Press Release

Outside trading hours - Regulated information*

Brussels, 5 August 2021 (07.00 a.m. CEST)

KBC Group: Second-quarter result of 793 million euros

KBC Group – overview (consolidated, IFRS)	2Q2021	1Q2021	2Q2020	1H2021	1H2020
Net result (in millions of EUR)	793	557	210	1 350	205
Basic earnings per share (in EUR)	1.87	1.31	0.47	3.18	0.43
Breakdown of the net result by business unit (in millions of EUR)					
Belgium	*528*	*380*	*204*	*908*	*119*
Czech Republic	*168*	*123*	*77*	*291*	*165*
International Markets	*140*	*88*	*-45*	*228*	*-11*
Group Centre	*-42*	*-35*	*-26*	*-76*	*-68*
Parent shareholders' equity per share (in EUR, end of period)	51.8	49.8	44.6	51.8	44.6

In many countries, the large-scale rollout of vaccines that started in the first quarter of 2021 is now running at full speed. While caution is still paramount, the general feeling is one of anticipation for a long-awaited, full resumption of social activities, and optimism for a worldwide economic recovery. From the start of this crisis almost a year and a half ago, we have taken responsibility in safeguarding the health of our staff and customers, while ensuring that services continue to be provided. We have also worked closely with government agencies to support all customers impacted by the coronavirus, implementing various measures such as loan deferrals. Besides the turmoil caused by the coronavirus crisis, various areas in Europe have been hit by recent extreme weather conditions. Parts of the Czech Republic were hit by a tornado in June, while a number of Belgian provinces recently suffered the devastating consequences of heavy flooding. Our thoughts are very much with the thousands of people who have been affected by these disasters.

More than ever, we believe that the world emerging from these crises has to be a more sustainable one and we are working tirelessly towards that scenario and are fully committed to put climate change at the top of our agenda. In that respect, following the gradual reduction in our direct exposure to the thermal coal sector since 2016, we completely eliminated our remaining direct exposure to coal in June 2021, a good six months ahead of our own schedule. At the same time, we are continuing our efforts to support investments in green energy infrastructure. In the past quarter, for example, we signed an important new project financing transaction for the first Belgian subsidy-free wind farm in Ghent. This fits into our overall target of expanding our share of renewables to 65% of our energy loan portfolio by 2030.

As regards our financial performance in the past quarter, we delivered an excellent net result of 793 million euros. Total income fell somewhat quarter-on-quarter, due primarily to a lower trading and fair value result. Net interest income and net fee and commission income, however, increased quarter-on-quarter, as did our earned non-life insurance premiums and life insurance sales. Costs decreased significantly, as the bulk of bank taxes for the full year had been recorded in the previous quarter. Lastly, we were able to reverse a significant amount of previously booked loan loss impairment charges. Our solvency position remained very strong, with a common equity ratio of 17.5% on a fully loaded basis. It is the intention of our Board to distribute, in November 2021, an additional gross dividend of 2 euros per share for financial year 2020 and – in line with our general dividend policy – pay an interim dividend of 1 euro as an advance on the total dividend for financial year 2021.

In closing, I would like to take this opportunity to thank all stakeholders who have continued to put their trust in us. I especially wish to express my appreciation to all our staff who have also ensured that our group has been able to operate solidly and efficiently in these challenging times and was able to continue providing high-quality services to our customers. We will reflect that appreciation by providing an exceptional Covid-related bonus to all staff as recognition of their unrelenting efforts in ensuring that our group remains the reference in bank-insurance in all our home markets.

Johan Thijs
Chief Executive Officer

Financial highlights in the second quarter of 2021

- Commercial bank-insurance franchises in our core markets performed very well in the quarter under review.

- Net interest income increased by 2% and 1% compared to the previous and year-earlier quarters, respectively. The net interest margin for the quarter under review amounted to 1.79%, up 1 basis point on the previous quarter and down 3 basis points on the year-earlier quarter. Volumes continued to increase, with deposits including debt certificates growing by 4% quarter-on-quarter and 14% year-on-year, and loans up 2% quarter-on-quarter and 3% year-on-year. These figures were calculated on an organic basis (excluding the acquisition of OTP Banka Slovensko and any forex effects).

- The volume of loans that were granted payment holidays under the various relief schemes amounted to 12.7 billion euros (including EBA-compliant moratoria and the no longer EBA-compliant scheme in Hungary). As a large part of the EBA-compliant moratoria have meanwhile expired, loans still falling under them decreased by 95% by the end of June 2021. For 97% of loans under meanwhile expired EBA-compliant moratoria, payments have resumed.

- Technical income from our non-life insurance activities (premiums less charges, plus the ceded reinsurance result) was down 6% and 14% on the level recorded in the previous and year-earlier quarters, respectively, due essentially to higher technical charges. The combined ratio for the first six months of 2021 amounted to an excellent 82%. Sales of our life insurance products were up 5% on the level recorded in the previous quarter and down 12% on the high level recorded in the year-earlier quarter.

- Net fee and commission income was up 2% on its level in the previous quarter and by as much as 16% on the year-earlier quarter. In both cases, this was accounted for by an increase in fees for our asset management activities and banking services.

- The trading & fair value result was down 77% and 89% on its level in the previous and year-earlier quarters, respectively.

- All other income items combined were 11% and 24% lower than the figure recorded in the previous and year-earlier quarters, respectively. Note that the second quarter traditionally includes the bulk of the dividend income received for the year.

- Costs excluding bank taxes (the bulk of which are recorded in the first quarter of the year and hence distort the quarter-on-quarter comparison), were up 5% quarter-on-quarter and 7% year-on-year. The comparison is also distorted by a number of items, including the booking of an exceptional Covid-related bonus for staff in the quarter under review, forex effects and, for the year-on-year comparison, by the effect of the consolidation of OTP Banka Slovensko. The resulting cost/income ratio for the first half of 2021 amounted to 54%. In that calculation, certain non-operating items have been excluded and bank taxes spread evenly throughout the year. Excluding all bank taxes, the cost/income ratio amounted to 49% in the first half of 2021.

- The quarter under review included a 130-million-euro net release of loan loss impairment, compared to a net release of 76 million euros in the previous quarter, and a net charge of 845 million euros in the year-earlier quarter (with the bulk of that figure relating to collective impairment charges for the coronavirus crisis). As a consequence, the credit cost ratio in the first half of 2021 amounted to -0.22%, compared to 0.60% for full-year 2020 (a negative sign implies a positive impact on the results).

- Our liquidity position remained strong, with an LCR of 166% and NSFR of 152%. Our capital base remained equally as robust, with a fully loaded common equity ratio of 17.5% (under ECB rules, this does not include the interim profit for the first two quarters).

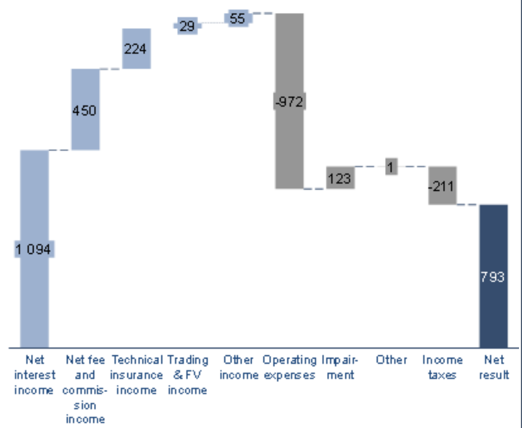
The cornerstones of our strategy

Our strategy rests on the following principles:

- We place our customers at the centre of everything we do
- We look to offer our customers a unique bank-insurance experience
- We focus on our group's long-term development and aim to achieve sustainable and profitable growth
- We meet our responsibility to society and local economies
- We build upon the PEARL-values, also focussing on the joint development of solutions, initiatives and ideas within the group

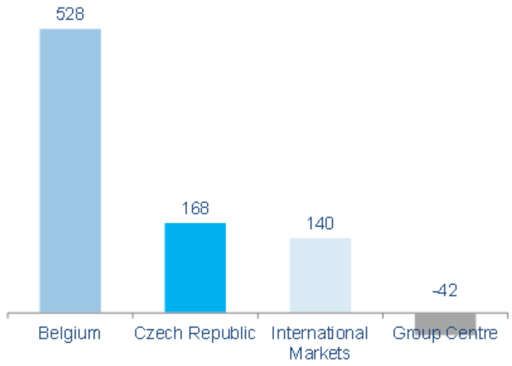
Breakdown of 2Q2021 result

(in millions of EUR)



Contribution of the business units to 2Q2021 group result

(in millions of EUR)



Overview of results and balance sheet

Consolidated income statement, IFRS KBC Group (in millions of EUR)	2Q2021	1Q2021	4Q2020	3Q2020	2Q2020	1H2021	1H2020
Net interest income	1 094	1 068	1 067	1 122	1 083	2 162	2 278
Non-life insurance (before reinsurance)	213	238	192	233	255	451	440
Earned premiums	*463*	*453*	*450*	*448*	*435*	*916*	*879*
Technical charges	*-250*	*-215*	*-258*	*-215*	*-180*	*-464*	*-439*
Life insurance (before reinsurance)	10	12	4	1	6	22	6
Earned premiums	*272*	*292*	*382*	*267*	*276*	*564*	*574*
Technical charges	*-262*	*-280*	*-378*	*-266*	*-271*	*-542*	*-568*
Ceded reinsurance result	1	-13	10	-9	-13	-12	-21
Dividend income	18	7	11	12	17	25	30
Net result from financial instruments at fair value through P&L[1]	29	127	80	85	253	156	-132
Net realised result from debt instruments at fair value through other comprehensive income	-1	2	-1	1	2	1	3
Net fee and commission income	450	441	403	390	388	890	816
Net other income	38	53	37	37	53	91	102
Total income	1 853	1 933	1 802	1 872	2 043	3 786	3 522
Operating expenses	-972	-1 320	-988	-926	-904	-2 293	-2 242
Impairment	123	77	-122	-63	-857	200	-997
Of which: on financial assets at amortised cost and at fair value through other comprehensive income[2]	*130*	*76*	*-57*	*-52*	*-845*	*206*	*-966*
Share in results of associated companies & joint ventures	1	-2	-2	-2	-3	-1	-7
Result before tax	1 005	688	690	881	279	1 693	276
Income tax expense	-211	-131	-152	-184	-69	-342	-71
Result after tax	793	557	538	697	210	1 350	205
attributable to minority interests	0	0	0	0	0	0	0
attributable to equity holders of the parent	**793**	**557**	**538**	**697**	**210**	**1 350**	**205**
Basic earnings per share (EUR)	1.87	1.31	1.26	1.64	0.47	3.18	0.43
Diluted earnings per share (EUR)	1.87	1.31	1.26	1.64	0.47	3.18	0.43

Key consolidated balance sheet figures KBC Group (in millions of EUR)	30-06-2021	31-03-2021	31-12-2020	30-09-2020	30-06-2020
Total assets	368 596	351 818	320 743	321 053	317 246
Loans & advances to customers, excl. reverse repos	164 344	160 960	159 621	157 773	157 563
Securities (equity and debt instruments)	71 098	71 981	71 784	71 310	72 131
Deposits from customers & debt cert., excl. repos	243 304	231 838	215 430	211 672	210 811
Technical provisions, before reinsurance	18 976	18 939	18 718	18 613	18 775
Liabilities under investment contracts, insurance	13 128	12 922	12 724	12 482	12 505
Parent shareholders' equity	21 600	20 768	20 030	19 244	18 570

Selected ratios KBC group (consolidated)	1H2021	FY2020
Return on equity[3]	14%	8%
Cost/income ratio, group [when excluding certain non-operating items and spreading bank taxes evenly throughout the year]	61% [54%]	58% [57%]
Combined ratio, non-life insurance	82%	85%
Common equity ratio, Basel III Danish Compromise, fully loaded [transitional]	17.5% [18.0%]	17.6% [18.1%]
Common equity ratio, FICOD fully loaded [transitional]	16.6% [17.1%]	16.4% [16.9%]
Credit cost ratio[4]	-0.22%	0.60%
Impaired loans ratio	3.2%	3.3%
for loans more than 90 days past due	1.7%	1.8%
Net stable funding ratio (NSFR)	152%	146%
Liquidity coverage ratio (LCR)	166%	147%

1 Also referred to as 'Trading and fair value income'.
2 Also referred to as 'Loan loss impairment'.
3 15% when bank taxes are spread evenly throughout the year.
4 A negative figure indicates a net impairment release (positively affecting results).

We provide a full overview of our IFRS consolidated income statement and balance sheet in the 'Consolidated financial statements' section of the quarterly report. Condensed statements of comprehensive income, changes in shareholders' equity, as well as several notes to the accounts, are also available in the same section. As regards the (changes in) definition of ratios, see 'Details of ratios and terms' in the quarterly report.

Analysis of the quarter (2Q2021)

Total income **1 853 million euros**	• Total income down 4% quarter-on-quarter. • Net interest income, net fee and commission income and dividend income all up, whereas trading & fair value income and, to a lesser extent, technical insurance income and net other income down quarter-on-quarter.

Net interest income amounted to 1 094 million euros in the quarter under review, up 2% and 1%, respectively, on its level in the previous and year-earlier quarters.

Quarter-on-quarter, net interest income benefited from the continued growth of lending volumes (see below), more extensive charging of negative interest rates on certain current accounts held by corporate entities and SMEs, lower funding costs, a higher number of days in the period under review, higher interest income from the insurer's bond portfolio (inflation-linked bonds) and a positive forex-related impact. These effects were partly offset by a number of factors, including the negative impact of lower reinvestment yields, margin pressure on the mortgage loan portfolio (particularly in the Czech Republic and Hungary) and a slightly lower netted positive impact of ALM forex swaps. Year-on-year, the increase in net interest income was due to a number of items, such as the increase in the loan portfolio, lower funding cost (including the positive impact of TLTRO III), the higher netted positive impact of ALM forex swaps, the consolidation of OTP Banka Slovensko (included in the group result as of 2021), more extensive charging of negative interest rates on certain current accounts held by corporate entities and SMEs, and a positive forex effect, partly offset by the negative impact of past CNB rate cuts in the Czech Republic and lower reinvestment yields in general. The net interest margin for the quarter under review amounted to 1.79%, up 1 basis point on the previous quarter and down 3 basis points on the year-earlier quarter. For an indication of the expected net interest income for full-year 2021, see 'Guidance' on page 10 of this publication.

Customer deposits including debt certificates (243 billion euros) were up 4% quarter-on-quarter and 14% year-on-year on an organic basis (eliminating the forex-related impact and the effects of changes in the scope of consolidation). The total volume of customer lending (164 billion euros) rose 2% quarter-on-quarter and 3% year-on-year on an organic basis. The volume of loans that were granted payment holidays under the various relief schemes amounted to 12.7 billion euros (including EBA-compliant moratoria and the no longer EBA-compliant scheme in Hungary). As a large part of the EBA-compliant moratoria have meanwhile expired, loans still falling under them decreased by 95% by the end of June 2021. For 97% of loans under meanwhile expired EBA-compliant moratoria, payments have fully resumed. In addition, we granted some 0.9 billion euros in loans that fall under the various coronavirus-related government guarantee schemes in our home markets.

Technical income from our **non-life insurance activities (**earned premiums less technical charges, plus the ceded reinsurance result) contributed 213 million euros to total income, down 6% and 14% on its performance in the previous and year-earlier quarters, respectively. In both cases, the increase in earned premiums (+2% quarter-on-quarter and +6% year-on-year) and better reinsurance result were more than offset by a rise in technical charges, as – inter alia – the quarter under review was adversely impacted by claims related to the extreme weather (windstorms/tornado) in the Czech Republic and the fact that claims had been quite low in the second quarter of 2020 as a result of the strict lockdown measures at that time. Overall, the combined ratio for the first six months of 2021 came to an excellent 82%, compared to 85% for full-year 2020. Note that the impact of the recent floods in Belgium will only become apparent in the results as of the third quarter. We have provided an estimate of that impact under 'Guidance' on page 10 of this publication.

Technical income from our **life insurance activities** (earned premiums less technical charges, plus the ceded reinsurance result) amounted to 10 million euros, compared to 11 million euros in the previous quarter and 1 million euros in the year-earlier quarter. Sales of life insurance products in the quarter under review (494 million euros) were up 5% on the level recorded in the previous quarter, with the decline in guaranteed-interest products being more than offset by increased sales of unit-linked insurance products. Sales were down 12% on the relatively high level recorded in the year-earlier quarter, due primarily to lower sales of unit-linked products. Overall, the share of unit-linked products in our total life insurance sales amounted to 55% in the quarter under review, with guaranteed-interest products accounting for the remaining 45%.

In the quarter under review, **net fee and commission income** amounted to 450 million euros, up 2% on its level in the previous quarter. This is due to a combination of higher fees for our asset management business (especially management fees) and for our banking services (increased fees for payment services more than offsetting lower securities-related fees). Net fee and commission income was up by as much as 16% on its level in the year-earlier quarter, thanks to significantly higher fees for both our asset management services (+20%) and our banking services (+9%, due mainly to higher fees for payment services), only slightly offset by higher distribution fees paid. At the end of June 2021, our total assets under management amounted to 228 billion euros, up 3% quarter-on-quarter and 13% year-on-year. In both cases, the increase was due primarily to a further recovery in asset prices, coupled with small net inflows.

The **net result from financial instruments at fair value** (trading & fair value income) amounted to 29 million euros, down 77% and 89% on the level recorded in the previous and year-earlier quarters, respectively. In both cases, the decrease was due to a combination of a lower dealing room result, a drop in the market value of derivatives used for asset/liability management purposes, a lower realised result on shares in the insurer's portfolio, and lower positive market value adjustments.

The **other remaining income** items included dividend income of 18 million euros (in line with the year-earlier figure and up on the figure recorded in the previous quarter, as the second quarter of the year traditionally includes the bulk of received dividends) and 38 million euros in net other income (somewhat below the normal run rate for this item, due in part to some negative one-off items).

Operating expenses **972 million euros**	• Operating expenses, excluding bank taxes, were up 5% and 7% quarter-on-quarter and year-on-year, respectively, partly due to the booking of an exceptional Covid-related bonus for staff, forex effects and the consolidation of OTP Banka Slovensko (year-on-year). • Group cost/income ratio for first six months of 2021 amounted to 54% (when certain non-operating items are excluded and bank taxes spread evenly over the year) or 49% (when bank taxes are fully excluded).

Operating expenses in the second quarter of 2021 amounted to 972 million euros. The quarter-on-quarter comparison is distorted by the upfront recognition in the first quarter of most of the bank taxes for the full year (bank taxes amounted to 424 million euros in the first quarter of 2021, compared to just 30 million euros in the second quarter of 2021).

Excluding these taxes, expenses were up 5% on their level of the previous quarter due to a number of factors, including the booking of an exceptional Covid-related bonus for staff, wage inflation, increased ICT costs and higher expenses for facilities, marketing campaigns and professional fees (partly seasonal), as well as a negative forex effect. Year-on-year, expenses excluding bank taxes were up 7% chiefly on account of the Covid-related bonus for staff, the consolidation of OTP Banka Slovensko, the lower accruals for variable remuneration in the reference period, wage inflation, higher ICT expenses, higher marketing expenses and a negative forex effect.

The cost/income ratio for the group came to 61% for the first six months of 2021. Evenly spreading the bank taxes over the full year and excluding certain non-operating items, the ratio amounted to 54%, compared to 57% for full-year 2020. When excluding all bank taxes, the cost-income ratio for the first six months of the year fell to 49%.

For an indication of the expected increase in costs for full-year 2021, see 'Guidance' on page 10 of this publication.

Loan loss impairment **130-million-euro net release**	• Significant net release of loan loss impairment in the quarter under review. • Credit cost ratio for the first six months of 2021 at -0.22%.

In the second quarter of 2021, we recorded a 130-million-euro net release of loan loss impairment, compared with a net release of 76 million euros in the previous quarter and a net charge of 845 million euros in the second quarter of 2020 (almost 90% of that 845 million euros related to collective impairment charges for the coronavirus crisis). The net release in the quarter under review includes the release of 129 million euros in collective coronavirus-related impairment. As a consequence, collective impairment charges for the coronavirus crisis recorded on the books at end of June 2021 amounted to 628 million euros (down from 757 million euros three months earlier). Of that amount, 592 million euros was based on a 'management overlay' and 36 million euros captured by the ECL models through updated macroeconomic variables. A detailed calculation and background information regarding collective impairment charges for the coronavirus crisis is provided in Note 1.4 of the 'Consolidated financial statements' section of the quarterly report.

Broken down by country, net reversals of loan loss impairment came to 56 million euros in Belgium, 53 million euros in the Czech Republic, 6 million euros in Slovakia, 19 million euros in Hungary, 1 million euros in Bulgaria and 0 million euros in Ireland, with only the Group Centre recording a small increase in loan loss impairment (6 million euros).

For the entire group, the credit cost ratio amounted to -0.22% for the first six months of 2021 (-0.06% excluding the amount recorded for the coronavirus crisis), up from 0.60% for full-year 2020 (0.16% excluding the amount for the coronavirus crisis). A negative figure implies a positive impact on the result. At the end of June 2021, some 3.2% of our total loan book was classified as impaired (Stage 3), compared to 3.3% at year-end 2020. Impaired loans that are more than 90 days past due amounted to 1.7% of the loan book, compared to 1.8% at year-end 2020.

For an indication of the expected impact of loan loss impairment for full-year 2021, see 'Guidance' on page 10 of this publication.

Impairment on assets other than loans amounted to a net charge of 6 million euros, compared to a net reversal of 1 million euros in the previous quarter and a net charge of 12 million euros in the second quarter of 2020. This 2020 figure related principally to the accounting treatment (modification loss) of payment moratoria in our home countries.

Net result by business unit	Belgium	Czech Republic	International Markets	Group Centre
	528 million euros	168 million euros	140 million euros	-42 million euros

Belgium: the net result (528 million euros) was up 39% quarter-on-quarter. Excluding bank taxes (the bulk of which are recorded in the first quarter and distort the quarter-on-quarter comparison), the result fell by 13% due to the combined effect of slightly lower total income (the increase in net interest income and dividend income was more than offset by a significant decline in trading & fair value income and smaller decreases in net fee & commission income and other net income), higher costs (partly related to the exceptional Covid-related bonus for staff) and slightly lower level of loan loss impairment reversals compared to the previous quarter.

Czech Republic: the net result (168 million euros) was up 34% on its level for the previous quarter, excluding forex effects. When bank taxes are also excluded, the net result was virtually the same as in the previous quarter. This was due to a combination of lower total income (the increase in net interest income and net fee and commission income was more than offset by a significant decrease in trading & fair value income and lower non-life insurance income owing to the impact of extreme weather) and increased costs (partly related to the exceptional Covid-related bonus for staff), offset by a higher level of loan loss impairment reversals compared to the previous quarter.

International Markets: the 140-million-euro net result breaks down as follows: 22 million euros in Slovakia, 75 million euros in Hungary, 30 million euros in Bulgaria and 13 million euros in Ireland. For the business unit as a whole, the net result was up 58% quarter-on-quarter, or 11% when bank taxes are excluded. The latter increase came about mainly on account of the slightly higher level of total income (thanks to increased net interest income and net fee and commission income) and a net reversal of loan loss impairment (unlike the previous quarter when there was no impairment impact), somewhat offset by increased costs (partly related to the exceptional Covid-related bonus for staff).

Group Centre: the net result (-42 million euros) was 7 million euros lower than the figure recorded in the previous quarter, due in part to higher loan loss impairment charges and a slightly lower level of total income (owing mainly to lower non-life technical insurance income) in the quarter under review, partly offset by lower costs.

Selected ratios by business unit	Belgium 1H2021	FY2020	Czech Republic 1H2021	FY2020	International Markets 1H2021	FY2020
Cost/income ratio, group (when excluding certain non-operating items and spreading bank taxes evenly throughout the year)	50%	54%	55%	52%	63%	64%
Combined ratio, non-life insurance	81%	84%	85%	87%	80%	84%
Credit cost ratio*	-0.20%	0.57%	-0.41%	0.67%	-0.18%	0.78%
Impaired loans ratio	2.5%	2.3%	2.1%	2.3%	6.3%	6.9%

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

A full results table is provided in the 'Additional information' section of the quarterly report. A short analysis of the results per business unit is provided in the analyst presentation (available at www.kbc.com).

Equity, solvency and liquidity	Total equity	Common equity ratio (fully loaded)	Liquidity coverage ratio	Net stable funding ratio
	23.1 billion euros	17.5%	166%	152%

At the end of June 2021, total equity amounted to 23.1 billion euros, comprising 21.6 billion euros in parent shareholders' equity and 1.5 billion euros in additional tier-1 instruments. Total equity was up 1.6 billion euros on its level at the end of 2020. This was accounted for by the combined effect of a number of items, including the profit for the first six months of 2021 (+1.4 billion euros), payment of the dividend to shareholders in May 2021 (-0.2 billion euros), an increase in the revaluation reserves (+0.4 billion euros) and a number of minor items. We have provided details of these changes under 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section of the quarterly report.

For information on future dividend payments, see 'Guidance' on page 10 of this publication.

At 30 June 2021, our fully loaded common equity ratio (Basel III, under the Danish compromise) amounted to 17.5%, compared to 17.6% at the end of 2020 (fully due to an increase in risk-weighted assets). Our fully loaded leverage ratio (Basel III) came to 5.5%. The solvency ratio for KBC Insurance under the Solvency II framework was 221% at the end of June 2021, compared to 222% at the end of 2020. 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 166% and an NSFR ratio of 152%, compared to 147% and 146%, respectively, at the end of 2020.

Analysis of the year-to-date period (1H2021)

Net profit

1 350 million euros

- Net profit significantly up by 1 145 million euros year-on-year to 1 350 million euros.
- The 2020 reference period had included high collective loan loss impairment charges related to the coronavirus crisis (789 million euros compared to a net release of 155 million euros in the current year-to-date period).
- Additionally, net fee and commission income, the technical insurance result and trading & fair value income were all up. Net interest income, dividend income and net other income were down. Costs increased year-on-year.

Highlights (compared to the first half of 2020):

• Lower net interest income (down 5% to 2 162 million euros), due in part to the negative impact of past rate cuts in the Czech Republic and the negative effects of lower reinvestment yields. These items were partly offset by the positive impact of TLTRO III and ECB tiering, a larger loan portfolio (see below), the OTP Banka Slovensko 'impact' (included in the group result as of 2021), more extensive charging of negative interest rates on certain current accounts held by corporate entities and SMEs and a higher netted positive impact of ALM FX swaps. On an organic basis (excluding changes in scope and forex effects), the volume of deposits and debt certificates increased by 14% and customer lending volumes by 3%. The net interest margin in the first half of 2021 came to 1.79%, down 10 basis points year-on-year.

• Increase in the contribution to profit made by the technical insurance result (up 8% to 461 million euros). The non-life insurance technical result was up 5% on the figure for the year-earlier period, on account of higher premium income and a better ceded reinsurance result, which more than offset the increased level of technical charges. The year-to-date non-life combined ratio amounted to an excellent 82%, compared to 85% for full-year 2020. Life insurance sales (965 million euros) were down slightly (by 2%), with decreased sales in both unit-linked and guaranteed-interest products.

• Higher net fee and commission income (up 9% to 890 million euros), attributable primarily to an increase in fees for asset management services (management fees) and, to a lesser extent, higher fees for certain banking services. At the end of June 2021, total assets under management amounted to 228 billion euros, up 13% on the level recorded a year earlier (12% price increase, 1% net inflows).

• Much higher trading & fair value income (up from -132 million euros to 156 million euros). The figure for the reference period included the extremely negative performance in the first quarter (-385 million euros), as the outbreak of the coronavirus crisis in that quarter initially caused stock markets to tumble, credit spreads to widen and long-term interest rates to fall.

• Lower level of all other income items combined (down 13% to 117 million euros) due to lower dividend income and net other income.

• Higher operating expenses (up 2% to 2 293 million euros). Excluding bank taxes, operating expenses were also up 2%, due to items such as the exceptional Covid-related bonus awarded to staff, the consolidation of OTP Banka Slovensko, the lower accruals for variable remuneration in the reference period and wage inflation, partly offset by lower costs related to ICT, facilities and professional fees and lower depreciation expenses. Note that, excluding the OTP Banka Slovensko impact, the exceptional Covid-related bonus, forex effects and bank taxes, costs remained stable compared to the reference period. The year-to-date cost/income ratio came to 61%, or an adjusted 54% when bank taxes are evenly spread throughout the year and certain non-operating items excluded (compared to 57% for full-year 2020). When bank taxes are fully excluded, the cost-income ratio for the six-month period under review fell to 49%.

• Significant decrease in loan loss impairment (net reversal of 206 million euros, as opposed to a net charge of 966 million euros in the reference period). Note that the reference period included 789 million euros in collective impairment charges for the coronavirus crisis, compared to a net release of 155 million euros in the current period. As a result, the credit cost ratio for the whole group improved to -0.22%, compared to 0.60% for full-year 2020 (a negative figure implies a positive impact on the result).

• The 1 350-million-euro net result for the first half of 2021 breaks down as follows: 908 million euros for the Belgium Business Unit (up 789 million euros on the year-earlier level), 291 million euros for the Czech Republic Business Unit (up 125 million euros), 228 million euros for the International Markets Business Unit (up 239 million euros) and -76 million euros for the Group Centre (down 8 million euros). The result for the International Markets Business Unit for the first half of 2021 included 38 million euros for Slovakia, 118 million euros for Hungary, 52 million euros for Bulgaria and 21 million euros for Ireland.

Risk statement, economic views and guidance

Risk statement

As we are mainly active in banking, insurance and asset management, we are exposed to a number of typical risks for these financial sectors such as – but not limited to – credit default risk, counterparty credit risk, concentration risk, movements in interest rates, currency risk, market risk, liquidity and funding risk, insurance underwriting risk, changes in regulations, operational risk, customer litigation, competition from other and new players, as well as the economy in general. KBC closely monitors and manages each of these risks within a strict risk framework, but they may all have a negative impact on asset values or could generate additional charges beyond anticipated levels.

At present, a number of items are considered to constitute the main challenges for the financial sector. These stem primarily from the impact of the coronavirus crisis on the global economy and, in particular, the financial sector. These risks come on top of risks relating to macroeconomic and political developments, which affect global and

European economies, including KBC's home markets. Regulatory and compliance risks (including anti-money laundering regulations 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, while climate-related risks are becoming increasingly prevalent, as evidenced by the tornado that hit the Czech Republic in June and the recent floods in Western Europe, including in Belgium. Finally, cyber risk has become one of the main threats during the past few years, not just for the financial sector, but for the economy as a whole.

We provide risk management data in our annual reports, quarterly reports and dedicated risk reports, all of which are available at www.kbc.com.

Our view on economic growth

The progress of the vaccination campaigns was the main driver of global economic growth in the second quarter, leading to positive quarter-on-quarter growth in the euro area and in the KBC home markets that have already reported 2Q-growth (Belgium and the Czech Republic). We expect reported quarterly growth in the other home markets to be positive as well. Despite the emergence of new infectious variants of the virus, recent data suggest a decoupling of the rate of infections from the rates of hospitalization and Intensive Care Unit occupancy, thanks to the availability of vaccines. We therefore expect that, in the second half of 2021, the European economies will re-open further by gradually easing the remaining pandemic-related restrictions that still weigh on them. As a result, European economic growth is expected to accelerate in the second half of 2021. European economic activity is likely to return to its pre-pandemic level in early-2022.

Our view on interest rates and foreign exchange rates

Coordinated monetary and fiscal policy stimuli continue to support the US and euro area economies. While the start of the tapering of asset purchases in 2021-2022 by the Federal Reserve (Fed) is a possibility, we expect both the Fed and the ECB to keep their policy rates unchanged for 2021-2022. The ECB strategy review and first policy meeting suggests that these rates may remain unchanged at their current low levels (or lower) for longer than so far anticipated.

Ten-year government bond yields in the US fell markedly in the second quarter of 2021 and continued to decrease at the beginning of the third quarter. This decline was partly driven by falling inflation expectations and market concerns about the growth outlook beyond the immediate past-pandemic recovery. However, we expect US yields to moderately increase again from their current levels in the third quarter on the back of the ongoing economic recovery and unsustainable low real yields. This will also lead to moderate upward pressure on German yields. Underlying medium-term inflation in the euro area is expected to gradually increase, helped by the announced gradual inclusion of owner-occupied housing costs in the definition of the harmonised consumer price index. As a result of continued ample liquidity provision by the ECB and low policy rates, we expect intra-EMU sovereign spreads to remain broadly stable at their current compressed levels.

As regards exchange rates, we expect the Hungarian forint to strengthen somewhat in the third quarter from its current level. This is in line with the tightening cycle started by the Hungarian central bank, which was continued on its latest policy meeting of 27 July. From the fourth quarter on, however, we expect the forint to resume its fundamental gradual depreciation against the euro. The Czech koruna is also likely to appreciate moderately against the euro. In contrast to the Hungarian forint, this appreciation is likely to be longer lived. We expect the Czech National Bank to raise its policy rate by another 50 basis points by the end of 2021, followed by another increase of 75 basis points in 2022, mainly as a result of the outlook for Czech inflation. As far as the US dollar is concerned, we expect the US dollar to depreciate to a moderate extent against the euro, driven by the continued improving outlook for global growth and inflation, high US budget and current account deficits and the higher inflation differential between the US and the euro area.

Guidance	
	Full-year 2021 guidance ▪ Net interest income: we are increasing our full year 2021 guidance from 4.3 billion euros to approximately 4.4 billion euros. ▪ Operating expenses excluding bank taxes: our 2021 full year guidance remains unchanged at +2% year-on-year like-for-like, despite the negative forex effect. Note however that, next to the impact of the acquisition of OTP Banka Slovensko as of 2021, the one-off -18 million euros Covid-related bonus comes on top. ▪ Credit cost ratio (CCR): the full year 2021 CCR is expected to be around 0 basis points (excluding potential further coronavirus crisis ECL reversals in the second half of 2021) instead of the low end of our average through-the-cycle CCR of 30-40bps. This does not take into account any potential impact of the signing of the two pending loan sales transactions (performing and non-performing loan portfolios) at KBC Bank Ireland. ▪ Starting mid-July, Belgium (and particularly the eastern part) was severely hit by several floods. This will have a negative impact on KBC in the third quarter 2021, in the non-life technical result. The true extent of the human loss and material damage caused by these extreme weather conditions will become clear in the coming weeks. Nevertheless, the first estimated impact after reinsurance (before tax) is around -41 million euros (under current legislation). **Dividend** ▪ It is the intention of our Board of Directors to distribute, in November 2021: - an additional gross dividend of 2 euros per share for 2020, and - in line with our general dividend policy, an interim dividend 1 euro as an advance on the total dividend for financial year 2021.

Upcoming events	3Q2021 results: 12 November 2021
More information on 2Q2021	Quarterly report: www.kbc.com / Investor Relations / Reports Company presentation: www.kbc.com / Investor Relations / Presentations
Detailed impact of coronavirus crisis	Quarterly report, Note 1.4 in 'Consolidated financial statements according to IFRS' Company presentation, section 2 on 'Covid-19'
Definitions of ratios	'Details of ratios and terms at KBC Group level' in the last section of the quarterly report.

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