Press Release

Outside trading hours - Regulated information*

Brussels, 10 August 2023 (07.00 a.m. CEST)

KBC Group: Second-quarter result of 966 million euros

KBC Group – overview (consolidated, IFRS)	2Q2023	1Q2023	2Q2022	1H2023	1H2022
Net result (in millions of EUR)	966	882	887	1 848	1 339
Basic earnings per share (in EUR)	2.29	2.08	2.10	4.37	3.15
Breakdown of the net result by business unit (in millions of EUR)					
Belgium	*576*	*299*	*652*	*875*	*884*
Czech Republic	*276*	*184*	*244*	*461*	*443*
International Markets	*190*	*108*	*45*	*298*	*122*
Group Centre	*-76*	*291*	*-54*	*215*	*-109*
Parent shareholders' equity per share (in EUR, end of period)	51.2	51.9	46.5	51.2	46.5

"We generated an excellent net profit of 966 million euros in the second quarter of 2023. Compared to the previous quarter, our result benefited from higher net interest income, better insurance service results, a higher level of net fee and commission income and higher trading & fair value income, as well as the traditional seasonal spike in dividend income. Net other income fell, however, as the previous quarter had included a significant positive one-off gain related to the sale of our Irish portfolio in February. Costs decreased significantly, due entirely to the fact that the bulk of the bank and insurance taxes for the full year were booked in the previous quarter. We also recorded a small net impairment charge, as opposed to a net release in the previous quarter. Consequently, when adding up the results for the first and second quarters, our net profit for the first half of 2023 amounted to 1 848 million euros, up by 38% year-on-year.

Our solvency position remained strong with a fully loaded common equity ratio of 16.5%. The results of the recent EBA stress test reflect our strong fundamentals in this regard. Our liquidity position remained excellent, as illustrated by an NSFR of 145% and LCR of 152%, both well above the minimum legal target of 100%.

After having received the approval of the ECB, our Board of Directors decided to distribute 1.3 billion euros surplus capital in the form of a share buyback. The share buyback will start as soon as possible and end by August 2024. In line with our general dividend policy, we will also pay out an interim dividend of 1 euro per share in November 2023 as an advance on the total dividend for financial year 2023. We also plan to further optimise our capital structure by filling up our Pillar 2 Requirement with additional tier-1 and tier-2 capital. Lastly, we received a final ECB decision following model reviews of predominantly our Belgian corporate and SME loan portfolio, leading to a RWA add-on of approximately 8.2 billion euros in the third quarter of 2023. However, the impact of this add-on will be mitigated by a 1.7 billion euros RWA release in the third quarter of 2023, an expected RWA relief of approximately 2 billion euros before year-end 2023 due to model simplification and the fact that roughly 4.5 billion euros of the RWA add-on is frontloading of the IRB Basel IV impact in 2025. You can read more about these capital-related items in the section entitled 'Our guidance' in our quarterly report.

Last but not least, we celebrated a special anniversary in June 2023. Twenty-five years have passed since the merger between the Kredietbank, CERA Bank and ABB Insurance led to the creation of our group. In that time, we have evolved from a new Belgian bank-insurer to a bank-insurance group with a focus on five European core markets and a frontrunner in digitalisation. More than anything else, it is the story of our thousands of employees who give their best every day to win and keep the trust of our customers and hence constitute the most important factor in the success that our group has become. I'd like to sincerely thank all those employees, as well as all our customers, shareholders and all other stakeholders for their continuing trust and support. We look forward with enthusiasm to the next 25 years.'

Johan Thijs
Chief Executive Officer

Financial highlights in the second quarter of 2023

- Net interest income increased by 6% quarter-on-quarter and by 13% year-on-year. The net interest margin for the quarter under review amounted to 2.11%, up 7 basis points on the previous quarter and 20 basis points on the year-earlier quarter. Loan volumes were up 2% quarter-on-quarter and 4% 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 up 0.5% quarter-on-quarter and 2% year-on-year. In the quarter under review, net inflows in term deposits and mutual funds more than offset the net outflows in current accounts and savings accounts. Volume growth figures were calculated on an organic basis (excluding the changes in the scope of consolidation and forex effects).
- Insurance revenues before reinsurance were up 6% and 10% on the previous and year-earlier quarters, respectively. The insurance service result (insurance revenues before reinsurance - insurance service expenses before reinsurance + net result from reinsurance contracts held) amounted to 122 million euros (compared to 111 million euros and 180 million euros in the previous and year-earlier quarters, respectively) and breaks down into 89 million euros for non-life insurance and 34 million euros for life insurance. The non-life combined ratio for the first six months of 2023 amounted to an excellent 84%, compared to 87% for full-year 2022. Non-life insurance sales increased by 13% year-on-year, while life insurance sales were up 52% and 72% on the level recorded in the previous and year-earlier quarters, respectively.
- Net fee and commission income was up 1% and 8% on its level in the previous and year-earlier quarters, respectively. Fees for our management activities rose by 2% quarter-on-quarter, while banking services-related fees were stable on balance. Year-on-year, fees for both our asset management and banking service activities increased by 6% and 9%, respectively.
- Trading & fair value income was up 28% compared to the previous quarter and approximately three times the level recorded in the year-earlier quarter. Net other income was in line with its normal run rate and clearly well down on the previous quarter, as that quarter had included a one-off 405-million-euro gain related to the finalisation of the sale of the loan and deposit portfolios in Ireland. Dividend income was almost four times its level in the previous quarter, as the second quarter traditionally includes the bulk of dividend income for the full year.
- Operating expenses without bank and insurance taxes were up 1% on their level in the previous quarter and 12% on their year-earlier level. The cost/income ratio for the first six months of 2023 came to 49%, the same level as 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 six months of 2023 amounted to 40%, compared to 45% for full-year 2022.
- The quarter under review included a 23-million-euro net loan loss impairment release, compared to a net release of 24 million euros in the previous quarter and a net charge of 9 million euros in the year-earlier quarter. The credit cost ratio for the first six months of 2023 amounted to -0.04%, compared to 0.08% for full-year 2022. A negative figure implies a positive impact on the result.
- Our **liquidity position** remained strong, with an LCR of 152% and NSFR of 145%. Our **capital base** remained robust, with a fully loaded common equity ratio of 16.5%.

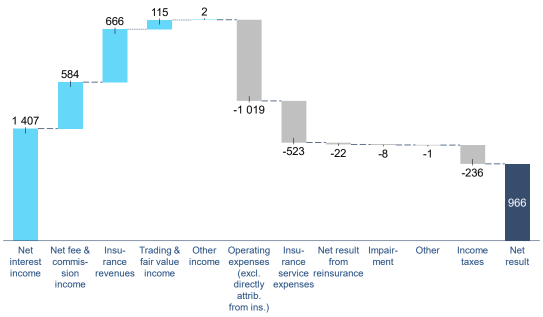
The cornerstones of our strategy

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

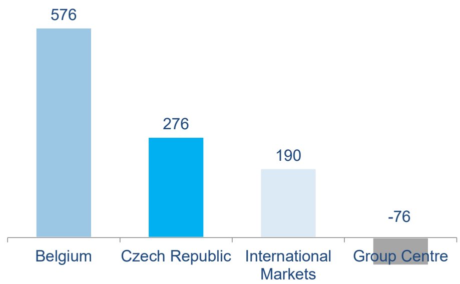
Breakdown of 2Q2023 result

(in millions of EUR)



Contribution of the business units to 2Q2023 group result

(in millions of EUR)



Overview of results and balance sheet

Consolidated income statement, IFRS, KBC Group (simplified; in millions of EUR)	2Q2023	1Q2023	4Q2022	3Q2022	2Q2022	1H2023	1H2022
Net interest income	1 407	1 324	1 417	1 297	1 248	2 731	2 448
Insurance revenues before reinsurance	666	631	621	621	603	1 297	1 181
Non-life	*567*	*543*	*526*	*527*	*506*	*1 109*	*997*
Life	*100*	*88*	*94*	*94*	*98*	*188*	*184*
Dividend income	30	8	10	22	21	37	28
Net result from financial instr. at fair value through P&L[1]	115	90	90	35	38	206	127
Net fee and commission income	584	576	549	557	542	1 160	1 112
Insurance finance income and expense	-82	-66	-63	-39	2	-148	6
Net other income	54	498	-103	3	69	552	116
Total income	2 775	3 060	2 520	2 496	2 522	5 835	5 020
Operating expenses (excl. directly attributable from insurance)	-1 019	-1 501	-1 036	-952	-944	-2 520	-2 339
Total operating expenses without bank and insurance taxes	*-1 090*	*-1 077*	*-1 143*	*-1 041*	*-973*	*-2 167*	*-1 975*
Total bank and insurance taxes	*-51*	*-571*	*-15*	*-23*	*-94*	*-622*	*-608*
Minus: op.expenses allocated to insurance service expenses	*123*	*147*	*121*	*112*	*123*	*270*	*244*
Insurance service expenses before reinsurance	*-523*	*-490*	*-467*	*-504*	*-421*	*-1 013*	*-937*
Of which Insurance commission paid	*-82*	*-77*	*-79*	*-81*	*-79*	*-159*	*-148*
Non-Life	*-457*	*-418*	*-416*	*-445*	*-442*	*-876*	*-872*
Life	*-66*	*-72*	*-51*	*-59*	*21*	*-138*	*-65*
Net result from reinsurance contracts held	-22	-30	-15	-15	-2	-52	10
Impairment	-8	26	-132	-102	-28	18	-48
Of which: on financial assets at amortised cost and at fair value through other comprehensive income[2]	*23*	*24*	*-82*	*-79*	*-9*	*47*	*6*
Share in results of associated companies & joint ventures	-1	-3	-2	-3	-2	-4	-5
Result before tax	1 202	1 062	867	920	1 126	2 264	1 701
Income tax expense	-236	-180	-139	-168	-240	-416	-362
Result after tax	966	882	727	752	887	1 848	1 339
attributable to minority interests	0	0	0	0	0	0	0
attributable to equity holders of the parent	**966**	**882**	**727**	**752**	**887**	**1 848**	**1 339**
Basic earnings per share (EUR)	2.29	2.08	1.71	1.77	2.10	4.37	3.15
Diluted earnings per share (EUR)	2.29	2.08	1.71	1.77	2.10	4.37	3.15

Key consolidated balance sheet figures, IFRS, KBC Group (in millions of EUR)	30-06-2023	31-03-2023	31-12-2022	30-09-2022	30-06-2022
Total assets	368 077	347 355	354 545	362 204	368 691
Loans & advances to customers, excl. reverse repos	182 005	179 520	178 053	177 098	168 982
Securities (equity and debt instruments)	71 839	70 291	67 160	65 730	66 568
Deposits from customers excl. debt certificates & repos	224 710	219 342	224 407	217 538	217 293
Insurance contract liabilities	16 295	16 282	16 158	16 298	17 087
Liabilities under investment contracts, insurance	12 751	12 164	12 026	12 004	12 193
Total equity	22 853	23 141	21 819	21 027	20 898

Selected ratios KBC Group (consolidated)	1H2023	FY2022
Return on equity	18%	13%
evenly spreading bank and insurance taxes through the year[3]	19%	13%
Cost/income ratio, group		
- excl. non-operating items & evenly spreading bank & insurance taxes through the year	49%	49%
- excl. all bank and insurance taxes	40%	45%
Combined ratio, non-life insurance	84%	87%
Common equity ratio (CET1), Basel III Danish Compromise, fully loaded [transitional]	16.5% [15,7%]	15.3% [14.1%]
Credit cost ratio[4]	-0.04%	0.08%
Impaired loans ratio	2.0%	2.1%
for loans more than 90 days past due	1.0%	1.1%
Net stable funding ratio (NSFR)	145%	136%
Liquidity coverage ratio (LCR)	152%	152%

1 Also referred to as 'Trading & fair value income'.
2 Also referred to as 'Loan loss impairment'.
3 16% in 1H2023 when non-operating items are also excluded.
4 A negative figure indicates a net impairment release (positively affecting results).

Analysis of the quarter (2Q2023)

Total income: 2 775 million euros
-9% quarter-on-quarter and +10% year-on-year

Net interest income amounted to 1 407 million euros in the quarter under review, up 6% on its level in the previous quarter and 13% on its level in the year-earlier quarter. The quarter-on-quarter increase was due in part to the higher commercial transformation result in all core countries, higher net interest income on inflation-linked bonds, increased term deposits at better margins, slightly higher lending income (with volume growth more than offsetting lower margins in most countries) and the higher number of days in the quarter. This was partly offset by the impact of the remaining Irish portfolio being sold in February 2023, the increase in the funding cost of participations and the higher cost related to the minimum required reserves held with the central banks in Hungary and Bulgaria. The year-on-year increase was attributable primarily to the sharply increased commercial transformation result, the consolidation of Raiffeisenbank Bulgaria as of the third quarter of 2022 and increased term deposits at better margins, partly offset by lower lending income, 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 & MREL and the higher cost related to the minimum required reserves held with the central banks in Hungary and Bulgaria. Consequently, the net interest margin for the quarter under review amounted to 2.11%, up 7 and 20 basis points quarter-on-quarter and year-on-year, respectively.

The volume of customer loans was up 2% quarter-on-quarter and 4% year-on-year. Customer deposits excluding debt certificates were up 3% quarter-on-quarter and more or less stable year-on-year. When excluding volatile low-margin short-term deposits at KBC Bank's foreign branches (as they are driven by short-term cash management opportunities), customer deposits were up 0.5% quarter-on-quarter and 2% year-on-year. In the quarter under review, net inflows in term deposits and mutual funds more than offset the net outflows in current accounts and savings accounts. 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, please refer to the section entitled 'Our guidance'.

Insurance revenues before reinsurance contributed 666 million euros to total income and were up 6% and 10% on their performance in the previous and year-earlier quarters, respectively. 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 122 million euros and breaks down into 89 million euros for non-life insurance and 34 million euros for life insurance. The **non-life** insurance service result fell 8% quarter-on-quarter, as increased service expenses more than offset the positive effects of increased revenues and the improved reinsurance result. The non-life insurance service result was up 45% year-on-year, due mainly to higher insurance revenues which more than compensated for higher insurance service expenses and a worse reinsurance result. The **life** insurance service result more than doubled quarter-on-quarter, thanks to a combination of higher revenues and lower insurance service expenses, whereas year-on-year it fell 72%, due entirely to higher insurance service expenses (almost fully explained by the fact that the reference quarter had been positively impacted by a one-off parameter update). **Insurance finance income and expense** amounted to -82 million euros in the quarter under review, compared to -66 million euros in the previous quarter and 2 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 84% for the first six months of 2023, compared to 87% for full-year 2022. Non-life insurance sales came to 577 million and increased by 13% year-on-year, with growth in all countries and classes. Sales of life insurance products amounted to 727 million euros and were up 52% and 72% on the levels recorded in the previous and year-earlier quarters, respectively, due to the strong increase in the sale of unit-linked products in Belgium (related to the successful launch of new structured product in the quarter under review). Overall, the share of guaranteed-interest products and unit-linked products in our total life insurance sales in the quarter under review amounted to 30% and 66%, respectively, with hybrid products (mainly in the Czech Republic) accounting for the remainder.

Net fee and commission income amounted to 584 million euros, up 1% and 8% on its level in the previous and year-earlier quarters, respectively. The slight quarter-on-quarter increase was due to increased fees for our asset management activities (higher management fees in particular) with fees related to banking activities remaining, on balance, more or less stable (increase in payment service fees offset by lower fees for securities, among other things). The year-on-year increase was accounted for by higher fees for both asset management activities (management fees and entry fees) and banking activities (including the positive effect of the consolidation of Raiffeisenbank Bulgaria). At the end of June 2023, our total assets under management amounted to 225 billion euros, up 4% quarter-on-quarter (+2 percentage points related to net inflows and +2 percentage points related to the quarter-on-quarter market performance) and 7% year-on-year (with net inflows accounting for +4 percentage points and market performance +3 percentage points).

The **net result from financial instruments at fair value** (trading & fair value income) amounted to 115 million euros, up 28% quarter-on-quarter and three times the (low) level in the year-earlier quarter. The quarter-on-quarter increase was attributable mainly to the positive change in the market value of derivatives used for asset/liability management purposes and the positive result from investments backing unit-linked insurance contracts under IFRS 17, notwithstanding a lower dealing room result. Year-on-year, the positive result from investments backing unit-linked insurance contracts under IFRS 17 and the increase in the dealing room result 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 30 million euros (up 22 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 54 million euros. The latter figure was in line with its 50-million-euro normal run rate. Note that the previous quarter had included a positive one-off impact of 405 million euros related to the sale of the loan and deposit portfolios of KBC Bank Ireland as well as a positive 48 million euros related to past Belgian bank taxes.

Total operating expenses without bank and insurance taxes: 1 090 million euros

+1% quarter-on-quarter and +12% year-on-year

The quarter-on-quarter comparison of operating expenses is distorted by the fact that the bulk of the bank and insurance taxes for the full year is traditionally recorded in the first quarter of the year. In the second quarter of 2023, these taxes amounted to 51 million euros, whereas they came to 571 million euros in the previous quarter.

Excluding bank and insurance taxes, total operating expenses in the second quarter of 2023 amounted to 1 090 million euros, up 1% on their level in the previous quarter, due to higher costs in relation to ICT, marketing and professional fees (partly a seasonal effect) and offset in part by, *inter alia*, decreased costs for Ireland (owing to the sale of KBC Bank Ireland's portfolios in the previous quarter) and lower depreciation expenses. Operating expenses without bank and insurance taxes were up 12% on their year-earlier level. Excluding the impact of Raiffeisenbank Bulgaria, costs went up some 9%, due to wage drift and indexation (despite fewer FTEs), as well as higher ICT costs, facility expenses (mainly energy costs) and depreciation expenses, partly offset by decreased costs for Ireland, among other things.

When certain non-operating items are excluded and bank and insurance taxes are spread evenly through the year, the cost/income ratio for the first six months of 2023 amounted to 49%, the same level as for full-year 2022. When excluding all bank and insurance taxes, the cost-income ratio improved to 40%, 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: 23-million-euro net release

versus a 24-million-euro net release in the previous quarter and a 9-million-euro net charge in the year-earlier quarter

In the quarter under review, we recorded a 23-million-euro net loan loss impairment release, compared with a net release of 24 million euros in the previous quarter and a net charge of 9 million euros in the year-earlier quarter. The net impairment release in the quarter under review included a net charge of 17 million euros in respect of our loan book, and a 40-million-euros 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 350 million euros at the end of June 2023.

Broken down by country, the 23-million-euro net loan loss impairment release in the quarter under review breaks down as follows ('+' is a net charge and '-' a net release): +39 million euros in Belgium, -53 million euros in the Czech

Republic, -9 million euros in Slovakia, +5 million euros in Hungary, -4 million euros in Bulgaria and -1 million euros in the Group Centre.

For the entire group, the credit cost ratio amounted to -0.04% in the first six months of 2023 (0.02% 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). A negative figure implies a positive impact on the result. At the end of June 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 1.0% of the loan book, compared to 1.1% 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 a charge of 31 million euros, compared to a 1-million-euro release in the previous quarter and a 19-million-euro charge in the year-earlier quarter. The figure for the quarter under review included 19 million euros charges related to the extension of the interest cap regulation in Hungary until the end of 2023 and 11 million euros to the portfolio sale in Ireland.

Net result by business unit

Belgium 576 million euros; Czech Rep. 276 million euros; International Markets 190 million euros, Group Centre -76 million euros

Belgium: at first sight, the net result (576 million euros) was up 93% quarter-on-quarter. Excluding all bank and insurance taxes, the bulk of which are recorded in the first quarter of the year and hence distort the comparison (and also excluding the one-off recuperation related to past bank taxes in the previous quarter), the net result was 4% higher than in the previous quarter. This was due primarily to the combined effect of higher total income (thanks to higher net interest income, insurance revenues and dividend income offsetting the drop in net other income), higher costs and insurance service expenses, and a net impairment charge (compared to a net release in the previous quarter).

Czech Republic: the net result (276 million euros) was up 50% quarter-on-quarter. Excluding bank and insurance taxes and forex effects, the net result was up 18% on the previous quarter. This was essentially attributable to a combination of higher total income (thanks to higher net interest income, insurance revenues, net fee and commission income and net other income), higher costs and insurance service expenses, and a net impairment release (compared to a much smaller net release in the previous quarter).

International Markets: the 190-million-euro net result breaks down as follows: 37 million euros in Slovakia, 63 million euros in Hungary and 90 million euros in Bulgaria. For the business unit as a whole, the net result was, at first sight, up 77% on the previous quarter's result. Excluding bank and insurance taxes, as well as the effects of the minimum required reserves held with the central banks in Hungary and Bulgaria and of the interest cap extension in Hungary, the net result was up 3% on the previous quarter, due mainly to a combination of higher total income (with almost all income components increasing), higher costs and insurance service expenses, and a net impairment release (compared to a smaller net release in the previous quarter).

Group Centre: the net result (-76 million euros) was 368 million euros lower than the figure recorded in the previous quarter. That was almost entirely related to the finalisation of the sale of the loan and deposit portfolios of KBC Bank Ireland in the first quarter of 2023, resulting in a positive one-off impact of 370 million euros after tax in that quarter.

	Belgium		Czech Republic		International Markets	
Selected ratios by business unit	**1H2023**	**FY2022**	**1H2023**	**FY2022**	**1H2023**	**FY2022**
Cost/income ratio, group						
- excl. non-oper. items & spreading bank & ins. taxes evenly through the year	45%	47%	45%	44%	45%	47%
- excl. all bank and insurance taxes	40%	41%	43%	45%	37%	41%
Combined ratio, non-life insurance	82%	85%	82%	83%	97%[2]	91%
Credit cost ratio[1]	0.05%	0.03%	-0.30%	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 1H2023. Excluding this item, the ratio for the first six months of 2023 would be 90%.

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).

Solvency and liquidity

Common equity ratio 16.5%, NSFR 145%, LCR 152%

At the end of June 2023, total equity came to 22.9 billion euros and comprised 21.4 billion euros in parent shareholders' equity and 1.5 billion euros in additional tier-1 instruments. Total equity was up 1.0 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 six months of 2023 (+1.8 billion euros), the payment of the final dividend for 2022 in May 2023 (-1.3 billion euros) and a net increase in the revaluation reserves (+0.5 billion euros). 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 strong with a fully loaded common equity ratio (CET1) of 16.5%, up from 15.3% at the end of 2022. The solvency ratio for KBC Insurance under the Solvency II framework was 206% at the end of June 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 152% and an NSFR ratio of 145%, compared to 152% and 136%, respectively, at the end of 2022.

Please refer to the section entitled 'Our guidance' for a number of items impacting capital in the near future.

Analysis of the year-to-date period (1H2023)

Net result for 1H2023: 1 848 million euros

up 38% year-on-year

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

Net interest income: up 12% to 2 731 million euros. This was attributable in part to the much higher commercial transformation result, the consolidation of Raiffeisenbank Bulgaria and increased 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, the higher funding cost of participations & MREL and the higher cost related to the minimum required reserves held with the central banks in Hungary and Bulgaria. On an organic basis (excluding changes in the scope of consolidation and forex effects), the volume of customer loans rose by 4% while deposits excluding debt certificates were more or less stable year-on-year (but up 2% when also excluding KBC Bank’s foreign branches). The net interest margin in the first six months of 2023 came to 2.08%, up 17 basis points year-on-year.

Insurance service result (insurance revenues before reinsurance - insurance service expenses before reinsurance + net result from reinsurance contracts held): down 9% to 233 million euros. The non-life combined ratio for the first six months of 2023 amounted to an excellent 84%, compared to 87% for full-year 2022. Non-life insurance sales were up 12% to 1 244 million euros, while life insurance sales were up by 26% to 1 205 million euros, due mainly to higher unit-linked insurance sales in Belgium.

Net fee and commission income: up 4% to 1 160 million euros. This was attributable primarily to higher fees for banking services (including the effect from the consolidation of Raiffeisenbank Bulgaria). At the end of June 2023, total assets under management were up 7% to 225 billion euros due to a combination of net inflows (+4 percentage points) and a positive price effect (+3 percentage points).

Trading & fair value income: up 62% to 206 million euros. This was due mainly to a higher result from investments backing unit-linked insurance contracts under IFRS 17.

All other income items combined: up 194% to 441 million euros. This came about mainly because of higher net other income, which included a 405-milion-euro gain on the sale of the loan and deposit portfolios of KBC Bank Ireland in February 2023.

Operating expenses without bank and insurance taxes: up 10% to 2 167 million euros. This was due in part to the consolidation of the former Raiffeisenbank Bulgaria, wage drift and inflation/indexation (despite fewer FTEs), higher expenses for ICT and facilities, and 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 49% when certain non-operating items are excluded and bank and insurance taxes evenly spread throughout the year (also 49% for full-year 2022). When bank and insurance taxes are fully excluded, the cost-income ratio for the period under review amounted to 40% (45% for full-year 2022).

Loan loss impairment: net release of 47 million euros, compared to net release of 6 million euros in the reference period. The first six months of 2023 included a net charge of 14 million euros for individual loans and a net release of 61 million euros in the reserve for geopolitical and emerging risks. As a result, the credit cost ratio amounted to -0.04%, compared to 0.08% for full-year 2022 (a negative figure implies a positive impact on the result). Impairment on assets other than loans amounted to 29 million euros, compared to 54 million euros in the reference period.

The 1 848-million-euro **net result** for the first six months of 2023 breaks down as follows: 875 million euros for the Belgium Business Unit (down 9 million euros on its year-earlier level), 461 million euros for the Czech Republic Business Unit (up 18 million euros), 298 million euros for the International Markets Business Unit (up 176 million euros) and 215 million euros for the Group Centre (up 324 million euros, owing to the gain realised on the sale of the loan and deposit portfolios of KBC Bank Ireland in February 2023).

ESG developments, risk statement and economic views

ESG developments

We continue to make progress on our sustainability journey. In order to stay in tune with society's expectations, our top management participated in a stakeholder dialogue during the quarter under review. On the environmental front, we are continuously making progress towards achieving our climate targets and remain committed to having the climate targets for our banking activities validated by the Science Based Targets Initiative. In the social domain, we issued our second social bond in May 2023. As such, we aim to increase our positive social impact and contribute to quality access to education and health care. Our ESG ratings clearly position us among the leading financial institutions in Europe. For instance, our CDP 'A List' rating, as well as the Terra Carta Seal, clearly demonstrate our commitment to creating a sustainable future.

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. 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 and GDPR) also remain a dominant theme for the sector, as does enhanced consumer protection. Digitalisation (with technology as a catalyst) presents both opportunities and threats to the business model of traditional financial institutions, while climate-related risks are becoming increasingly prevalent. 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

Following quarter-on-quarter growth of 0.5% (non-annualised) in the first quarter of 2023, the US economy also grew in the second quarter, expanding by 0.6% (non-annualised). This performance was mainly the result of solid investment and consumption growth based on the still robust labour market. As the cumulative monetary tightening of the Fed increasingly impacts the US economy, quarter-on-quarter growth is expected to slow to 0.1% and -0.1% in the third and fourth quarters, respectively.

Meanwhile, after stagnating in the first quarter of 2023, euro area growth turned positive again in the second quarter (0.3% quarter-on-quarter). We expect low GDP growth in the euro area to continue for the remainder of 2023, likely caused by the ECB's tightening of monetary policy and the weakness in the global manufacturing sector.

In the second quarter of 2023, economic growth in Belgium was 0.2% quarter-on-quarter, still supported by the increase in private consumption. For the remainder of 2023, we expect quarterly growth to be in line with the growth dynamics of the euro area. After stagnating in the first quarter, the Czech economy grew by 0.1% in the second quarter of 2023, which marked the end of the technical recession during the second half of 2022.

The main risks to our short-term outlook for European growth include a weakening of global growth, the persistence of underlying core inflation (excluding food and energy), and the uncertainty regarding the timing and impact of the tightening of monetary policy by the ECB. Other risks relate to still elevated real estate valuations and high levels of debt in the context of tightened financing conditions.

Our view on interest rates and foreign exchange rates

After one rate hike of 25 basis points in the second quarter, the Fed resumed its hiking cycle by another 25 basis points in July, to a range of 5.25%-5.50%. We expect this to be the peak rate in this cycle, which will probably be maintained at least for the remainder of 2023. Moreover, the ongoing run-down of the Fed's balance sheet (Quantitative Tightening) is contributing to a tight monetary policy stance. Meanwhile, the ECB too continued to raise all of its policy rates. After the latest hike in July, the ECB deposit rate now stands at 3.75%. We expect the ECB to raise its policy rate one more time (likely in September), reaching its cycle peak rate. From July 2023 on, the ECB stopped the reinvestments of maturing assets from its Asset Purchase Programme portfolio.

On balance, both 10-year US and German government bond yields rose during the second quarter mainly as a result of ongoing monetary tightening by the Fed and ECB. While the US 10-year yield rose to 3.8%, the German yield went up more modestly to 2.4%. Consequently, the US-German yield spread widened from about 120 to 145 basis points.

After a volatile second quarter, mostly driven by fluctuating market expectations about short-term interest rate differentials between the Fed and ECB policy rates, the exchange rate of the US dollar remained broadly unchanged against the euro. For the remainder of 2023, we expect the appreciating trend of the euro to gradually resume.

During the second quarter, the Czech koruna depreciated against the euro, primarily driven by higher inflation compared to the euro area. The positive interest differential in favour of the Czech Republic decreased somewhat, since the Czech National Bank (CNB) left its policy rate unchanged at 7%, while the ECB raised its deposit rate further to the current rate of 3.75%. Market expectations of a first rate cut by the CNB in the fourth quarter are likely to weaken the koruna further against the euro in the remainder of 2023.

To reduce the economic and fiscal cost of its high interest rate policy, that was aimed at bringing inflation back, the National Bank of Hungary (NBH) eased money market rates (3-month BUBOR) further during the second quarter from 16.3% to 15.2%. In July, it fell further towards 14% and is expected to reach the current level of the NBH's base rate (13%) by the end of the third quarter. Meanwhile, the exchange rate of the Hungarian forint against the euro appreciated further during the second quarter, continuing the recovery from its weakness during the short-lived financial sector crisis in March. Against the background of still high inflation differentials with the euro area, the HUF is expected to depreciate slightly by the end of 2023.

Our guidance

Guidance for full-year 2023

- Total income: approximately 11.15 billion euros *(unchanged),* of which approximately 5.6 billion euros in net interest income *(instead of approximately 5.7 billion euros previously, due to (1) higher costs on the Minimum Required Reserves held with central banks and (2) increased wholesale funding and subordinations costs).*
- Operating expenses without bank and insurance taxes, plus insurance commissions: approximately 4.75 billion euros *(unchanged).*
- Credit cost ratio: 10-15 basis points *(instead of 20-25 basis points previously*), both excluding any movement in the ECL buffer.

Medium to long-term guidance (as provided with the FY 2022 results, not updated)

- CAGR total income (2022-2025): approximately 7.3%.
- CAGR operating expenses without bank and insurance taxes, plus insurance commissions (2022-2025): approx. 2.3%.
- Combined ratio: ≤ 92%.
- Credit cost ratio: 25-30 basis points, through-the-cycle.

Capital impact in the near future

- **Share buyback and interim dividend.** KBC will distribute – over and above the 4 euros per share already paid as the dividend for 2022 – 1.3 billion euros of surplus capital, in line with the capital deployment plan announced for full-year 2022. After having received ECB approval, the Board of Directors decided to distribute 1.3 billion euros in the form of a share buyback, starting as soon as possible and ending by August 2024. As such, 1.3 billion euros will be deducted from the fully loaded and transitional CET1 (ratio) as of the third quarter of 2023. Moreover, in line with our general dividend policy, we will also pay out an interim dividend of 1 euro per share in November 2023 as an advance on the total dividend for financial year 2023.

- **Further optimisation of KBC's capital structure.** In line with CRD V Art. 104a(4), ECB allows banks to satisfy the Pillar 2 Requirement (P2R) with additional tier-1 instruments (up to 1.5 / 8) and tier-2 instruments (up to 2 / 8) based on the same relative weights as allowed for meeting the 8% Pillar 1 Requirement. KBC currently has a P2R of 1.86%. Contrary to most of our peers, KBC currently fills its P2R almost entirely with more conservative but also more expensive CET1 capital. KBC decided to further optimise its capital structure and as such, will fill up the AT1 and Tier-2 buckets within P2R.

- **RWA add-on, mitigated**. KBC has received a final ECB supervisory decision, following model reviews for predominantly KBC's Belgian corporate and SME credit portfolio. As a result of this, KBC will be subject to a risk-weighted assets (RWA) add-on of approximately 8.2 billion euros in the third quarter of 2023. This 8.2 billion euros RWA add-on will be mitigated by (1) a 1.7 billion euros RWA release in the third quarter of 2023, (2) an expected RWA relief of circa 2.0 billion euros before year-end 2023 due to model simplification and (3) roughly 4.5 billion euros of the 8.2 billion euros RWA add-on is frontloading of the IRB Basel IV CET1 impact in 2025. There is currently no material deterioration noticed in the credit portfolio including the Belgian corporate and SME loan portfolio.

Upcoming events	3Q2023 results: 9 November 2023 4Q2023 results: 8 February 2024 Other events: www.kbc.com / Investor Relations / Financial calendar
More information on 2Q2023	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:

Investor Relations, KBC-group
E-mail: IR4U@kbc.be

Viviane Huybrecht, General Manager, Corporate Communication/Spokesperson, KBC Group
Tel +32 2 429 85 45 - E-Mail: 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 65 01 Stef Leunens
Tel . + 32 2 429 29 49 Tomas Meyers
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
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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