Press Release

Outside trading hours - Regulated information*

Brussels, 9 August 2018, (07.00 a.m. CEST)

KBC Group: Second-quarter result of 692 million euros

KBC Group - overview (consolidated, IFRS)	2Q2018 (IFRS 9)	1Q2018 (IFRS 9)	2Q2017 (IAS 39)	1H2018 (IFRS9)	1H2017 (IAS39)
Net result (in millions of EUR)	692	556	855	1 248	1 485
Basic earnings per share (in EUR)	1.61	1.30	2.01	2.91	3.49
Breakdown of the net result by business unit (in millions of EUR)					
Belgium	437	243	483	680	785
Czech Republic	145	171	183	316	364
International Markets	163	137	177	299	292
Group Centre	-53	5	12	-48	45
Parent shareholders' equity per share (in EUR, end of period)	39.9	40.9	39.8	39.9	39.8

2Q2018

We recorded a net profit of 692 million euros in the second quarter of 2018. Yet again a good result, thanks, among other things, to a sound level of net interest income, a strong non-life insurance result and seasonally high dividend income, which partly offset the decrease in trading and fair value income, the slight drop in fee and commission income and the negative one-off impact related to the settlement of a legacy legal case. Given seasonal effects, costs remained under control and moreover, we were able yet again to release some loan loss provisions, mainly related to our Irish mortgage book. Adding the result for the second quarter to the 556-million-euro net profit figure for the previous quarter brings our result for the first half of 2018 to a solid 1 248 million euros. Our solvency position remained strong too, with a common equity ratio of 15.8% at the end of June 2018, comfortably surpassing the regulatory minimum levels in this respect.

In April, we successfully issued a new additional tier-1 instrument for an amount of 1 billion euros. And early July, we completed our announced buyback of 2.7 million own shares for a total consideration of 181 million euros. The cancellation of these shares has reduced the total number of KBC Group shares to 415 897 567. Lastly, in line with our dividend policy, we decided to pay an interim dividend of 1 euro per share on 16 November 2018, as an advance payment on the total dividend for 2018.

We also took important new steps in the implementation of our sustainability strategy. In May, for instance, KBC – as promoter – became the first financial institution in the Belgian market to launch an SRI pension savings fund. The fund in question is managed by KBC Asset Management and is fully compliant with BEAMA sustainability criteria. In June, we published our stricter policies for sustainable banking and insurance and in doing so, are responding to the constantly evolving expectations of our stakeholders and the wider community. And again in June, we were the first Belgian financial institution to launch a green bond.

On the broader economic front, European economic conditions have remained attractive, though we believe that the growth peak is likely behind us. The risk of further economic de-globalisation, with an escalation of trade conflicts, remains the main factor that could impede European economic growth.

In closing, I'd like to take this opportunity again to thank our clients and other stakeholders for the trust they place in our company and our employees, and to repeat that we remain fully committed and focused in our efforts to become the reference in bank-insurance in all our core countries.

Important non-adjusting post-balance sheet event

I'm also pleased to announce that KBC Bank Ireland reached an agreement with Goldman Sachs to sell a part (approximately 1.9 billion euros) of its legacy loan portfolio. As a result of that transaction, KBC Bank Ireland's impaired loans ratio reduces by roughly 11 percentage points to around 25% pro forma at end 2Q2018. The transaction is expected to result in a net profit impact of +14 million euros (based on 1Q2018 numbers and including all costs related to the transaction), a release of risk-weighted assets of approximately 0.4 billion euros at KBC Group, leading to an improvement of the KBC Group common equity ratio of 7 bps. The transaction is expected to close in the 4th quarter of 2018.

Johan Thijs
Chief Executive Officer

Important. As of 2018, we have started applying IFRS 9. In simplified terms, this means that the classification of financial assets and liabilities, as well as the impairment methodology, have changed significantly. As a result, some of the profit and loss and balance sheet figures are not fully comparable to the 2017 reference figures (which are still based on IAS 39, as KBC is making use of transition relief for comparative data). In order to enhance transparency, we have also, as of 2018 and in line with IFRS 9, moved interest accruals for FX derivatives in the banking book from 'fair value income' to 'net interest income'. We also shifted network income (income received from margins earned on FX transactions carried out by the network for our customers) from 'trading and fair value income' to 'net fee and commission'. A short overview is provided in the annex. Furthermore, related to IFRS 9, we changed, as of 2018, the definition of our loan portfolio from outstanding to gross carrying amount (i.e. incl. reserved and accrued interests) and slightly amended the scope. In order to enhance comparability, we have added certain comparisons with pro forma (recalculated) figures for 2017 (unaudited) in the analysis below. When this is done, it is indicated by the words '**on a comparable basis**'.

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

Financial highlights in the second quarter of 2018

- Good performance delivered by the commercial bank-insurance franchises in our core markets and core activities.

- Lending volumes were up 3% quarter-on-quarter and 5% year-on-year, with increases in all business units. Deposits excluding debt certificates rose by 3% quarter-on-quarter and by 6% year-on-year, again with increases in all business units.

- Net interest income was relatively stable (-1%) quarter-on-quarter, but improved by 2% year-on-year (on a comparable basis). Net interest income benefited from lower funding costs, higher repo rates in the Czech Republic, loan volume growth and the positive year-on-year effect of the consolidation of UBB/Interlease in Bulgaria, but continued to suffer from loan margin pressure and low reinvestment yields, among other things.

- Technical income from our non-life insurance activities increased 11% compared to the year-earlier quarter, thanks to higher earned premiums. The resulting combined ratio for the first six months of the year amounted to an excellent 88%, fully in line with the figure for full-year 2017. Sales of our life insurance products fell by 14% on the previous quarter (partly a seasonal effect), but were up 3% on their level of the second quarter of 2017.

- On a comparable basis, our net fee and commission income was down 3% and 4%, respectively, on its quarter-earlier and year-earlier levels. This was due essentially to lower asset management-related entry fees.

- All other income items combined were down 37% quarter-on-quarter, owing to lower trading and fair value income and lower other net income (impacted by a negative one-off item) and partly offset by seasonally higher dividend income, among other factors. Year-on-year, all other income items combined fell by more than half – on a comparable basis – due primarily to a significantly lower level of trading and fair value income.

- The quarter-on-quarter comparison of costs is distorted by the fact that the bulk of special bank taxes for full-year 2018 is booked in the first quarter. Disregarding these taxes, costs were up 2% quarter on-quarter. Year-on-year, costs increased by 6% though that was caused in part by the inclusion of UBB/Interlease. When bank taxes are spread evenly throughout the year, the cost/income ratio amounted to 56% in the first half of 2018, more or less in line with the figure recorded for full-year 2017 (55%).

- The quarter benefited from a 21-million-euro release of loan loss provisions mainly thanks to Ireland. Consequently, our annualised cost of credit amounted to a very favourable -0.10% (a negative figure indicates a positive impact on the results), compared to the -0.06% registered for full-year 2017. Without Ireland, the credit cost ratio would have come to 0.00%, compared to 0.09% for full-year 2017.

- Our liquidity position remained strong, as did our capital base, with a common equity ratio of 15.8% (fully loaded, Danish compromise).

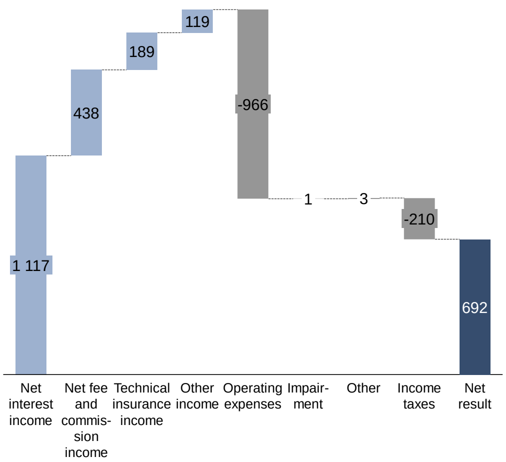
The cornerstones of our strategy

Our strategy rests on four principles:

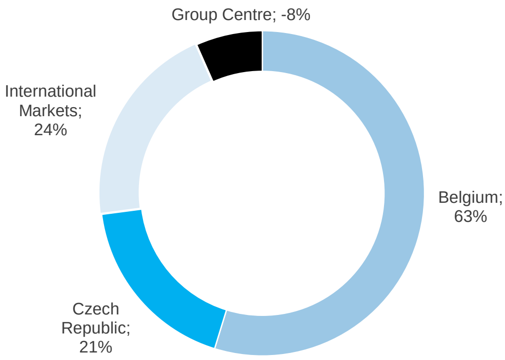
- We place our clients at the centre of everything we do.
- We look to offer our clients a unique bank-insurance experience.
- We focus on our group's long-term development and aim to achieve sustainable and profitable growth.
- We meet our responsibility to society and local economies.

Breakdown of the 2Q2018 result

(in millions of EUR)



Contribution of the business units to the group result (2Q2018)



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Overview of results and balance sheet

Consolidated income statement, IFRS KBC Group (in millions of EUR)	2Q2018 (IFRS 9)	1Q2018 (IFRS 9)	4Q2017 (IAS 39)	3Q2017 (IAS 39)	2Q2017 (IAS 39)	1H2018 (IFRS 9)	1H2017 (IAS 39)
Net interest income	1 117	1 125	1 029	1 039	1 028	2 242	2 052
Non-life insurance (before reinsurance)	202	162	152	188	179	364	366
Earned premiums	*392*	*378*	*384*	*378*	*369*	*770*	*729*
Technical charges	*-190*	*-216*	*-232*	*-190*	*-190*	*-406*	*-363*
Life insurance (before reinsurance)	1	-7	-3	-3	-24	-5	-52
Earned premiums	*315*	*336*	*410*	*282*	*267*	*651*	*579*
Technical charges	*-314*	*-343*	*-414*	*-284*	*-291*	*-656*	*-631*
Ceded reinsurance result	-14	-9	-10	16	-10	-23	-13
Dividend income	34	21	8	11	30	55	44
Net result from financial instruments at fair value through P&L[1]	54	96	235	182	249	150	439
Net realised result from available-for-sale assets	-	-	51	51	52	-	97
Net realised result from debt instruments at fair value through other comprehensive income	8	1	-	-	-	9	-
Net fee and commission income	438	450	430	408	430	889	869
Other net income	23	71	-14	4	47	94	124
Total income	1 863	1 912	1 878	1 896	1 980	3 775	3 926
Operating expenses	-966	-1 291	-1 021	-914	-910	-2 257	-2 139
Impairment	1	56	-2	-31	71	58	64
Of which: on loans and receivables[2]	-	-	30	-15	78	-	72
Of which: on financial assets at amortised cost and at fair value through other comprehensive income[2]	21	63	-	-	-	84	-
Share in results of associated companies & joint ventures	3	6	-5	8	3	10	8
Result before tax	901	683	850	959	1 144	1 585	1 858
Income tax expense	-210	-127	-451	-268	-288	-337	-373
Result after tax	692	556	398	691	855	1 248	1 485
attributable to minority interests	0	0	0	0	0	0	0
attributable to equity holders of the parent	**692**	**556**	**399**	**691**	**855**	**1 248**	**1 485**
Basic earnings per share (EUR)	1.61	1.30	0.92	1.62	2.01	2.91	3.49
Diluted earnings per share (EUR)	1.61	1.30	0.92	1.62	2.01	2.91	3.49

Key consolidated balance sheet figures KBC Group (in millions of EUR)	30-06-2018 (IFRS 9)	31-03-2018 (IFRS 9)	31-12-2017 (IAS 39)	30-09-2017 (IAS 39)	30-06-2017 (IAS 39)
Total assets	301 934	304 022	292 342	296 885	296 479
Loans and advances to customers, excl. reverse repos	145 346	142 512	140 999	139 538	138 522
Securities (equity and debt instruments)	63 936	66 050	67 743	69 273	70 898
Deposits from customers and debt certificates, excl.repos	192 951	188 034	193 708	188 962	188 708
Technical provisions, before reinsurance	18 595	18 754	18 641	18 696	18 905
Liabilities under investment contracts, insurance	13 428	13 338	13 552	13 294	13 339
Parent shareholders' equity	16 616	17 119	17 403	17 003	16 665

Selected ratios KBC group (consolidated)	1H2018	FY2017
Return on equity	16%	17%
Cost/income ratio, banking (when excluding certain non-operating items and evenly spreading the bank tax)	62% (56%)	54% (55%)
Combined ratio, non-life insurance	88%	88%
Common equity ratio, Basel III Danish Compromise (fully loaded)	15.8%	16.3%
Common equity ratio, FICOD (fully loaded)	15.0%	15.1%
Leverage ratio, Basel III (fully loaded)	6.0%	6.1%
Credit cost ratio[3]	-0.10%	-0.06%
Impaired loans ratio	5.5%	6.0%
for loans more than 90 days past due	3.2%	3.4%
Net stable funding ratio (NSFR)	136%	134%
Liquidity coverage ratio (LCR)	139%	139%

1 Also referred to as 'trading and fair value income'.
2 Also referred to as 'loan loss impairment'.
3 A negative figure indicates a net impairment release (with a positive impact on the 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 (2Q2018)

Total income 1 863 million euros	Total income was slightly down (-3%) quarter-on-quarter. Overall, net interest income was relatively stable (-1%), non-life insurance income and dividend income increased, net fee and commission income fell slightly and trading and fair value income dropped significantly. Net other income was adversely impacted by a one-off item.

Net interest income amounted to 1 117 million euros in the quarter under review. On a comparable basis, it was relatively stable quarter-on-quarter (-1%), but up year-on-year (+2%). In general, the pressure on commercial loan margins in most core countries, the negative effect of low reinvestment yields and a lower netted positive impact of ALM forex swaps were offset by loan volume growth, lower funding costs, higher repo rates in the Czech Republic and the consolidation of UBB/Interlease (year-on-year). As already mentioned, interest income continued to be supported by loan volume growth: the total volume of customer lending rose by 3% quarter-on-quarter and by 5% year-on-year, with increases in all business units. Customer deposits including debt certificates went up by 3% quarter-on-quarter, and by 2% year-on-year. Excluding debt certificates (which were down year-on-year due to several factors, including the lower level of certificates of deposits and repayment of the contingent capital securities in January), deposits went up by 6% year-on-year, again with increases in all business units. The net interest margin came to 2.00% for the quarter under review, down 1 basis point and up 4 basis points on the level in the previous and year-earlier quarter, respectively.

Our non-life insurance activities did very well, contributing 189 million euros to technical insurance income (earned premiums less technical charges, plus the ceded reinsurance result), 24% more than in the previous quarter and 11% more year-on-year. While the quarter-on-quarter increase was accounted for by the combination of increased premium income in all countries and a decrease in technical charges in Belgium (the figure for the first quarter of 2018 had been impacted by the January storms), the year-on-year increase was due solely to a rise in earned premiums. Consequently, the combined ratio for the first six months of 2018 came to an excellent 88%, in line with the figure recorded for full-year 2017.

Technical insurance income from our life insurance activities stood at 0 million euros, compared to -7 million euros in the previous quarter and -25 million in the year-earlier quarter. Sales of life insurance products (426 million euros) were 14% lower than in the previous quarter (drop mainly in unit-linked products) and were up 3% on the year-earlier quarter (drop in sales of unit-linked products offset by increased sales of guaranteed-interest products). Overall, the share of guaranteed-interest products in total life insurance sales stood at 61% in the second quarter of 2018, with unit-linked products accounting for the remaining 39%.

At 438 million euros, net fee and commission income remained robust, though on a comparable basis, it was down 3% and 4%, respectively, on its level of the previous and year-earlier quarters. Essentially, this was caused in both cases by the lower level of entry fees generated by our asset management activities (due to the more uncertain investment climate in the quarter under review) and lower securities-related fees. This was partly offset by higher payment services-related fees and (year-on-year) the beneficial effect of the inclusion of UBB/Interlease. At the end of June 2018, our total assets under management stood at 214 billion euros, more or less stable quarter-on-quarter and up 1% year-on-year (positive price performance).

All other remaining income items amounted to an aggregate 119 million euros, compared to 189 million euros in the previous quarter and 265 million euros in the year-earlier quarter (on a comparable basis). The figure for the second quarter of 2018 included relatively high dividend income of 34 million euros (the second quarter of the year traditionally includes the bulk of received dividends) and net realised result from debt instruments at fair value of 8 million euros. It also included 23 million euros in other net income, down on the previous quarter on account of a negative one-off item related to the settlement of a legacy legal case (-38 million euros), whereas the previous quarter had benefited from certain positive one-off items, viz. the settlement of another old legal case and the sale of a building (an aggregate 25 million euros). The other remaining income items also included the 54-million-euro net result from financial instruments at fair value (trading and fair value income). This figure was down significantly on both reference quarters, due to the combination of a lower value of derivatives used for asset/liability management purposes, the negative impact of various valuation adjustments and lower dealing room income in the Czech Republic, partly offset by higher realised gains on the sale of shares in the insurance portfolio.

Operating expenses 966 million euros	The comparison of expenses is distorted by the traditional upfront recognition in the first quarter of the year of the bulk of bank taxes for the full year. Excluding these taxes, expenses in the second quarter were up 2% on the previous quarter.

Operating expenses in the second quarter of 2018 stood at 966 million euros. The quarter-on-quarter comparison is distorted by the traditional upfront recognition in the first quarter of most of the bank taxes for the full year (371 million euros in the first quarter of 2018, compared to only 24 million euros in the second quarter of 2018). Excluding bank taxes, costs increased by 2% quarter-on-quarter, caused largely by increased staff expenses (mainly in Belgium and the Czech Republic), and seasonally higher marketing expenses, ICT costs and professional fees. Costs excluding bank taxes rose 6% year-on-year, partly due to the inclusion of UBB/Interlease, with the rest of the increase being accounted for by *inter alia* higher ICT costs (investments in digital transformation) and marketing expenses.

As a result, the cost/income ratio of our banking activities stood at 62% in the first six months of the year. When the bank taxes are spread evenly throughout the year and certain non-operational items are excluded, the cost/income ratio came to 56%, roughly in line with the 55% recorded for full-year 2017.

Loan loss impairments
21-million-euro net release

Another net release of loan loss impairments thanks to Ireland. Very favourable credit cost ratio of -0.10%.

In the second quarter of 2018, we recorded a 21-million-euro net release of loan loss impairments. This compares with a net release of 63 million euros in the previous quarter and 78 million euros in the second quarter of 2017. As was the case in the past few quarters, the net release of loan loss impairments in the second quarter of 2018 was largely attributable to Ireland (39 million euros in the second quarter of 2018), which came about mainly because of the positive effect of increased house prices on the mortgage loan portfolio. This was partly offset by 26 million euros of additional loan loss impairment charges being recorded in Belgium (related to corporate files). In all the other core countries, there was either a small release of loan loss impairments (Czech Republic, Hungary, Bulgaria and the Group Centre) or a generally low level of loan loss impairment charges (Slovakia). Consequently, the credit cost ratio for the entire group amounted to a very favourable -0.10% for the first six months of the year (a negative figure indicates a net release and, hence, has a positive impact on the results), compared to -0.06% in full-year 2017. Excluding Ireland, the credit cost ratio would have come to 0.00% in the first six months of the year (0.09% in full-year 2017).
The impaired loans ratio improved further in all business units. At the end of June 2018, some 5.5% of our total loan book was classified as impaired, compared with 6.0% at year-end 2017. Impaired credits that are more than 90 days past due amounted to 3.2% of the loan book (3.4% at year-end 2017).
The quarter under review also included 20 million euros in impairment on assets other than loans (partly related to the impact of the review of residual values of financial car leases under short-term contracts in the Czech Republic and to a legacy property file in Bulgaria).

Net result by business unit

Belgium	Czech Republic	International Markets	Group Centre
437 million euros	145 million euros	163 million euros	-53 million euros

Belgium: the net result was up 80% quarter-on-quarter, but this was distorted by the upfront booking in the first quarter of 2018 of most of the bank tax for the full year. Excluding bank taxes, the net result was fully in line with the previous quarter, and included a good level of net interest income, a decrease in net fee and commission income (more uncertain investment climate), higher technical insurance income (thanks to a strong performance in the non-life segment), higher trading and fair value income, seasonally higher dividend income and lower net other income (a positive one-off item in the previous quarter). Costs – excluding bank taxes – rose somewhat (mainly staff, ICT and marketing expenses) and loan loss impairment charges remained at a low level.

Czech Republic: disregarding the exchange rate effect, the net result was down 14% on its level for the previous quarter. Excluding bank taxes, the net result fell 24%, due mainly to lower trading and fair value income, and, to a lesser extent, higher costs (mainly staff and marketing expenses).

International Markets: the 163-million-euro net result breaks down as follows: 19 million euros for Slovakia, 62 million euros for Hungary, 26 million euros for Bulgaria and 55 million euros for Ireland. For the business unit as a whole and excluding the impact of the bank tax, the net result was down 6% quarter-on-quarter, due to the fact that the increase in total income (up 13 million euros in total, various income lines) was more than offset by a lower level of net loan loss releases (39 million euros, compared to 61 million euros in the previous quarter).

Group Centre: the net result was down 58 million euros on the level recorded in the previous quarter, due mainly to a negative one-off impact related to the settlement of a legacy legal case (38 million euros), a negative change in the value of derivatives used for asset/liability management purposes and lower releases of loan loss impairments (4 million euros, compared to 16 million euros in the previous quarter).

	Belgium		Czech Republic		International Markets	
Selected ratios by business unit	**1H2018**	**FY2017**	**1H2018**	**FY2017**	**1H2018**	**FY2017**
Cost/income ratio, banking excluding certain non-operating items and spreading the bank tax evenly throughout the year	57%	53%	45%	43%	62%	72%
Combined ratio, non-life insurance	87%	86%	96%	97%	88%	93%
Credit cost ratio[1]	0.08%	0.09%	-0.03%	0.02%	-0.71%	-0.74%
Impaired loans ratio[2]	2.4%	2.8%	2.1%	2.4%	19.5%	19.7%

1 A negative figure indicates a net impairment release (with a positive impact on the results). See 'Details of ratios and terms' in the quarterly report.
2 2018 figures based on a slightly changed definition of the loan portfolio. See 'Credit risk' 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, liquidity	Total equity	Common equity ratio (fully loaded)	Liquidity coverage ratio	Net stable funding ratio
	19.0 billion euros	15.8%	139%	136%

At the end of June 2018, total equity stood at 19.0 billion euros (16.6 billion euros in parent shareholders' equity and 2.4 billion euros in additional tier-1 instruments), up 1.0 billion euros on its level at the beginning of the year on a like-for-like basis (i.e. after adjustment for the impact of the first-time application of IFRS 9, which led to a drop of 0.7 billion euros). The 'like-for-like' increase of 1.0 billion euros during the first six months of the year resulted from the inclusion of the profit for that period (+1.2 billion euros), the issuance of a new additional tier-1 instrument in April (+1 billion euros), payment of the final dividend for 2017 in May 2018 (-0.8 billion euros), the share buyback (-0.2 billion euros), changes in various revaluation reserves (an aggregate -0.3 billion euros) and a number of minor items. We have provided details of the changes in the 'Consolidated financial statements' section of the quarterly report (under 'Consolidated statement of changes in equity').

At 30 June 2018, our fully loaded common equity ratio (Basel III, under the Danish compromise) stood at a strong 15.8%, compared to 15.9% three months earlier. Note that this ratio includes the effect of the recent share buyback (-0.2%). Our leverage ratio (Basel III, fully loaded) came to 6.0%. The solvency ratio for KBC Insurance under the Solvency II framework was a sound 219% at 30 June 2018. Our liquidity position remained excellent too, as reflected in an LCR ratio of 139% and an NSFR ratio of 136% at the end of June 2018.

Analysis of the year-to-date period (1H2018)

Net result	
1 248 million euros	The net result for the first six months of 2018 was down 16% compared to same period of 2017. On a comparable basis, the increase in net interest income, dividend income and technical insurance income was more than offset by the significant drop in trading and fair value income, lower net fee and commission income and other net income, and higher expenses. The first half results for both 2018 and 2017 benefited from net loan loss impairment releases, mainly in KBC Bank Ireland.

Highlights (compared to the first half of 2017, on a comparable basis):

- Somewhat higher net interest income (up 3% to 2 242 million euros), thanks to *inter alia* the consolidation of UBB/Interlease, lower funding costs, rate hikes in the Czech Republic and higher commercial lending volumes, which more than offset overall margin pressure and the negative effects of low reinvestment yields. The volume of deposits increased (+2%, or +6% excluding debt certificates), as did the volume of lending (+5%). The net interest margin in the first half of 2018 came to 2.01%.
- A higher contribution to profit made by the technical insurance result (up 12% to 336 million euros). Life insurance sales (924 million euros) were up by 4%, mainly on account of an increase in the sale of guaranteed-interest products. The non-life insurance technical result was slightly lower than in the year-earlier period (higher premium income offset by higher technical charges and a lower ceded reinsurance result). The year-to-date non-life combined ratio stood at 88% (same level as in full-year 2017).
- Slightly lower net fee and commission income (down 3% to 889 million euros), attributable primarily to our asset management services (lower entry fees) and, to a lesser extent, to lower securities-related fees, partly offset by increased payment services-related fees and the consolidation of UBB/Interlease. At the end of June 2018, total assets under management stood at 214 billion euros, slightly up (+1%) on the level recorded a year earlier (positive price effect).
- A lower level of all other income items combined (down 38% to 308 million euros) caused mainly by a significantly lower trading and fair value result and a decrease in other net income, and slightly offset by higher dividend income.
- Higher operating expenses (up 6% to 2 257 million euros), partly due to the consolidation of UBB/Interlease in the figures for the first half of 2018, as well as increased bank taxes and higher facilities and ICT costs. As a result, the year-to-date cost/income ratio came to 62%, or an adjusted 56% when bank taxes are evenly spread throughout the year and certain non-operating items are excluded (compared to 54% and 55%, respectively, for full-year 2017).
- A net release of loan loss impairments (84 million euros in the first half of 2018, compared to 72 million euros in the year-earlier period) thanks largely to the impairment releases on Irish mortgage loans (81 million euros) mainly because of increased house prices. As a result, the annualised credit cost ratio for the whole group stood at an excellent -0.10% (a negative figure indicates a positive impact on the results), compared to -0.06% for full-year 2017.
- The net result for the first half of 2018 breaks down as follows: 680 million euros for the Belgium Business Unit (-13% compared to the year-earlier period), 316 million euros for the Czech Republic Business Unit (-13%), 299 million euros for the International Markets Business Unit (+3%) and -48 million euros for the Group Centre (compared to a positive 45 million in the first half of 2017). The result for the International Markets Business Unit for the first half of 2018 breaks down into 113 million euros for Ireland, 96 million euros for Hungary, 42 million euros for Slovakia and 47 million euros for Bulgaria.

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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. Although we closely monitor and manage each of these risks within a strict risk framework containing governance and limits, 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. Regulatory uncertainty remains a dominant theme for the sector (even though the 'Basel IV' agreement in December has brought some clarification as regards future capital requirements), as does enhanced consumer protection. Another ongoing challenge remains the low interest rate environment, combined with the increased risk of asset bubbles. The financial sector also faces the potential systemic consequences of political and financial developments like Brexit or protectionist measures in the US, which will have an impact on the European economy. Technology used in the financial industry is an additional challenge for the business model of traditional financial institutions. Finally, cyber risk has become one of the main threats during the past few years, not just for the financial sector, but for the economy as a whole.

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

Our view on interest rates and foreign exchange rates: In line with its recent communication, we expect the ECB to taper its Asset Purchase Programmes after September 2018 and to end it in December 2018. The first step towards policy rate normalisation will only be taken well after the end of QE (quantitative easing), which is likely to be in the second half of 2019 at the earliest. In the meantime, we expect the Fed to carry out two more rate hikes in 2018 each time by 25 basis points. Consequently, we believe that the US dollar strength against the euro will continue in the short term, as it will benefit from short-term interest rate support arising from the persistent monetary policy divergence. Towards the end of 2018, however, the euro will probably start appreciating again. Given the low-inflation environment and still highly accommodating monetary policy of the ECB, German long-term bond yields are expected to rise only modestly in the period ahead. Unlike the dovish stance of the ECB, the Czech National Bank has been tightening its monetary policy during the past few months and is expected to continue doing so in 2018 given the buoyant Czech growth and inflation environment. We forecast one more rate hike for this year in the Czech Republic, which would bring the repo rate to 1.50% by the end of 2018. As a result, we expect the Czech currency to appreciate moderately to 25.50 Czech koruna per euro by the end of 2018.

Our view on economic growth: the European economic environment remains attractive. Although growth has slowed down somewhat compared to 2017, it remains above trend. Growth has probably already peaked, but we are still optimistic about the years to come. Persistently decreasing unemployment rates, with even growing labour shortages in some European economies, combined with gradually rising wage inflation will continue to support private consumption. Moreover, also investments will remain an important growth driver. The main element that could impede European economic sentiment and growth remains the risk of further economic de-globalisation, including an escalation of trade conflicts.

Guidance for the remainder of 2018

- In line with our dividend policy, we will pay an interim dividend of 1 euro per share in November (payment date: 16 November 2018; record date: 15 November 2018; ex-coupon date: 14 November 2018).
- For the rest of 2018, we expect solid returns for all business units.
- For Ireland, our guidance for loan impairment for full-year 2018 is for a net release of 100 to 150 million euros.
- For Belgium, we expect a recurring positive impact on our results from the recent reform of the Belgian income tax system. The negative upfront effect recorded in the last quarter of 2017 should be fully recouped in roughly three years' time.

Important non-adjusting post-balance sheet event: on 8 August 2018, KBC Bank Ireland reached an agreement with Goldman Sachs to sell part (approximately 1.9 billion euros) of its legacy portfolio, comprising of non-performing corporate loans, non-performing Irish buy-to-let loans, and performing & non-performing UK buy-to-let loans. As a result of the transaction, KBC Bank Ireland's impaired loans ratio reduces by roughly 11 percentage points to around 25% pro forma at end 2Q2018. The transaction is expected to result in a net profit impact of +14 million euros (based on 1Q2018 numbers and including all costs related to the transaction), a release of risk-weighted assets of approximately 0.4 billion euros at KBC Group, leading to an improvement of the KBC Group common equity ratio of 7 bps. The transaction is expected to close in the 4th quarter of 2018.

Annex

Pro forma recalculation of 2017 reference figures for the main income lines, KBC Group (in millions of EUR, unaudited figures)			Pro forma recalculation of 2017 reference figures			
	2Q2018	1Q2018	4Q2017	3Q2017	2Q2017	1Q2017
Net interest income	1 117	1 125	1 029	1 039	1 028	1 025
+ interest accruals on FX derivatives			+108	+75	+66	+56
= pro forma reference figure (used in our results analysis)			=1 137	=1 114	=1 094	=1 081
Net result from financial instruments at fair value through P&L (FIFV)	54	96	235	182	249	191
- interest accruals on FX derivatives			-108	-75	-66	-56
- network income			-26	-25	-24	-24
+ result on equity instruments ('overlay approach')			+17	+12	+21	+19
= pro forma reference figure (used in our results analysis)			=118	=94	=180	=130
Net fee and commission income	438	450	430	408	430	439
+ network income			+26	+25	+24	+24
= pro forma reference figure (used in our results analysis)			=456	=433	=454	=463

Interest accruals on FX derivatives: moved from FIFV to 'net interest income' (in line with the transition to IFRS 9).
Network income (income received from margins earned on FX transactions carried out by the network for clients): moved from FIFV to 'net fee and commission income'.
Result on equity instruments: in line with the IFRS 9 'overlay approach', realised gains and losses and impairment on what used to be available-for-sale shares in the insurance portfolio have been moved from 'net result from available-for-sales assets' and 'impairment on available-for-sale assets' to FIFV. Please note that, under IFRS 9, realised and unrealised gains/losses on what used to be available-for-sale shares in the banking portfolio are recorded in other comprehensive income (i.e. eliminated from the net result).

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