commission income amounted to 1 026 million euros in 1H2019, down 2% on its 1H2018 level. The decrease was attributable primarily to lower fee income from our asset management services (chiefly lower management fees), which was only partially offset by somewhat higher banking services related fees and the ČMSS impact (2 million euros). At the end of June 2019, total assets under management of the KBC group stood at 210 billion euros, down 2% year-on-year as a result of a positive asset price effect (+2%) and negative net outflows (-4%) in the period under review.
- All other income items combined amounted to 204 million euros in 1H2019, compared to 195 million euros in 1H2018. Dividend income in 1H2019 stood at 19 million euros, in line with the 18 million euros registered in the reference period, while the realised result from debt instruments at fair value through other comprehensive income stood at 1 million euros, compared to 8 million euros in the reference period. The net result from financial instruments at fair value (trading and fair value income) amounted to 33 million euros, significantly down on the 86 million euros recorded in 1H2018, mainly due to weak dealing room results. Lastly, net other income came to 150 million euros in 1H2019, up to a significant extent on the 83 million euros recorded in 1H2018, as the period under review benefited from a positive one-off item of 82 million euros. This item related to the revaluation of the already existing 55% participation in ČMSS following the acquisition of the remaining 45% shareholding.
- Operating expenses came to 2 036 million euros in 1H2019, up 2% on their year-earlier level. It should be noted that operating expenses also include special bank taxes of 397 million euros in 1H2019, up from 378 million euros in 1H2018. Other factors explaining the year-on-year increase included wage drift, one-off items, higher expense for ICT and depreciation, and the ČMSS impact (5 million euros). The year-to-date cost/income ratio consequently 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).
- We recorded 102 million euros' worth of loan loss impairment charges in 1H2019, as opposed to a release of 82 million euros in 1H2018 (a release leads to a positive impact on the results). The amount of impairment in 1H2019 breaks down into impairment charges in Belgium (112 million euros, up on the 41 million euros recorded in the reference period), the Czech Republic (2 million euros), Slovakia (11 million euros) and Bulgaria (3 million euros) and net loan loss impairment releases in Hungary (3 million euros), Ireland (12 million euros, down on the 81 million euros

released in the reference period) and the Group Centre (10 million euros). Consequently, annualised loan loss impairment for the entire group in the first half of 2019 accounted for a benign 0.12% of the total loan portfolio, compared to -0.04% in full-year 2018 (a negative figure indicates a positive impact on the results). Compared to the start of the year, the impaired loans ratio further improved. At the end of June 2019, some 3.7% of our loan book was classified as impaired, with 2.1% being impaired and more than 90 days past due, compared to 4.3% and 2.5%, respectively, at year-end 2018. A large part of the drop in impaired loans was related to the accounting write-off of certain fully provisioned legacy loans in Ireland in the second quarter of 2019.
Impairment on assets other than loans stood at just 4 million euros, compared to 25 million in the year-earlier period, which had been impacted by the review of residual values of financial car leases under short-term contracts in the Czech Republic, among other factors.

Performance by business unit

- The Belgium Business Unit (encompassing all activities in Belgium) generated a net result of 358 million euros in 1H2019, compared with 379 million euros in 1H2018. This was due mainly to a combination of decreasing total income (lower net interest income, net fee and commission income and net other income, partly offset by higher trading and fair value income) and increased loan loss impairment, while costs remained more or less stable. It should also be noted that there was a shift from the minority share in the net result towards the group part in the net result as a consequence of KBC Bank acquiring the remaining stake in KBC Asset Management (from KBC Group).
- The Czech Republic Business Unit (encompassing all activities in the Czech Republic) generated a net result of 401 million euros in 1H2019, compared with 297 million euros in 1H2018.The year-on-year increase was mainly due to a one-off revaluation gain of 82 million euros on the already existing 55% participation in ČMSS following the acquisition of the remaining 45% stake. The net result also benefited from higher total income (thanks mainly to increased net interest income more than offsetting the drop in trading and fair value income) and lower non-loan impairment charges (the reference period had been impacted by impairment charges related to the review of residual values of financial car leases under short-term contracts), while operating expenses were somewhat higher.
- The International Markets Business Unit (covering activities in Ireland, Hungary, Slovakia and Bulgaria) generated a net result of 148 million euros in 1H2019, as opposed to 280 million euros in 1H2018. Broken down by country, the net result was 22 million euros for Ireland, 23 million euros for Slovakia, 31 million euros for Bulgaria and 71 million euros for Hungary. For the business unit as a whole, the year-on-year drop in the net result was accounted for mainly by Ireland (down from 113 million euros in 1H2018 to 22 million euros in 1H2019, due in part, to a significantly lower amount of loan loss impairment releases).
- The Group Centre's net result amounted to 12 million euros in 1H2019, as opposed to -9 million euros in 1H2018. The Group Centre includes certain capital and liquidity management-related costs, costs related to the holding of participations and the results of the companies or activities that are earmarked for divestment or are in run-down. The 1H2019 result included a positive one-off item on the tax line (36 million euros).

	Belgium		Czech Republic		International Markets	
Selected ratios per business unit	1H2019	FY2018	1H2019	FY2018	1H2019	FY2018
Cost/income ratio, banking when spreading the bank tax evenly throughout the year and excluding certain non-operating items	58%	58%	46%	46%	68%	65%
Credit cost ratio[1]	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%

1 Negative figure indicates a net impairment release (with positive impact on results).

Equity, solvency and liquidity

- At the end of June 2019, total equity came to 15.4 billion euros and consisted of 13.9 billion euros in parent shareholders' equity (or 'the group share'), 1.5 billion euros in additional tier-1 instruments and virtually zero in minority interests (following the acquisition of the remaining stake in KBC Asset Management by KBC Bank). Total equity was down 1.3 billion euros on its level at the beginning of the year. This decrease resulted from a number of factors, such as the inclusion of the profit for that period (+0.9 billion euros), the call of an additional tier-1 instrument and issuance of a new additional tier-1 instrument in the period (-1.4 billion euros and +0.5 billion euros, respectively), changes in the various revaluation reserves (an aggregate -0.1 billion euros), the impact of the increased participation in KBC Asset Management (surplus price paid above the asset value + removal of the minority interest: -2.3 billion euros) and the related capital increase carried out by KBC Group NV (+2.0 billion euros), dividends paid to KBC Group for financial year 2018 (-0.9 billion euros) and a number of smaller changes.
- Our common equity ratio amounted to 14.1% at 30 June 2019 (this is calculated without recognition of net profit for the first half of 2019). Please note that the acquisition of the remaining 45% stake in ČMSS lowered our common equity ratio by approximately 0.3 percentage points. The leverage ratio (Basel III, fully loaded) stood at 5.1%.
- KBC Bank's liquidity position remains excellent, as reflected in an LCR ratio of 140% and an NSFR ratio of 133% at the end of June 2019, compared to 139% and 136%, respectively, at 31 December 2018.

Risk statement, economic views and guidance

Risk statement

As we are mainly active in banking 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, 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, interim reports and dedicated risk reports of KBC Bank and KBC Group, 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 25 basis points rate cut end July, 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. 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.

Our 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 end 2018).

Consolidated financial statements

according to IFRS, KBC Bank – 1H2019

Reviewed by the statutory auditor

Glossary and abbreviations used in the financial statements

AC: Amortised cost
AFS: Available For Sale (IAS 39)
ALM: Asset Liability Management
ECL: Expected Credit Loss
FA: Financial Assets
FV: Fair Value
FVA: Funding Value Adjustment
FVOCI: Fair Value through Other Comprehensive Income
FVPL: Fair Value through Profit or Loss
GCA: Gross Carrying Amount
HFT: Held For Trading
HTM: Held To Maturity (IAS 39)
MFVPL: Mandatorily at Fair Value through Profit or Loss
OCI: Other Comprehensive Income
POCI: Purchased or Originated Credit Impaired Assets
SPPI: Solely payments of principal and interest
SRB: Single Resolution Board
R/E: Retained Earnings

Consolidated income statement

(in millions of EUR)	Note	1H 2019	1H 2018
Net interest income	3.1	2 026	1 989
Interest income	*3.1*	*3 392*	*3 138*
Interest expense	*3.1*	*- 1 366*	*- 1 149*
Dividend income		19	18
Net result from financial instruments at fair value through profit or loss	3.3	33	86
Net realised result from debt instruments at fair value through OCI		1	8
Net fee and commission income	3.5	1 026	1 050
Fee and commission income	*3.5*	*1 265*	*1 299*
Fee and commission expense	*3.5*	*- 240*	*- 249*
Net other income	3.6	150	83
TOTAL INCOME		3 255	3 233
Operating expenses	3.8	- 2 036	- 2 001
Staff expenses	*3.8*	*- 858*	*- 868*
General administrative expenses	*3.8*	*- 1 071*	*- 1 050*
Depreciation and amortisation of fixed assets	*3.8*	*- 107*	*- 83*
Impairment	3.10	- 107	57
on financial assets at AC and at FVOCI	*3.10*	*- 102*	*82*
on goodwill	*3.10*	*0*	*0*
other	*3.10*	*- 4*	*- 25*
Share in results of associated companies and joint ventures		6	8
RESULT BEFORE TAX		1 118	1 297
Income tax expense	3.12	- 166	- 262
RESULT AFTER TAX		953	1 035
attributable to minority interests		34	88
attributable to equity holders of the parent		**919**	**947**
of which relating to discontinued operations		*0*	*0*

- Impact of acquiring the remaining 45% stake in Czech building savings bank Českomoravská stavební spořitelna (ČMSS): as of June 2019 the result of ČMSS is fully consolidated, while previously according to the equity method. For more information see note ‘Main changes in the scope of consolidation‘ (note 6.6) further in this report.
- Since the 48,14% minority part in KBC Asset Management (KBC AM), which used to be held by KBC Group (KBC Bank’s parent company), has been transferred to KBC Bank as of April 2019, KBC Bank now holds 100% of KBC AM. This has no impact on most components of the P/L, since KBC Bank already held a controlling interest in KBC AM and the latter has consequently been fully consolidated. The only impact is on the P/L lines ‘profit attributable to the equity holders of the parent’ and ‘profit attributable to minorities’, where no minorities are calculated anymore as of 2Q2019.

Condensed consolidated statement of comprehensive income

(in millions of EUR)	1H 2019	1H 2018
RESULT AFTER TAX	953	1 035
attributable to minority interests	34	88
attributable to equity holders of the parent	919	947
OCI TO BE RECYCLED TO PROFIT OR LOSS	- 50	- 80
Net change in revaluation reserve (FVOCI debt instruments)	50	- 55
Net change in hedging reserve (cashflow hedges)	- 100	17
Net change in translation differences	- 9	- 131
Hedge of net investments in foreign operations	9	94
Net change in respect of associated companies and joint ventures	0	- 6
Other movements	0	0
OCI NOT TO BE RECYCLED TO PROFIT OR LOSS	- 29	4
Net change in revaluation reserve (FVOCI equity instruments)	12	5
Net change in defined benefit plans	- 39	- 3
Net change in own credit risk	- 2	3
Net change in respect of associated companies and joint ventures	0	0
TOTAL COMPREHENSIVE INCOME	873	959
attributable to minority interests	32	88
attributable to equity holders of the parent	841	871

The largest movements in other comprehensive income (1H 2019 vs 1H 2018) are:

- The revaluation reserve (FV OCI debt instruments) increased in 1H 2019 by 50 million euros, positively impacted by lower interest rates. This also largely explains the negative net change in the hedging reserve (cash flow hedge) of -100 million euros. In 1H 2018, the revaluation reserve (FV OCI debt instruments) lowered by 55 million euros, negatively impacted by an increase of the credit spread on Italian government bonds and the unwinding effect (the latter also partly explains the positive net change in the hedging reserve (cash flow hedge)).
- Net change in translation differences in 1H 2018 (-131 million euros) is mainly caused by the depreciation of the CZK and HUF. This was largely compensated by the hedge of net investment in foreign operations (+94 million euros). The net impact between these two items can mainly be explained by the asymmetrical deferred tax treatment (no tax on net change in translation differences, while deferred tax is calculated on the hedge).
- Net change in defined benefit plans: decreased with 39 million euros in 1H 2019 following decreasing interest rates.

Consolidated balance sheet

(in millions of EUR)	Note	30-06-2019	31-12-2018
ASSETS			
Cash, cash balances with central banks and other demand deposits with credit institutions		8 070	18 804
Financial assets	4.0	237 623	223 552
Amortised cost	*4.0*	*223 898*	*210 870*
Fair value through OCI	*4.0*	*5 874*	*5 908*
Fair value through profit or loss	*4.0*	*7 669*	*6 591*
of which held for trading	*4.0*	*7 509*	*6 467*
Hedging derivatives	*4.0*	*182*	*183*
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk		635	64
Tax assets		1 532	1 474
Current tax assets		*106*	*52*
Deferred tax assets		*1 426*	*1 422*
Non-current assets held for sale and disposal groups		10	14
Investments in associated companies and joint ventures		25	185
Property, equipment and investment property		3 334	2 904
Goodwill and other intangible assets		1 261	1 050
Other assets		847	892
TOTAL ASSETS		253 337	248 940
LIABILITIES AND EQUITY			
Financial liabilities	4.0	235 550	230 239
Amortised cost	*4.0*	*225 363*	*221 224*
Fair value through profit or loss	*4.0*	*8 989*	*7 903*
of which held for trading	*4.0*	*6 592*	*5 842*
Hedging derivatives	*4.0*	*1 197*	*1 111*
Technical provisions, before reinsurance		0	0
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk		- 30	- 79
Tax liabilities		74	95
Current tax liabilities		*23*	*50*
Deferred tax liabilies		*51*	*45*
Liabilities associated with disposal groups		0	0
Provisions for risks and charges		199	211
Other liabilities		2 103	1 766
TOTAL LIABILITIES		237 897	232 231
Total equity	5.10	15 440	16 709
Parent shareholders' equity	5.10	13 939	14 150
Additional tier-1 instruments included in equity	5.10	1 500	2 400
Minority interests		1	159
TOTAL LIABILITIES AND EQUITY		253 337	248 940

- The balance sheet at 30 June 2019 contains figures of the Czech building savings bank Českomoravská stavební spořitelna (ČMSS), of which the remaining 45% was acquired in May 2019 resulting in full consolidation (before: equity method). For more information on this matter, see Note 6.6 in this report.
- On 24 June 2019, KBC Bank Ireland closed the transaction announced on April 12 to sell its legacy performing corporate loan portfolio of roughly 260 million euros to Bank of Ireland. For more information see note 'Financial assets and liabilities: breakdown by portfolio and product' (Note 4.1) further in this report.
- In the course of 2Q 2019, the accounting treatment of recourse factoring was reassessed in accordance with IFRS. For more information see note 'Financial assets and liabilities: breakdown by portfolio and product' (Note 4.1) further in this report.
- Since the 48,14% minority part in KBC Asset Management (KBC AM), which used to be held by KBC Group (KBC Bank's parent company), has been transferred to KBC Bank as of April 2019, KBC Bank now holds 100% of KBC AM. This was done in the form of a share sale, after which KBC Group has done a capital increase at KBC Bank. This has no impact on most components of the balance sheet, since KBC Bank already held a controlling interest in KBC AM and the latter has consequently been fully consolidated. The only impact on the balance sheet is that there are no more minority interests on KBC AM in total equity, and that goodwill paid is deducted directly from retained earnings which is largely compensated by the capital increase.

Consolidated statement of changes in equity

(in millions of EUR)	Issued and paid up share capital	Share premium	Treasury shares	Retained earnings	*Revaluation reserve (AFS assets)*	*Revaluation reserve (FVOCI debt instruments)*	*Revaluation reserve (FVOCI equity instruments)*	*Hedging reserve (cashflow hedges)*	*Translation differences*	*Hedge of net investments in foreign operations*	*Remeasurement of defined benefit plans*	*Own credit risk through OCI*	Total revaluation reserves	Parent shareholders' equity	Additional tier-1 instruments included in equity	Minority interests	Total equity
30-06-2019																	
Balance at the end of the previous period	**8 948**	**895**	**0**	**5 473**	-	170	12	- 1 263	- 69	85	- 99	- 3	**- 1 167**	**14 150**	2 400	159	**16 709**
Net result for the period	**0**	**0**	**0**	**919**	-	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**919**	0	34	**953**
Other comprehensive income for the period	**0**	**0**	**0**	**0**	-	*51*	*12*	*- 100*	*- 9*	*10*	*- 39*	*- 2*	**- 78**	**- 78**	0	- 1	**- 80**
Subtotal	**0**	**0**	**0**	**919**	-	*51*	*12*	*- 100*	*- 9*	*10*	*- 39*	*- 2*	**- 78**	**841**	0	32	**873**
Dividends	**0**	**0**	**0**	**- 906**	-	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 906**	0	0	**- 906**
Coupon on additional tier-1 instruments	**0**	**0**	**0**	**- 30**	-	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 30**	0	0	**- 30**
Capital increase	**784**	**1 171**	**0**	**0**	-	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**1 955**	0	0	**1 955**
Issue or Call of additional Tier-1 instruments included in equity	**0**	**0**	**0**	**- 2**	-	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 2**	- 900	0	**- 902**
Impact business combinations	**0**	**0**	**0**	**- 2 068**	-	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 2 068**	0	- 190	**- 2 258**
Total change	**784**	**1 171**	**0**	**- 2 088**	-	*51*	*12*	*- 100*	*- 9*	*10*	*- 39*	*- 2*	**- 78**	**- 211**	- 900	- 157	**- 1 269**
Balance at the end of the period	**9 732**	**2 066**	**0**	**3 385**	-	*220*	*24*	*- 1 363*	*- 78*	*94*	*- 138*	*- 6*	***- 1 245***	***13 939***	*1 500*	*1*	***15 440***
of which relating to application of the equity method					-	*0*	*0*	*0*	*0*	*0*	*0*	*0*	***0***	***0***			***0***
2018																	
Balance at the end of the previous period	**8 948**	**895**	**0**	**4 974**	*651*	*0*	*0*	*- 1 339*	*- 10*	*47*	*- 73*	*- 10*	**- 735**	**14 083**	1 400	173	**15 656**
Impact of the first-time adoption of IFRS 9	**0**	**0**	**0**	**- 222**	*- 651*	*254*	*19*	*0*		*0*		*0*	**- 378**	**- 600**	0	0	**- 600**
Balance at the beginning of the period after impact IFRS 9	**8 948**	**895**	**0**	**4 752**	0	254	19	- 1 339	- 10	47	- 73	- 10	**- 1 113**	**13 483**	1 400	173	**15 057**
Net result for the period	**0**	**0**	**0**	**2 010**	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**2 010**	0	171	**2 181**
Other comprehensive income for the period	**0**	**0**	**0**	**0**	*0*	*- 84*	*- 6*	*76*	*- 58*	*38*	*- 26*	*7*	**- 55**	**- 54**	0	0	**- 55**
Subtotal	**0**	**0**	**0**	**2 010**	0	- 84	- 6	76	- 58	38	- 26	7	**- 55**	**1 955**	0	171	**2 126**
Dividends	**0**	**0**	**0**	**- 1 199**	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 1 199**	0	0	**- 1 199**
Coupon on additional tier-1 instruments	**0**	**0**	**0**	**- 73**	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 73**	0	0	**- 73**
Transfer from revaluation reserves to retained earnings on realisation	**0**	**0**	**0**	**- 12**	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 12**	0	0	**- 12**
Issue of additional Tier-1 instruments included in equity	**0**	**0**	**0**	**- 5**	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 5**	1 000	0	**995**
Change in minorities interests	**0**	**0**	**0**	**0**	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**0**	0	- 186	**- 186**
Total change	**0**	**0**	**0**	**721**	0	- 84	- 6	76	- 58	38	- 26	7	**- 55**	**666**	1 000	- 15	**1 652**
Balance at the end of the period	**8 948**	**895**	**0**	**5 473**	0	170	12	- 1 263	- 69	85	- 99	- 3	**- 1 167**	**14 150**	2 400	159	**16 709**
of which relating to application of the equity method					*0*	*0*	*0*	*0*	*14*	*0*	*0*	*0*	***13***	***13***			***13***

(in millions of EUR)	Issued and paid up share capital	Share premium	Treasury shares	Retained earnings	*Revaluation reserve (AFS assets)*	*Revaluation reserve (FVOCI debt instruments)*	*Revaluation reserve (FVOCI equity instruments)*	*Hedging reserve (cashflow hedges)*	*Translation differences*	*Hedge of net investments in foreign operations*	*Remeasurement of defined benefit plans*	*Own credit risk through OCI*	Total revaluation reserves	Parent shareholders' equity	Additional tier-1 instruments included in equity	Minority interests	Total equity
30-06-2018																	
Balance at the end of the previous period	**8 948**	**895**	**0**	**4 974**	*651*	*0*	*0*	*- 1 339*	*- 10*	*47*	*- 73*	*- 10*	**- 735**	**14 083**	1 400	173	**15 656**
Impact of the first-time adoption of IFRS 9	**0**	**0**	**0**	**- 222**	*- 651*	*254*	*19*	*0*		*0*		*0*	**- 378**	**- 600**	0	0	**- 600**
Balance at the beginning of the period after impact IFRS 9	**8 948**	**895**	**0**	**4 752**	0	254	19	- 1 339	- 10	47	- 73	- 10	**- 1 113**	**13 483**	1 400	173	**15 057**
Net result for the period	**0**	**0**	**0**	**947**	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**947**	0	88	**1 035**
Other comprehensive income for the period	**0**	**0**	**0**	**0**	*0*	*- 57*	*5*	*17*	*- 134*	*94*	*- 3*	*3*	**- 76**	**- 76**	0	0	**- 76**
Subtotal	**0**	**0**	**0**	**947**	*0*	*- 57*	*5*	*17*	*- 134*	*94*	*- 3*	*3*	**- 76**	**871**	0	88	**959**
Dividends	**0**	**0**	**0**	**- 1 199**	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 1 199**	0	0	**- 1 199**
Coupon on additional tier-1 instruments	**0**	**0**	**0**	**- 29**	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 29**	0	0	**- 29**
Transfer from revaluation reserves to retained earnings on realisation	**0**	**0**	**0**	**- 7**	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 7**	0	0	**- 7**
Issue of additional Tier-1 instruments included in equity	**0**	**0**	**0**	**- 5**	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 5**	1 000	0	**995**
Change in minorities interests	**0**	**0**	**0**	**0**	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**0**	0	- 53	**- 53**
Total change	**0**	**0**	**0**	**- 292**	*0*	*- 57*	*5*	*17*	*- 134*	*94*	*- 3*	*3*	**- 76**	**- 368**	1 000	35	**667**
Balance at the end of the period	**8 948**	**895**	**0**	**4 460**	0	197	24	- 1 321	- 145	141	- 77	- 8	**- 1 188**	**13 115**	2 400	208	**15 724**
of which relating to application of the equity method					*0*	*- 1*	*0*	*0*	*12*	*0*	*0*	*0*	***11***	***11***			***11***

- ‘Dividends’ in 1H 2019: includes a closing dividend of 906 million euros for 2018, deducted from retained earnings.
- ‘Issue or Call of additional Tier-1 instruments (AT1) included in equity’ in 1H 2019: on 26 February 2019 KBC Group NV placed 500 million euros AT1 securities and underwrote an AT1 security for the same amount at KBC Bank. On 19 March 2019, KBC called the AT1 instrument it issued in 2014, which had a nominal value of 1.4 billion euros and at the same time called the subordinated intercompany loan of the same amount that KBC Group NV granted to KBC Bank NV. For more information see note 5.10 further in this report.
- Since the 48,14% minority part in KBC Asset Management (KBC AM), which used to be held by KBC Group (KBC Bank’s parent company), has been transferred to KBC Bank as of April 2019, KBC Bank now holds 100% of KBC AM. This was done in the form of a share sale, after which KBC Group has done a capital increase at KBC Bank (2.0 billion euros). Goodwill paid is deducted directly from retained earnings (-2.1 billion euros).

Condensed consolidated cash flow statement

(in millions of EUR)	1H 2019	1H 2018
Cash and cash equivalents at the beginning of the period	34 467	40 447
Net cash from (used in) operating activities	- 4 422	3 314
Net cash from (used in) investing activities	- 1 779	2 094
Net cash from (used in) financing activities	1 397	367
Effects of exchange rate changes on opening cash and cash equivalents	222	- 400
Cash and cash equivalents at the end of the period	29 884	45 823

- The negative net cash from (used in) operating activities in 1H 2019 mainly includes higher term loans and mortgage loans, partly compensated by the realized result. The positive net cash from (used in) operating activities in 1H 2018 is mainly thanks to the realized result and lower outstanding debt securities at fair value through OCI (versus year-end 2017).
- The net cash flows from (used in) investing activities of 1H 2019 includes -2 205 million euros from the acquisition of the remaining shares of KBC Asset Management from KBC Group, partly offset by +439 million euros related to the acquisition of the remaining 45% stake in the Czech building society Českomoravská stavební spořitelna (ČMSS) (the acquisition price more than compensated by available cash and cash equivalents on the balance sheet of ČMSS). The net cash flows from (used in) investing activities in 1H 2018 includes investments in debt that reached maturity.
- The net cash flow from (used in) financing activities in 1H 2019 includes (for more information see Note 5.10 further in this report):
  - The call by KBC Group NV of Additional Tier-1 instruments that had been issued in 2014, with a nominal value of 1.4 billion euros
  - The issue of Additional Tier-1 instruments included in equity for 500 million euros
  - A dividend payment of 906 million euros (to KBC Group)
  - The issue of senior subordinated instruments for 1 500 million euros
  - A capital increase at KBC Bank (by KBC Group) of 1 955 million euros
- The net cash flow from (used in) financing activities in 1H 2018 includes:
  - The call by KBC Bank of the 1-billion-US-dollar contingent capital note (CoCo) that had been issued in January 2013 and 1 199 million euros dividend payment
  - The issue of covered bonds for 750 million euros
  - The issue of a green bond for 500 million euros
  - The issue of Additional Tier-1 instruments included in Parent shareholders equity for 1 billion euros (for more information see Note 5.10 further in this report)

Notes on statement of compliance and changes in accounting policies

Statement of compliance (note 1.1 in the annual accounts 2018)

The condensed interim financial statements of the KBC Bank for the period ended 30 June 2019 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ('endorsed IFRS').

The following IFRS standards became effective on 1 January 2019 and have been applied in this report:

- IFRS 16: In January 2016, the IASB issued IFRS 16 (Leases), which became effective on 1 January 2019. The new standard does not significantly change the accounting treatment of leases for lessors and, therefore, its impact is limited for KBC (given that it is mainly a lessor and not a lessee). The impact of the first-time application of IFRS 16 on the common equity ratio was limited to -6 basis points.

The IASB published several limited amendments to existing IFRSs and IFRICs which are not yet effective in 2019. They will be applied when they become mandatory, but their impact is currently estimated to be negligible.

Summary of significant accounting policies (note 1.2 in the annual accounts 2018)

A summary of the main accounting policies is provided in the annual accounts of KBC Bank consolidated as at 31 December 2018.

- IFRS 16: All leases need to be classified as either finance lease or operating lease. The classification under IFRS 16 is based on the extent to which risk and rewards incidental to ownership of leased assets lie with the lessor or the lessee. A finance lease transfers substantially all the risks and rewards incidental to ownership of an asset. This classification is crucial for lessor positions; for lessee positions, this classification is of lesser importance since both classifications result in a similar recognition and measurement of the lease in the balance sheet and profit or loss.

Notes on segment reporting

Segment reporting according to the management structure of the group (Note 2.2 in the annual accounts for 2018)

For a description on the management structure and linked reporting presentation, please refer to Note 2.1 in the annual accounts for 2018.

(in millions of EUR)	Belgium Business unit	Czech Republic Business unit	International Markets Business unit	Of which: Hungary	Slovakia	Bulgaria	Ireland	Group Centre	KBC Bank
1H 2019									
Net interest income	1 038	595	418	*122*	*99*	*67*	*130*	- 26	**2 026**
Dividend income	19	0	0	*0*	*0*	*0*	*0*	0	**19**
Net result from financial instruments at fair value through profit or loss	41	- 38	20	*18*	*- 2*	*8*	*- 4*	10	**33**
Net realised result from debt instruments at fair value through OCI	0	0	1	*0*	*1*	*0*	*0*	0	**1**
Net fee and commission income	685	162	177	*113*	*37*	*29*	*- 2*	2	**1 026**
Net other income	54	95	1	*2*	*3*	*0*	*- 4*	0	**150**
TOTAL INCOME	1 837	814	617	*254*	*139*	*104*	*121*	- 14	**3 255**
Operating expenses	- 1 206	- 353	- 443	*- 173*	*- 97*	*- 65*	*- 107*	- 36	**- 2 036**
Impairment	- 114	- 5	1	*3*	*- 11*	*- 3*	*12*	10	**- 107**
on financial assets at amortised cost and at fair value through OCI	- 112	- 2	2	*3*	*- 11*	*- 3*	*12*	10	**- 102**
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	**0**
other	- 2	- 2	0	*0*	*0*	*0*	*0*	0	**- 4**
Share in results of associated companies and joint ventures	- 2	9	0	*0*	*0*	*0*	*0*	0	**6**
RESULT BEFORE TAX	515	466	176	*85*	*30*	*35*	*26*	- 39	**1 118**
Income tax expense	- 124	- 64	- 28	*- 14*	*- 7*	*- 4*	*- 3*	51	**- 166**
RESULT AFTER TAX	391	401	148	*71*	*23*	*32*	*22*	12	**953**
attributable to minority interests	34	0	0	*0*	*0*	*0*	*0*	0	**34**
attributable to equity holders of the parent	358	401	148	*71*	*23*	*31*	*22*	12	**919**
1H 2018									
Net interest income	1 062	475	440	*117*	*101*	*73*	*148*	12	**1 989**
Dividend income	16	0	0	*0*	*0*	*0*	*0*	2	**18**
Net result from financial instruments at fair value through profit or loss	25	48	42	*34*	*3*	*6*	*0*	- 30	**86**
Net realised result from debt instruments at fair value through OCI	0	0	0	*0*	*0*	*0*	*0*	8	**8**
Net fee and commission income	719	166	167	*106*	*33*	*30*	*- 1*	- 3	**1 050**
Net other income	60	7	16	*14*	*4*	*- 1*	*0*	0	**83**
TOTAL INCOME	1 881	696	666	*270*	*141*	*107*	*148*	- 10	**3 233**
Operating expenses	- 1 201	- 332	- 434	*- 173*	*- 93*	*- 68*	*- 100*	- 34	**- 2 001**
Impairment	- 41	- 16	94	*7*	*0*	*6*	*81*	20	**57**
on financial assets at amortised cost and at fair value through OCI	- 41	3	100	*7*	*0*	*12*	*81*	20	**82**
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	**0**
other	0	- 19	- 6	*0*	*0*	*- 5*	*- 1*	0	**- 25**
Share in results of associated companies and joint ventures	- 5	12	1	*0*	*0*	*1*	*0*	0	**8**
RESULT BEFORE TAX	634	360	327	*104*	*48*	*46*	*129*	- 24	**1 297**
Income tax expense	- 167	- 63	- 46	*- 15*	*- 11*	*- 5*	*- 16*	15	**- 262**
RESULT AFTER TAX	467	297	280	*89*	*37*	*41*	*113*	- 9	**1 035**
attributable to minority interests	88	0	0	*0*	*0*	*0*	*0*	0	**88**
attributable to equity holders of the parent	379	297	280	*89*	*37*	*41*	*113*	- 9	**947**

Other notes

Net interest income (Note 3.1 in the annual accounts for 2018)

(in millions of EUR)	1H 2019	1H 2018
Total	2 026	1 989
Interest income	3 392	3 138
Interest income on financial instruments calculated using the effective interest rate method		
Financial assets at AC	2 636	2 466
Financial assets at FVOCI	46	57
Hedging derivatives	246	170
Other assets not at fair value	32	28
Interest income on other financial instruments		
Financial assets MFVPL other than held for trading	3	4
Financial assets held for trading	428	411
Of which economic hedges	*415*	*398*
Other financial assets at FVPL	0	0
Interest expense	-1 366	-1 149
Interest expense on financial instruments calculated using the effective interest rate method		
Financial liabilities at AC	- 688	- 535
Hedging derivatives	- 325	- 261
Other	- 50	- 58
Interest expense on other financial instruments		
Financial liabilities held for trading	- 280	- 280
Of which economic hedges	*- 263*	*- 265*
Other financial liabilities at FVPL	- 20	- 13
Net interest expense relating to defined benefit plans	- 3	- 2

Net realised result from financial instruments at fair value through profit and loss (Note 3.3 in the annual accounts for 2018)

- The result from financial instruments at fair value through profit or loss in 1H 2019 is 52 million euros lower compared to 1H 2018, for a large part explained by lower dealing room income (lower in Czech Republic partly compensated by higher dealing room income in Belgium), only partly compensated by less negative market value adjustments in 1H 2019.

Net fee and commission income (Note 3.5 in the annual accounts for 2018)

(in millions of EUR)	1H 2019	1H 2018
Total	1 026	1 050
Fee and commission income	1 265	1 299
Fee and commission expense	- 240	- 249
Breakdown by type		
Asset Management Services	519	566
Fee and commission income	544	590
Fee and commission expense	- 25	- 25
Banking Services	454	440
Fee and commission income	615	607
Fee and commission expense	- 161	- 167
Distribution	53	45
Fee and commission income	106	102
Fee and commission expense	- 53	- 57

Net other income (Note 3.6 in the annual accounts for 2018)

(in millions of EUR)	1H 2019	1H 2018
Total	150	83
of which gains or losses on		
Sale of financial assets measured at amortised cost	3	11
Repurchase of financial liabilities measured at amortised cost	0	0
Other, including:	147	72
Income from (mainly operational) leasing activities, KBC Lease Group	30	28
One-off effect revaluation of 55% share in CMSS	82	0
Settlement of legacy legal cases	6	18

- One-off effect revaluation of 55% share in CMSS: the 82 million euros one-off gain in Czech Republic as a result of the revaluation of KBC's 55% stake in ČMSS related to the acquisition in 2Q 2019 of the remaining 45% stake (for more info see Note 6.6 further in this report).
- Settlement of legacy legal cases: concerns Czech Republic (6 million euros in 1Q 2019) and Belgium (18 million euros in 1Q 2018)

Operating expenses (Note 3.8 in the annual accounts for 2018)

- The operating expenses for 1H 2019 include 397 million euros related to bank levies. Application of IFRIC 21 (Levies) has as a consequence that certain levies are taken upfront in expense of the first interim period of the year.

Impairments – income statement (Note 3.10 in the annual accounts for 2018)

(in millions of EUR)	1H 2019	1H 2018
Total	**- 107**	**57**
Impairment on financial assets at AC and at FVOCI	**- 102**	**82**
Of which impairment on financial assets at AC	**- 103**	**82**
By product		
Loans and advances	- 95	68
Debt securities	- 1	0
Off-balance-sheet commitments and financial guarantees	- 7	13
By type		
Stage 1 (12-month ECL)	- 17	- 11
Stage 2 (lifetime ECL)	- 4	49
Stage 3 (non-performing; lifetime ECL)	- 88	43
Purchased or originated credit impaired assets	6	0
Of which impairment on financial assets at FVOCI	**0**	**0**
Debt securities	0	0
Stage 1 (12-month ECL)	0	0
Stage 2 (lifetime ECL)	0	0
Stage 3 (non-performing; lifetime ECL)	0	0
Impairment on goodwill	**0**	**0**
Impairment on other	**- 4**	**- 25**
Intangible fixed assets (other than goodwill)	- 3	0
Property, plant and equipment (including investment property)	- 1	- 26
Associated companies and joint ventures	0	0
Other	0	1

- The increase of stage 3 in 1H 2019 was attributable mainly to loan loss impairments in Belgium due to a number of corporate files.

Income tax expense (Note 3.12 in the annual accounts for 2018)

- The income tax line in 1H 2019 includes a positive one-off gain of 36 million euros linked to the new hedging policy of FX participations. This new policy aims to stabilize the capital ratio of KBC Group consolidated whereby the hedging amount needs to synchronize the sensitivity of available capital (numerator of CET1 ratio) and risk weighted assets (denominator of CET1 ratio) to FX shocks in relative terms. In the old policy, the aim was to stabilize the absolute level of parent shareholders' equity. As a result of this new hedging policy, a substantial part of the existing hedges have been terminated. While the FX result on the termination of these hedges remains in OCI, the income tax impact is included in the income statement.

Financial assets and liabilities: breakdown by portfolio and products (Note 4.1 in the annual accounts for 2018)

- On June 24, KBC Bank Ireland closed the transaction announced on April 12 to sell its legacy performing corporate loan portfolio of roughly 260 million euros to Bank of Ireland.
- We have dealt with the impact of the acquisition of remaining shares of ČMSS in the pro forma 'Total excl. ČMSS' column, which helps provide a clear view of changes in financial assets and liabilities (excluding the acquisition of this company). For more information, please refer to Note 6.6.
- In the course of 1H 2019, the accounting treatment of recourse factoring was reassessed in accordance with IFRS and a change has been made as of 30 June 2019 implying a reduction of 834 million euros in trade receivables and time deposits and a reclassification of funded recourse contracts from trade receivables to term loans amounting to 1 683 million euros.

(in millions of EUR)	Measured at amortised cost (AC)	Measured at fair value through OCI (FVOCI)	Mandatorily measured at FVPL (other than held for trading) (MFVPL excl. HFT)	Held for trading (HFT)	Designated at fair value (FVO)	Hedging derivatives	Total	*Total excl. CMSS*
FINANCIAL ASSETS, 30-06-2019								
Loans and advances to credit institutions and investment firms (excl. reverse repos)	5 317	0	0	0	0	0	5 317	*5 317*
Loans and advances to customers (excl. reverse repos)	151 862	0	85	0	0	0	151 946	*147 376*
Trade receivables	1 990	0	0	0	0	0	1 990	*1 990*
Consumer credit	5 499	0	0	0	0	0	5 499	*4 519*
Mortgage loans	64 838	0	72	0	0	0	64 911	*61 343*
Term loans	67 492	0	12	0	0	0	67 504	*67 483*
Finance lease	5 823	0	0	0	0	0	5 823	*5 823*
Current account advances	5 384	0	0	0	0	0	5 384	*5 384*
Other	835	0	0	0	0	0	835	*833*
Reverse repos	28 772	0	0	164	0	0	28 936	*28 936*
with credit institutions and investment firms	27 428	0	0	164	0	0	27 592	*27 592*
with customers	1 344	0	0	0	0	0	1 344	*1 344*
Equity instruments	0	185	0	910	0	0	1 095	*1 095*
Debt securities issued by	37 151	5 689	76	1 097	0	0	44 014	*43 746*
Public bodies	32 458	4 896	0	985	0	0	38 338	*38 071*
Credit institutions and investment firms	3 050	764	0	25	0	0	3 839	*3 839*
Corporates	1 643	29	76	88	0	0	1 837	*1 837*
Derivatives	0	0	0	5 325	0	182	5 508	*5 508*
Other	796	0	0	12	0	0	808	*808*
Total	223 898	5 874	160	7 509	0	182	237 623	*232 785*
FINANCIAL ASSETS, 31-12-2018								
Loans and advances to credit institutions and investment firms (excl. reverse repos)	5 068	0	0	0	0	0	5 068	
Loans and advances to customers (excl. reverse repos)	144 712	0	85	0	13	0	144 810	
Trade receivables	4 196	0	0	0	0	0	4 196	
Consumer credit	4 520	0	0	0	0	0	4 520	
Mortgage loans	59 582	0	71	0	0	0	59 653	
Term loans	64 699	0	14	0	13	0	64 726	
Finance lease	5 618	0	0	0	0	0	5 618	
Current account advances	5 527	0	0	0	0	0	5 527	
Other	570	0	0	0	0	0	570	
Reverse repos	22 117	0	0	0	0	0	22 117	
with credit institutions and investment firms	20 976	0	0	0	0	0	20 977	
with customers	1 141	0	0	0	0	0	1 141	
Equity instruments	0	189	0	762	0	0	951	
Debt securities issued by	36 979	5 719	26	712	0	0	43 436	
Public bodies	32 091	4 883	0	556	0	0	37 530	
Credit institutions and investment firms	2 487	780	0	76	0	0	3 343	
Corporates	2 400	56	26	79	0	0	2 562	
Derivatives	0	0	0	4 988	0	183	5 170	
Other	1 994	0	0	6	0	0	2 000	
Total	210 870	5 908	111	6 467	13	183	223 552	

(in millions of EUR)	Measured at amortised cost (AC)	Held for trading (HFT)	Designated at fair value (FVO)	Hedging derivatives	Total	*Total excl. CMSS*
FINANCIAL LIABILITIES, 30-06-2019						
Deposits from credit institutions and investment firms (excl. repos)	22 153	0	0	-	22 154	*22 154*
Deposits from customers and debt securities (excl. repos)	197 234	305	2 397	-	199 937	*194 542*
Demand deposits	82 835	0	0	-	82 835	*82 835*
Time deposits	16 302	122	246	-	16 670	*16 669*
Savings accounts	67 934	0	0	-	67 934	*62 542*
Special deposits	2 497	0	0	-	2 497	*2 497*
Other deposits	604	0	0	-	604	*603*
Certificates of deposit	9 884	0	8	-	9 892	*9 892*
Savings certificates	1 303	0	0	-	1 303	*1 303*
Convertible bonds	0	0	0	-	0	*0*
Non-convertible bonds	8 457	183	1 949	-	10 589	*10 589*
Convertible subordinated liabilities	0	0	0	-	0	*0*
Non-convertible subordinated liabilities	7 419	0	194	-	7 613	*7 613*
Repos	3 605	18	0	-	3 623	*3 623*
with credit institutions and investment firms	2 593	0	0	-	2 594	*2 594*
with customers	1 011	18	0	-	1 030	*1 030*
Derivatives	-	5 185	0	1 197	6 382	*6 382*
Short positions	-	1 083	0	-	1 083	*1 083*
In equity instruments	-	20	0	-	20	*20*
In debt securities	-	1 064	0	-	1 064	*1 064*
Other	2 371	0	0	-	2 371	*2 332*
Total	225 363	6 592	2 397	1 197	235 550	*230 116*

FINANCIAL LIABILITIES, 31-12-2018					
Deposits from credit institutions and investment firms (excl. repos)	23 684	0	0	-	23 684
Deposits from customers and debt securities (excl. repos)	192 549	226	2 061	-	194 837
Demand deposits	80 377	0	0	-	80 377
Time deposits	16 995	49	296	-	17 340
Savings accounts	60 067	0	0	-	60 067
Special deposits	2 629	0	0	-	2 629
Other deposits	215	0	0	-	215
Certificates of deposit	15 575	0	8	-	15 583
Savings certificates	1 700	0	0	-	1 700
Convertible bonds	0	0	0	-	0
Non-convertible bonds	9 058	176	1 572	-	10 806
Convertible subordinated liabilities	0	0	0	-	0
Non-convertible subordinated liabilities	5 933	0	186	-	6 119
Repos	1 001	0	0	-	1 001
with credit institutions and investment firms	932	0	0	-	932
with customers	69	0	0	-	69
Derivatives	-	4 680	0	1 111	5 791
Short positions	-	935	0	-	935
In equity instruments	-	16	0	-	16
In debt securities	-	919	0	-	919
Other	3 990	0	0	-	3 990
Total	221 224	5 842	2 062	1 111	230 239

Impaired financial assets (Note 4.2.1 in the annual accounts for 2018)

(in millions of EUR)	Carrying value before impairment	Impairment	Carrying value after impairment	Carrying value before impairment	Impairment	Carrying value after impairment
			30-06-2019			31-12-2018
FINANCIAL ASSETS AT AMORTISED COST						
Loans and advances	188 985	- 3 035	185 951	175 419	- 3 522	171 897
Stage 1 (12-month ECL)	165 497	- 125	165 372	151 879	- 112	151 767
Stage 2 (lifetime ECL)	17 629	- 306	17 323	16 925	- 305	16 620
Stage 3 (lifetime ECL) (*)	5 725	- 2 571	3 153	6 461	- 3 062	3 398
Purchased or originated credit impaired assets (POCI)	135	- 32	102	154	- 42	112
Debt Securities	37 163	- 12	37 151	36 990	- 11	36 979
Stage 1 (12-month ECL)	37 095	- 4	37 091	36 825	- 5	36 821
Stage 2 (lifetime ECL)	61	- 2	59	157	- 1	156
Stage 3 (lifetime ECL)	7	- 6	2	7	- 6	2
Purchased or originated credit impaired assets (POCI)	0	0	0	0	0	0
FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI						
Debt Securities	5 690	- 1	5 689	5 720	- 1	5 719
Stage 1 (12-month ECL)	5 690	- 1	5 689	5 720	- 1	5 719
Stage 2 (lifetime ECL)	0	0	0	0	0	0
Stage 3 (lifetime ECL)	0	0	0	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0	0	0	0

(*) A large part of the drop of impaired financial assets is related to the accounting write-off of certain fully provisioned legacy loans (0.6 billion euros in 1H 2019) mainly in Ireland.

Financial assets and liabilities at fair value – fair value hierarchy (Note 4.5 in the annual accounts for 2018)

(in millions of EUR)				30-06-2019				31-12-2018
Fair value hierarchy	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS AT FAIR VALUE								
Mandatorily measured at fair value through profit or loss (other than held for trading)	67	3	90	160	18	3	89	111
Held for trading	1 525	4 808	1 176	7 509	1 015	4 456	996	6 467
Designated upon initial recognition at fair value through profit or loss (FVO)	0	0	0	0	0	13	0	13
At fair value through OCI	5 502	91	281	5 874	5 379	245	285	5 908
Hedging derivatives	0	182	0	182	0	183	0	183
Total	7 093	5 084	1 547	13 725	6 412	4 900	1 370	12 682
FINANCIAL LIABILITIES AT FAIR VALUE								
Held for trading	1 053	3 621	1 917	6 592	831	3 465	1 545	5 842
Designated at fair value	0	791	1 606	2 397	0	839	1 223	2 062
Hedging derivatives	0	1 197	0	1 197	0	1 111	0	1 111
Total	1 053	5 609	3 524	10 187	831	5 414	2 768	9 014

- For more details on how KBC defines and determines fair value and the fair value hierarchy and level 3 valuations, please refer to Notes 4.4 up to and including 4.7 of the annual accounts 2018.

Financial assets and liabilities measured at fair value – transfers between level 1 and 2 (Note 4.6 in the annual accounts for 2018)

- During the first half of 2019, KBC Bank transferred 20 million euros' worth of financial assets and liabilities out of level 1 and into level 2. It also reclassified approximately 151 million euros' worth of financial assets and liabilities from level 2 to level 1. Most of these reclassifications were carried out due to an optimization in the level classification methodology

- During the first half of 2018, a total amount of 30 million euros in financial instruments at fair value was transferred from level 1 to level 2. KBC also transferred 330 million euros in financial instruments from level 2 to level 1. The majority of the transfers is due to changed liquidity of government and corporate bonds.

Financial assets and liabilities measured at fair value – focus on level 3 (Note 4.7 in the annual accounts for 2018)

- During the first half of 2019 significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
    - Financial assets held for trading: the fair value of derivatives increased by 254 million euros, due primarily to changes in fair value and new transactions, partly offset by instruments that had reached maturity. The fair value of debt securities decreased by 73 million euros, mainly as a consequence of sales of existing positions.
    - Financial liabilities held for trading: the fair value of derivatives increased by 365 million euros, due primarily to changes in fair value and new positions, partly offset by instruments that had reached maturity.
    - Financial liabilities designated at fair value: the fair value of debt securities issues increased by 383 million euros, mainly due to new issues, followed by changes in fair value.

- In 1 H 2018 the following material movements are observed with respect to instruments classified in level 3 of the fair value level hierarchy:
    - In the assets held for trading category, the fair value of derivatives decreased by 417 million euros, which is mainly due to maturing deals and fair value movements, slightly compensated by new positions.
    - In the fair value OCI category the fair value increased by 14 million euros, which is mainly due to an increase in unquoted equity instruments. This increase was mainly due to transfers into level 3 and positive fair value changes. The fair value of debt securities in FVOCI remained stable.
    - In the liabilities held for trading category, the fair value decreased by 236 million euro, which is a combination of a decrease in derivatives and an increase in debt securities issued. The fair value of derivatives decreased by 421 million euro, which is mainly due to maturing deals and fair value movements, compensated by new positions. The fair value of debt securities issued increased by 186 million euro due to transfers into level 3.
    - In the liabilities designated at fair value category, the fair value debt securities issued increased by 107 million euros, mainly due to new issues and transfers into level 3 for a large part compensated by maturing deals.

Parent shareholders' equity (Note 5.10 in the annual accounts for 2018)

Quantities	30/06/2019	31/12/2018
Ordinary shares	**995 371 469**	**915 228 482**
of which ordinary shares that entitle the holder to a dividend payment	*995 371 469*	*915 228 482*
of which treasury shares	*0*	*0*
Additional information		
Par value per share (in EUR)	9,78	9,78
Number of shares issued but not fully paid up	0	0

- The shares of KBC Bank NV are held by KBC Group (995 371 468 shares) and KBC Insurance (1 share).
- Additional tier-1 instruments: on April 17, 2018 KBC Group NV placed 1 billion euros in additional Tier-1 (AT1) instruments, and subsequently lent this amount to KBC Bank in the form of a new AT1 instrument. This AT1 instrument is a 7.5-year non-call perpetual with a temporary write-down at 5.125% CET1 and an initial coupon of 4.25% per annum, payable semi-annual. Since they are classified as equity instruments under IAS 32 (because interest payments are discretionary and the securities are perpetual), the annualized coupon of 4.25% is treated as a dividend. On February 26, 2019 KBC Group NV placed 500 million euros AT1 securities and underwrote an AT1 security for the same amount at KBC Bank. Both transactions had no impact on the number of ordinary shares. Both AT1 securities have been issued in view of a call of the existing 1.4 billion euros AT1 securities issued in 2014. This call was done on 19 March 2019.
- Since the 48,14% minority part in KBC Asset Management (KBC AM), which used to be held by KBC Group (KBC Bank's parent company), has been transferred to KBC Bank as of April 2019, KBC Bank now holds 100% of KBC AM. This was done in the form of a share sale, after which KBC Group has done a capital increase at KBC Bank (1 955 million euros; 80 142 987 shares).

Related-party transactions (Note 6.3 in the annual accounts for 2018)

Transactions with related parties, excluding key management (in millions of EUR)	Parent enitities with joint control	Subsidiaries and other entities of the same group	Associated companies	Joint ventures	Other	Total	Parent enitities with joint control	Subsidiaries and other entities of the same group	Associated companies	Joint Ventures	Other	Total
						1H2019						FY2018
Assets	8	1 026	76	45	12	1 166	21	1 287	121	223	97	1 749
Loans and advances	0	793	0	1	12	806	0	1 076	41	2	80	1 199
Equity instruments (incl. investm. In ass. And joint vent.)	2	58	75	38	0	175	3	83	79	198	12	375
Other	5	174	1	5	0	185	18	128	1	23	5	175
Liabilities	7 564	1 113	13	9	371	9 070	5 865	969	98	168	303	7 403
Deposits	33	1 022	13	9	369	1 446	121	925	13	167	300	1 526
Other financial liabilities	7 490	15	0	0	0	7 505	5 731	15	0	0	0	5 747
Other	41	75	0	0	2	119	12	29	85	1	4	130
Income statement	- 415	- 41	- 2	0	- 3	- 460	- 748	- 82	1	- 8	5	- 833
Net interest income	- 40	- 79	0	0	0	- 120	- 69	- 145	- 1	- 8	0	- 222
Interest income	1	0	0	0	0	1	1	1	1	0	0	4
Interest expense	- 41	- 80	- 1	0	0	- 121	- 69	- 146	- 1	- 9	0	- 226
Dividend income	0	0	1	0	0	1	0	2	5	0	3	10
Net fee and commission income	0	48	- 1	0	1	49	0	82	- 1	0	2	84
Fee and commission income	1	91	0	0	1	92	0	167	0	0	2	170
Fee and commission expense	- 1	- 42	- 1	0	0	- 43	0	- 85	- 2	0	0	- 86
Net other income	0	- 10	0	0	- 2	- 12	- 1	- 20	0	0	3	- 17
General administrative expenses	- 374	0	- 1	0	- 2	- 378	- 678	- 2	- 3	0	- 3	- 687
Undrawn portion of loan commitments, financial guarantees and other commitments												
Given by the group	0	0	0	0	325	325	0	0	5	0	154	159
Received by the group	0	0	0	0	0	0	0	0	0	0	0	0

Main changes in the scope of consolidation (Note 6.6 in the annual accounts for 2018)

- In 2018: legal merger between United Bulgarian Bank and CIBANK (no consolidated impact).

- In 1H 2019: on 31 May 2019, ČSOB has acquired the remaining 45% stake in ČMSS from Bausparkasse Schwäbisch Hall (BSH) for a total consideration of 240 million euros. As a result, ČMSS is now fully consolidated (previously equity method). The consolidated figures in this report incorporate the impact of the acquisition of the 45% stake in ČMSS:
  - As of June 2019, the results of ČMSS are fully consolidated into each line of the income statement (before that, the results of ČMSS were booked at 55% in the line 'Share in results of associated companies & joint-ventures').
  - The one-off gain of 82 million euros related to the revaluation of the existing 55% stake was booked in the 'Net other income' line.
  - On the balance sheet, ČMSS is also fully consolidated as of June 2019 (before that: according to the equity method in the balance sheet caption 'Investments in associated companies and joint ventures').
  - We have dealt with the impact of the acquisition on financial assets and liabilities by product in Note 4.1. This note includes an additional pro forma 'Total excl. ČMSS' column, which helps provide a clear view of changes in financial assets and liabilities (excluding the acquisition of this company).
  - KBC recognised goodwill of 164 million euros in its consolidated financial statements.
  - The transaction has an impact of -0.3 percentage points on KBC Bank's common equity ratio.
  - The table below provides the fair value of the main assets and liabilities involved in the acquisition of ČMSS, as well as the contribution of ČMSS to the group's income statement for 1H 2019.

in millions of EUR	30-06-2019
Purchase or sale	Purchase
Percentage of shares bought (+) or sold (-) in the relevant year	ČMSS 45%
Total share percentage at the end of the relevant year	100%
For business unit/segment	Czech Republic
Deal date (month and year)	May 2019
Incorporation of the result of the company in the result of the group as of:	01-06-2019
Purchase price or sale price	240
Cashflow for acquiring or selling companies less cash and cash equivalents acquire	439
Recognised amounts of identifiable assets acquired and liabilities assumed - provisional fair value at 31 May 2019	
Cash and cash balances with central banks	729
Financial assets	4 959
Amortised cost	4 855
Fair value through OCI	103
Hedging derivatives	0
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	15
Tax assets	4
Property and equipment	20
Goodwill and other intangible assets	42
Other assets	7
of which: cash and cash equivalents (included in the assets above)	*729*
Financial liabilities	5 384
Measured at amortised cost	5 362
Hedging derivatives	22
Tax liabilities	10
Provisions for risks and charges	1
Other liabilities	33
of which: cash and cash equivalents (included in the liabilities above)	*50*

(in millions of EUR)	1H 2019
Net interest income	7
Interest income	*14*
Interest expense	*- 7*
Dividend income	0
Net result from financial instruments at fair value through profit or loss	0
Net realised result from debt instruments at fair value through OCI	0
Net fee and commission income	2
Fee and commission income	*3*
Fee and commission expense	*- 1*
Net other income	82
TOTAL INCOME	91
Operating expenses	- 5
Staff expenses	*- 2*
General administrative expenses	*- 1*
Depreciation and amortisation of fixed assets	*- 1*
Impairment	- 1
on financial assets at AC and at FVOCI	*- 1*
Share in results of associated companies and joint ventures	9
RESULT BEFORE TAX	94
Income tax expense	- 1
RESULT AFTER TAX	93
attributable to equity holders of the parent	93

- In 1H2019: since the 48,14% minority part in KBC Asset Management (KBC AM), which used to be held by KBC Group (KBC Bank's parent company), has been transferred to KBC Bank as of April 2019, KBC Bank now holds 100% of KBC AM.
  - This has no impact on most components of the P/L, since KBC Bank already held a controlling interest in KBC AM and the latter has consequently been fully consolidated. The only impact is on the P/L lines 'profit attributable to the equity holders of the parent' and 'profit attributable to minorities', where no minorities are calculated anymore as of 2Q2019.
  - The transfer of the 48,14% stake was done in the form of a share sale, after which KBC Group has done a capital increase at KBC Bank. This has no impact on most components of the balance sheet, since KBC Bank already held a controlling interest in KBC AM and the latter has consequently been fully consolidated. The only impact on the balance sheet (no more minority interests on KBC AM in total equity, goodwill paid is deducted directly from retained earnings which is largely compensated by the capital increase).

Post balance sheet events (Note 6.8 in the annual accounts for 2018)

Significant non-adjusting events between the balance sheet date (30 June 2019) and the publication of this report (30 August 2019):

- None

REPORT OF THE ACCREDITED AUDITOR TO THE BOARD OF DIRECTORS OF KBC BANK NV ON THE REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2019 AND FOR THE SIX-MONTH PERIOD THEN ENDED

Introduction

We have reviewed the accompanying interim consolidated balance sheet of KBC Bank NV and its subsidiaries (collectively referred to as “the Group”) as at 30 June 2019 and the related interim consolidated income statement and condensed consolidated statement of comprehensive income for the six-month period then ended, and the interim consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended, and explanatory notes, comprising a summary of significant accounting policies and other explanatory notes, collectively, the “Interim Condensed Consolidated Financial Statements”.

These statements show a consolidated balance sheet total of EUR 253.337 million and a consolidated profit (share of the Group) for the six-month period then ended of EUR 919 million.

The board of directors is responsible for the preparation and fair presentation of these Interim Condensed Consolidated Financial Statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* (“IAS 34”) as adopted by the European Union. Our responsibility is to express a conclusion on these Interim Condensed Consolidated Financial Statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” applicable to review engagements. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Interim Condensed Consolidated Financial Statements are not prepared, in all material respects, in accordance with IAS 34 as adopted by the European Union.

Sint-Stevens-Woluwe, 28 August 2019

The statutory auditor
PwC Bedrijfsrevisoren cvba
represented by

Roland Jeanquart Accredited auditor	Gregory Joos Accredited auditor

Other information

KBC Bank, 1H2019

Not reviewed by the statutory auditor

Overview of the loan portfolio

The main source of credit risk is the loan portfolio. A snapshot of this portfolio is shown in the table below. It includes all payment credit, guarantee credit, standby credit granted by KBC Bank to private persons, companies, governments and banks. Bonds held in the investment portfolio are included if they are corporate- or bank-issued, hence government bonds and trading book exposure are not included.

Credit risk: loan portfolio overview	30-06-2019	31-12-2018
Total loan portfolio (in billions of EUR)		
Amount outstanding+undrawn[1]	214	205
Amount outstanding[1]	173	165
Total loan portfolio, by business unit (as a % of the portfolio of credit outstanding)		
Belgium	65%	66%
Czech Republic	18%	16%
International Markets	15%	16%
Group Centre	2%	2%
Total	100%	100%
Impaired loans (in millions of EUR or %)		
Amount outstanding	6 437	7 151
of which: more than 90 days past due	3 633	4 099
Ratio of impaired loans, per business unit		
Belgium	2.3%	2.6%
Czech Republic	2.5%	2.4%
International Markets	9.8%	12.2%
Group Centre	12.0%	12.0%
Total	3.7%	4.3%
of which: more than 90 days past due	2.1%	2.5%
Stage 3 loan loss impairments (in millions of EUR) and cover ratio (%)		
Stage 3 loan loss impairments	2 714	3 203
of which: more than 90 days past due	2 174	2 695
Cover ratio of impaired loans		
Stage 3 loan loss impairments / impaired loans	42%	45%
of which: more than 90 days past due	60%	66%
Cover ratio of impaired loans, mortgage loans excluded		
Stage 3 loan loss impairments / impaired loans, mortgage loans excluded	51%	49%
of which: more than 90 days past due	71%	74%
Credit cost, by business unit (%)		
Belgium	0.20%	0.09%
Czech Republic	0.04%	0.03%
International Markets	-0.01%	-0.46%
Slovakia	0.27%	0.06%
Hungary	-0.13%	-0.18%
Bulgaria	0.15%	-0.31%
Ireland	-0.23%	-0.96%
Group Centre	-0.57%	-0.83%
Total	0.12%	-0.04%

1 Outstanding amounts include all on-balance sheet commitments and off-balance sheet guarantees but exclude off-balance sheet undrawn commitments. The amounts are measured in Gross Carrying Amounts.

Impaired loans are loans for which full (re)payment of the contractual cash flows is deemed unlikely. This coincides with KBC's Probability-of-Default-classes 10, 11 and 12 (see annual accounts FY 2018 - section on credit risk for more information on PD classification). These impaired loans are equal to 'non-performing loans' under the definition used by EBA.

As of June 2019, CMSS is fully consolidated on the balance sheet (previously according to the equity method). As of the same date, it is also included in the loan portfolio figures (5 billion euros).

More details on the loan portfolio are available in KBC Group's 2Q2019 quarterly report, on www.kbc.com.

Solvency

KBC Bank consolidated - CRDIV/CRR In millions of EUR	30-06-2019 Fully loaded	31-12-2018 Fully loaded
Total regulatory capital, after profit appropriation	15 763	15 749
Tier-1 capital*	13 743	13 625
*Of which Common equity**	*12 243*	*12 618*
Tier-2 capital	2 020	2 124
Total weighted risks	86 946	85 474
Credit risk	72 617	71 224
Market risk	3 023	3 198
Operational risk	11 306	11 051
Solvency ratios		
Common equity ratio	14.1%	14.8%
Tier-1 ratio	15.8%	15.9%
Total capital ratio	18.1%	18.4%

* No interim profit has been recognised for 1H2019.

Details of ratios and terms

Common equity ratio

A risk-weighted measure of the group's solvency, based on common equity tier-1 capital.

Calculation	30-06-2019	31-12-2018	30-06-2018
Detailed calculation under 'Solvency' in the 'Other information' section			
Fully loaded	14.1%	14.8%	14.2%

Cost/income ratio

Gives an impression of the relative cost efficiency (costs relative to income).

Calculation (in millions of EUR or %)	Reference	1H2019	FY2018	1H2018
Operating expenses (A)	'Consolidated income statement': 'Operating expenses'	2 036	3 712	2 001
/				
Total income (B)	'Consolidated income statement': 'Total income'	3 255	6 460	3 233
= (A) / (B)		63%	57.5%	62%

Where relevant, we also estimate the exceptional and/or non-operating items to calculate a cost/income ratio adjusted for these items. The adjustments include: MTM ALM derivatives (excluded), bank taxes (including contributions to European Single Resolution Fund) are included pro rata and hence spread over all interim periods of the year instead of being recognised for the most part upfront (as required by IFRIC 21) and one-off items (excluded). The cost/Income ratio adjusted for specific items is 59% in 1H2019, 57% in FY2018 and 56% in 1H2018.

Cover ratio

Indicates the proportion of impaired loans (see 'Impaired loans ratio' for definition) that are covered by impairment charges. Where appropriate, the numerator and denominator in the formula may be limited to impaired loans that are more than 90 days past due.

Calculation (in millions of EUR or %)	Reference	30-06-2019	31-12-2018	30-06-2018
Specific impairment on loans (A)	'Overview of the loan portfolio' in the 'Other information' section	2 714	3 203	4 403
/				
Outstanding impaired loans (B)	'Overview of the loan portfolio' in the 'Other information' section	6 437	7 151	9 175
= (A) / (B)		42%	45%	48%

Credit cost ratio

Gives an idea of loan impairment charges recognised in the income statement for a specific period, relative to the total loan portfolio (see 'Loan portfolio' for definition). In the longer term, this ratio can provide an indication of the credit quality of the portfolio.

Calculation (in millions of EUR or %)	Reference	1H2019	FY2018	1H2018
Net changes in impairment for credit risks (A)	'Consolidated income statement': component of 'Impairment'	102	-59	-82
/				
Average outstanding loan portfolio (B)	'Overview of the loan portfolio' in the 'Other information' section	168 800	163 393	164 455
= (A; annualised) / (B) *		0.12%	-0.04%	-0.10%

* Negative figure indicates a net impairment release (with positive impact on results).

Impaired loans ratio

Indicates the proportion of impaired loans in the loan portfolio (see 'Loan portfolio' for definition) and, therefore, gives an idea of the creditworthiness of the portfolio. Impaired loans are loans where it is unlikely that the full contractual principal and interest will be repaid/paid. These loans have a KBC default status of PD 10, PD 11 or PD 12 and correspond to the new definition of 'non-performing' used by the European Banking Authority. Where appropriate, the numerator may be limited to impaired loans that are more than 90 days past due (PD 11 + PD 12).

Calculation (in millions of EUR or %)	Reference	30-06-2019	31-12-2018	30-06-2018
Amount outstanding of impaired loans (A)	'Overview of the loan portfolio' in the 'Other information' section	6 437	7 151	9 175
/				
Total outstanding loan portfolio (B)	'Overview of the loan portfolio' in the 'Other information' section	172 776	164 824	166 949
= (A) / (B)		3.7%	4.3%	5.5%

Leverage ratio

Gives an idea of the bank's solvency, based on a simple non-risk-weighted ratio.

Calculation (in millions of EUR or %)	Reference	30-06-2019	31-12-2018	30-06-2018
Regulatory available tier-1 capital (A)	'Solvency' table in the 'Other information' section	13 743	13 625	14 319
/				
Total exposure measures (total of non-risk-weighted on and off-balance sheet items, with a number of adjustments) (B)	Based on the Capital Requirements Regulation (CRR)	268 835	263 249	280 833
= (A) / (B)		5.1%	5.2%	5.1%

Liquidity coverage ratio (LCR)

Gives an idea of the bank's liquidity position in the short term, more specifically the extent to which it is able to overcome liquidity difficulties over a one-month period.

Calculation (in millions of EUR or %)	Reference	30-06-2019	31-12-2018	30-06-2018
Stock of high-quality liquid assets (A)	Based on the European Commission's Delegated Act on LCR	78 050	79 300	81 089
/				
Total net cash outflows over the next 30 calendar days (B)		55 800	57 200	58 398
= (A) / (B)		140%	139%	139%

Loan portfolio

Gives an idea of the magnitude of (what are mainly pure, traditional) lending activities.

Calculation (in millions of EUR)	Reference	30-06-2019	31-12-2018	30-06-2018
Loans and advances to customers	Note 4.1, 'Loans and advances to customers'	151 946	144 810	143 277
+				
Reverse repos excl. central banks	Note 4.1, component of 'reverse repos with credit institutions and investment firms'	2 378	1 521	2 562
+				
Debt instruments issued by corporations and by credit institutions and investment firms (banking)	Note 4.1, component of 'debt instruments issued by corporates and by credit institutions and investment firms'	5 563	5 750	6 079
+				
Exposure on credit institutions	-	4 670	4 603	4 839
+				
Financial guarantees granted to clients	Note 6.1, component of 'Financial guarantees given' in the annual report 2018	8 072	8 308	8 206
+				
Impairment on loans	Note 4.2, component of 'Impairment' in the annual report 2018	3 047	3 534	4 623
+				
Non-loan related receivables	-	-835	-570	-759
+				
Other	Component of Note 4.1	-2 064	-3 131	-1 877
= sum (gross carrying amount)		172 776	164 824	166 949

Net interest margin

Gives an idea of the net interest income (one of the most important sources of revenue for the group) relative to the average total interest-bearing assets.

Calculation (in millions of EUR or %)	Reference	1H2019	FY2018	1H2018
Net interest income (A)	'Consolidated income statement': component of 'Net interest income'	1 889	3 813	1 893
/				
Average interest-bearing assets (B)	'Consolidated balance sheet': component of 'Assets'	191 578	187 703	187 526
= (A; annualised (x360/number of calendar days in period)) / (B)		1.96%	2.00%	2.01%

Net stable funding ratio (NSFR)

Gives an idea of the bank's structural liquidity position in the long term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-year period.

Calculation (in millions of EUR or %)	Reference	30-06-2019	31-12-2018	30-06-2018
Available amount of stable funding (A)	Basel III: 'the net stable funding ratio' (Basel Committee on Banking Supervision publication, October 2014)	174 250	165 650	164 300
/				
Required amount of stable funding (B)		130 850	122 150	120 750
= (A) / (B)		133%	136%	136%

Total assets under management

Total assets under management (AuM) comprise third-party assets and KBC group assets managed by the group's various asset management companies (KBC Asset Management, ČSOB Asset Management, etc.), as well as assets under advisory management at KBC Bank. The assets, therefore, consist mainly of KBC investment funds and unit-linked insurance products, assets under discretionary and advisory management mandates of (mainly retail, private banking and institutional) clients, and certain group assets. The size and development of total AuM are major factors behind net fee and commission income (generating entry and management fees) and hence account for a large part of any change in this income line. In that respect, the AuM of a fund that is not sold directly to clients but is instead invested in by another fund or via a discretionary/advisory management portfolio, are also included in the total AuM figure, in view of the related work and any fee income linked to them.

Calculation (in billions of EUR)	Reference	30-06-2019	31-12-2018	30-06-2018
Belgium Business Unit (A)	KBC Group company presentation on www.kbc.com	194.6	186.4	200.3
+				
Czech Republic Business Unit (B)		10.6	9.5	9.6
+				
International Markets Business Unit (C)		4.7	4.4	4.3
(A)+(B)+(C)		209.8	200.3	214.2
