Press Release

Outside trading hours - Regulated information*

Brussels, 14 February 2019 (07.00 a.m. CET)

Fourth-quarter result of 621 million euros

KBC Group - overview (consolidated, IFRS)	4Q2018 (IFRS 9)	3Q2018 (IFRS 9)	4Q2017 (IAS 39)	FY2018 (IFRS 9)	FY2017 (IAS 39)
Net result (in millions of EUR)	621	701	399	2 570	2 575
Basic earnings per share (in EUR)	1.44	1.63	0.92	5.98	6.03
Breakdown of the net result by business unit (in millions of EUR)					
Belgium	361	409	336	1 450	1 575
Czech Republic	170	168	167	654	702
International Markets	93	141	74	533	444
Group Centre	-3	-17	-179	-67	-146
Parent shareholders' equity per share (in EUR, end of period)	41.4	40.6	41.6	41.4	41.6

We generated a net profit of 621 million euros in the fourth quarter of 2018. This excellent result was due in part to higher levels of net interest income, an outstanding combined ratio in our non-life insurance activities and strict cost management. Adding this figure for the fourth quarter to the 1 948 million euros recorded in the first nine months of the year brings our result for full-year 2018 to a solid 2 570 million euros. This is in line with the 2 575 million euros recorded for full-year 2017. Lending increased by 5% year-on-year, as did deposits (excluding debt certificates and repos).

Our solvency position remained strong. The common equity ratio amounted to 16% at the end of full-year 2018 after dividend distribution. The total (gross) dividend for 2018 of 3.5 euros per share (which will be proposed to the General Meeting of Shareholders in May) will result in a pay-out ratio of 59% for financial year 2018.

As announced earlier, KBC Bank Ireland closed the sale of part of its legacy loan portfolio in the quarter under review, which significantly reduced its impaired loans ratio by 10 percentage points to 23%, and also decreased the group's impaired loans ratio by one percentage point, leaving it at 4.3%.

On the sustainability front, we strive to enhance the positive impact that our day-to-day operations have on society. We actively monitor our own ecological impact and offer a wide range of socially responsible investment opportunities. This resulted in an improved score as provided by third party sustainability analysts (such as Sustainalytics). We have a long tradition of communicating openly and transparently with all our stakeholders about sustainability. For example, as a member of the United Nations Environment Programme Finance Initiative (UNEP FI) we are set to become the first financial institution in Belgium to endorse the new guidelines on responsible banking, as announced in December.

European economic conditions are generally solid, although the growth peak is behind us. Decreasing unemployment rates and 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 driver of growth. The main elements that could substantially impede European economic sentiment and growth remain the risk of further economic de-globalisation, including an escalation of trade conflicts, Brexit and political turmoil in some euro area countries.

Ultimately, our goal is to finance and service the dreams of our clients, shareholders and other stakeholders, something which all our employees are committed to working towards. We are genuinely grateful for the trust our clients place in us and that encourages us even more to become the reference in bank-insurance in all our core countries.

Johan Thijs

Chief Executive Officer

Important. We have started applying IFRS 9 with effect from 2018. 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 income statement and balance sheet figures are not fully comparable with the 2017 reference figures (which are still based on IAS 39, as KBC is making use of transition relief for comparative data). To enhance transparency – and in line with IFRS 9 requirements – we have also moved accrued interest from FX derivatives in the banking book from 'Trading and fair value income' to 'Net interest income'. We have also moved network income (i.e. revenue 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 income'. A concise overview is provided in the annex. Furthermore – on account of IFRS 9 and with effect from 2018 – we have changed the definition of our loan portfolio, switching from 'outstanding amount' to 'gross carrying amount' (i.e. including reserved and accrued interest), and slightly amended the scope. In order to enhance comparability, we have added certain comparisons with *pro forma* (restated and unaudited) figures for 2017 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 fourth quarter of 2018

- Excellent performance delivered by the commercial bank-insurance franchises in our core markets and core activities.
- Lending volumes were up 1% quarter-on-quarter and 5% year-on-year (disregarding the sale of part of the Irish loan book). Deposits (excluding debt certificates and repos) were flat quarter-on-quarter and up 5% year-on-year, with year-on-year increases in all business units.
- Net interest income was up 3% quarter-on-quarter and 2% year-on-year (on a comparable basis). It benefited from a number of factors, including good loan volume growth, higher interest rates in the Czech Republic and lower funding costs, but continued to suffer from pressure on loan margins and low reinvestment yields in our euro area core countries.
- Technical income from our non-life insurance activities was up 31% compared to the year-earlier quarter, as higher earned premiums and lower technical charges were only slightly offset by the lower result from ceded reinsurance. The combined ratio for full-year 2018 amounted to an excellent 88%, fully in line with the figure recorded for full-year 2017. Sales of our life insurance products were up 33% on their level in the previous quarter but down 13% on their level in the fourth quarter of 2017.
- On a comparable basis, our net fee and commission income was down 4% quarter-on-quarter and 11% year-on-year due to a major downturn of the financial markets. In both cases, this came about mostly because of lower asset management-related fees, resulting from lower AuM volumes and a more defensive asset allocation.
- All other income items combined were down 37% quarter-on-quarter, owing to lower trading and fair value income, notwithstanding a higher level of other net income (the fourth quarter was positively impacted by the settlement of legacy legal cases) and slightly higher dividend income. On a comparable basis, all other income items combined were down 21% year-on-year, due primarily to lower trading and fair value income, which was partly offset by higher other net income as the reference quarter had been impacted by a provision of 61.5 million euros set aside for the industry-wide review of tracker rate mortgage products originated in Ireland before 2009.
- Costs excluding bank taxes were virtually stable quarter-on-quarter, because of reduced staff expenses and lower one-off costs, offset by seasonally higher ICT expenses, higher professional fees and higher depreciation and amortisation costs. There was even a decrease of 3% year-on-year, due mainly to lower marketing expenses. When certain non-operating items are excluded, the cost/income ratio amounted to 57% for full-year 2018, compared to the 55% recorded for full-year 2017.
- The quarter included a 30-million-euro increase in loan loss impairment, mainly in Belgium due to a number of corporate loans. Our cost of credit for full-year 2018 amounted to a very favourable -0.04% (a negative figure indicates a positive impact on the results), compared to -0.06% for full-year 2017. Excluding Ireland, the credit cost ratio would have been 0.03%, compared to 0.09% for full-year 2017.
- Our liquidity position remained strong, as did our capital base, with a common equity ratio of 16% (fully loaded, Danish compromise). Our leverage ratio amounted to 6.1% at year-end 2018.

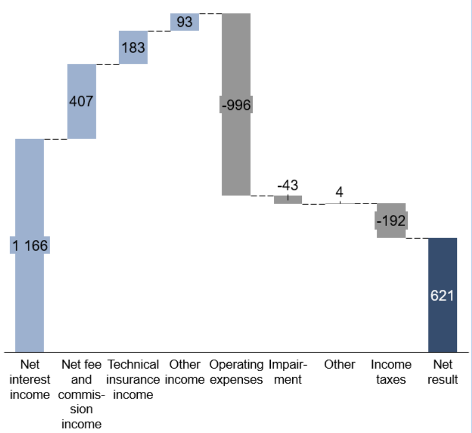
The cornerstones of our strategy

Our strategy rests on four principles:

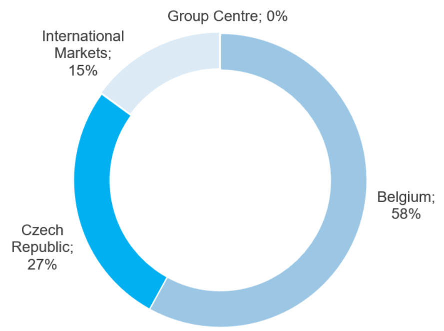
- We place our clients at the centre of everything we do.
- We look to offer our clients a unique bank-insurance experience.
- We focus on our group's long-term development and aim to achieve sustainable and profitable growth.
- We meet our responsibility to society and local economies.

Breakdown of the 4Q2018 result

(in millions of EUR)



Contribution of the business units to the group result (4Q2018)



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Overview of results and balance sheet

Consolidated income statement, IFRS KBC Group (in millions of EUR)	4Q2018 (IFRS 9)	3Q2018 (IFRS 9)	2Q2018 (IFRS 9)	1Q2018 (IFRS 9)	4Q2017 (IAS 39)	FY2018 (IFRS 9)	FY2017 (IAS 39)
Net interest income	1 166	1 136	1 117	1 125	1 029	4 543	4 121
Non-life insurance (before reinsurance)	198	197	202	162	152	760	706
Earned premiums	*409*	*403*	*392*	*378*	*384*	*1 582*	*1 491*
Technical charges	*-211*	*-205*	*-190*	*-216*	*-232*	*-822*	*-785*
Life insurance (before reinsurance)	-3	-9	1	-7	-3	-18	-58
Earned premiums	*416*	*293*	*315*	*336*	*410*	*1 359*	*1 271*
Technical charges	*-418*	*-302*	*-314*	*-343*	*-414*	*-1 377*	*-1 330*
Ceded reinsurance result	-12	-6	-14	-9	-10	-41	-8
Dividend income	15	12	34	21	8	82	63
Net result from financial instruments at fair value through P&L[1]	2	79	54	96	235	231	856
Net realised result from available-for-sale assets	-	-	-	-	51	-	199
Net realised result from debt instruments at fair value through other comprehensive income	0	0	8	1	-	9	-
Net fee and commission income	407	424	438	450	430	1 719	1 707
Other net income	76	56	23	71	-14	226	114
Total income	1 848	1 888	1 863	1 912	1 878	7 512	7 700
Operating expenses	-996	-981	-966	-1 291	-1 021	-4 234	-4 074
Impairment	-43	2	1	56	-2	17	30
Of which: on loans and receivables[2]	-	-	-	-	30	-	87
Of which: on financial assets at amortised cost and at fair value through other comprehensive income[2]	-30	8	21	63	-	62	-
Share in results of associated companies & joint ventures	4	2	3	6	-5	16	11
Result before tax	814	911	901	683	850	3 310	3 667
Income tax expense	-192	-211	-210	-127	-451	-740	-1 093
Result after tax	621	701	692	556	398	2 570	2 575
attributable to minority interests	0	0	0	0	0	0	0
attributable to equity holders of the parent	**621**	**701**	**692**	**556**	**399**	**2 570**	**2 575**
Basic earnings per share (EUR)	1.44	1.63	1.61	1.30	0.92	5.98	6.03
Diluted earnings per share (EUR)	1.44	1.63	1.61	1.30	0.92	5.98	6.03

Key consolidated balance sheet figures KBC Group (in millions of EUR)	31-12-2018 (IFRS 9)	30-09-2018 (IFRS 9)	30-06-2018 (IFRS 9)	31-03-2018 (IFRS 9)	31-12-2017 (IAS 39)
Total assets	283 808	304 740	301 934	304 022	292 342
Loans and advances to customers, excl. reverse repos	147 052	146 011	145 346	142 512	140 999
Securities (equity and debt instruments)	62 708	63 030	63 936	66 050	67 743
Deposits from customers and debt certificates, excl. repos	194 291	194 056	192 951	188 034	193 708
Technical provisions, before reinsurance	18 324	18 533	18 595	18 754	18 641
Liabilities under investment contracts, insurance	12 949	13 444	13 428	13 338	13 552
Parent shareholders' equity	17 233	16 878	16 616	17 119	17 403

Selected ratios KBC group (consolidated)	FY2018	FY2017
Return on equity	16%	17%
Cost/income ratio, banking	57.5%	54.2%
(when excluding certain non-operating items)	(57%)	(55%)
Combined ratio, non-life insurance	88%	88%
Common equity ratio, Basel III Danish Compromise (fully loaded)	16.0%	16.3%[4]
Common equity ratio, FICOD (fully loaded)	14.9%	15.1%
Leverage ratio, Basel III (fully loaded)	6.1%	6.1%
Credit cost ratio[3]	-0.04%	-0.06%
Impaired loans ratio	4.3%	6.0%
for loans more than 90 days past due	2.5%	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).
4 Pro forma 15.9% taking into account the first-time application impact of IFRS 9 (-0.4%) at 1.01.2018

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 (4Q2018)

Total income 1 848 million euros	Total income decreased slightly by 2% quarter-on-quarter. Overall, net interest income, technical insurance income and other net income rose, while trading and fair value income and net fee and commission income fell.

Net interest income amounted to 1 166 million euros in the quarter under review. On a comparable basis, it was up 3% quarter-on-quarter and 2% year-on-year. In general, the pressure on commercial loan margins in most core countries and the negative effect of low reinvestment yields (in our core countries in the euro area) were more than offset by loan volume growth, lower funding costs (especially year-on-year) and higher interest rates in the Czech Republic. As already mentioned, interest income continued to be supported by loan volume growth: the total volume of customer lending rose by 1% quarter-on-quarter and 5% year-on-year (disregarding the sale of part of the Irish loan book). Customer deposits including debt certificates remained more or less unchanged quarter-on-quarter, but were up 1% 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 contingent capital securities being redeemed in January – and repos, deposits were up 5% year-on-year, with increases in all business units. The net interest margin came to 2.02% for the quarter under review, up 4 basis points on the level recorded in the previous quarter and up 5 basis points on the level in the year-earlier quarter.

Technical income from our non-life insurance activities (earned premiums less technical charges, plus the ceded reinsurance result) contributed 187 million euros to total income and was down 2% on the previous quarter, as the higher level of premium income was offset by an increase in technical charges and a lower ceded reinsurance result. Non-life technical income was up 31% on its level of the fourth quarter of 2017, with the growth of earned premiums in all business units and lower technical charges being only slightly offset by the lower ceded reinsurance result. Overall, the combined ratio for full-year 2018 came to an excellent 88%, fully in line with the figure recorded for full-year 2017.

Technical income from our life insurance activities stood at -4 million euros, compared to -10 million euros in the previous quarter and -4 million euros in the year-earlier quarter. Sales of life insurance products (510 million euros) soared, ending 33% up on the level recorded in the previous quarter, due in part to seasonal effects (higher volumes in tax-incentivised pension savings products in Belgium), with most of the increase relating to guaranteed-interest products. Compared to the year-earlier quarter, sales of life insurance products were down 13% (decline in sales of unit-linked products). Overall, the share of guaranteed-interest products in our total life insurance sales stood at 67% in the fourth quarter of 2018, with unit-linked products accounting for the remaining 33%.

At 407 million euros, net fee and commission income was – on a comparable basis – down 4% and 11%, respectively, on its level of the previous and year-earlier quarters. The quarter-on-quarter drop was essentially the result of lower asset management-related fees and higher commissions paid on life insurance sales, slightly offset by higher fee income from banking services. The 11% year-on-year decline was caused by the decrease in asset management-related fees together with the decrease in banking fees. At the end of December 2018, our total assets under management stood at 200 billion euros, down 6% quarter-on-quarter and 8% year-on-year. In both cases, this was largely due to the negative impact of deteriorating asset prices.

All other remaining income items amounted to an aggregate 93 million euros, as opposed to 147 million euros in the previous quarter and 118 million euros in the year-earlier quarter (on a comparable basis). The figure for the fourth quarter of 2018 included 15 million euros in dividend income. It also included 76 million euros in other net income, up 20 million euros on the previous quarter, as the quarter under review was positively impacted by the settlement of legacy legal cases (33 million euros), and up 90 million euros on the last quarter of 2017, which had been adversely impacted by 61.5 million euros being set aside as a result of an industry-wide review of tracker rate mortgage products originated in Ireland before 2009. The other remaining income items also included a 2-million-euro net result from financial instruments at fair value (trading and fair value income). This figure was down on its level in the previous quarter, due mainly to the negative impact of various valuation adjustments (mainly as a result of changes in the underlying market value of the derivatives portfolio and increased credit & funding spreads), which more than offset the higher value of derivatives used for asset/liability management purposes. Compared to the last quarter of 2017, trading and fair value income was down for the same reasons and also because of lower dealing room income year-on-year.

Operating expenses 996 million euros	Excluding bank taxes, operating expenses in the fourth quarter remained stable compared to the previous quarter. When certain non-operating items are excluded, the year-to-date cost/income ratio came to 57%.

Operating expenses in the fourth quarter of 2018 stood at 996 million euros. Excluding bank taxes, this is virtually the same level quarter-on-quarter, mainly on account of lower staff expenses and lower one-off items in the previous quarter, offset by increased professional fees in Belgium and higher ICT costs. Costs fell 3% year-on-year, due in part to lower marketing and staff expenses, despite strong wage inflation, which more than offset higher ICT costs, higher depreciation and amortisation costs and higher professional fees.

As a result, the cost/income ratio of our banking activities stood at 57.5% for full-year 2018. When certain non-operating items are excluded, the cost/income ratio came to 57%, compared to 55% for full-year 2017.

Loan loss impairment 30-million-euro net increase	Net increase of 30 million euros largely attributable to a number of corporate loans in Belgium. Favourable credit cost ratio of -0.04% for full-year 2018.

In the fourth quarter of 2018, we recorded a 30-million-euro net increase in loan loss impairment, compared with a net release of 8 million euros in the previous quarter and 30 million euros in the fourth quarter of 2017. Broken down by country, loan loss impairment charges in the fourth quarter of 2018 came to 48 million euros in Belgium, 5 million euros in Slovakia and 4 million euros in Bulgaria, with no loan loss impairment charges being recorded in the Czech Republic and a net release (with a positive impact) of 15 million euros in Ireland, 10 million euros in the Group Centre and 1 million euros in Hungary. For the entire group, the credit cost ratio amounted to a favourable -0.04% for full-year 2018 (a negative figure indicates a net release and, hence, has a positive impact on the results), compared to -0.06% for full-year 2017. Excluding Ireland, the credit cost ratio would have been 0.03% for full-year 2018 (0.09% for full-year 2017).

The impaired loans ratio improved further. At the end of December 2018, some 4.3% of our total loan book was classified as impaired, compared with 6% at year-end 2017. Part of this improvement (about one percentage point out of a total decrease of 1.7 percentage points) came about thanks to the sale of part of KBC Bank's Ireland's legacy portfolio. Impaired loans that are more than 90 days past due fell to 2.5% of the loan book, compared with 3.4% at year-end 2017.

Impairment on assets other than loans stood at 13 million euros, resulting mostly from a review of residual values of financial car leases in the Czech Republic. This figure compares with 6 million euros in the previous quarter and 32 million euros in the fourth quarter of 2017.

Income tax 192 million euros	Income tax below previous quarter's figure and significantly down on the figure recorded in the fourth quarter of 2017, which had included a significant one-off item.

In the last quarter of 2018, income tax amounted to 192 million euros. This was less than the figure recorded in the previous quarter, and much lower than the 451 million euros registered in the fourth quarter of 2017, which had been impacted by the one-off upfront booking of -211 million euros, caused by the 2018 reform of the Belgian corporation tax system (which, among other things, reduced the existing amount of deferred tax assets (impact of -243 million euros), though that was partly offset by the increase in dividend exemption (DBI) from 95% to 100% (impact of +32 million euros)).

Net result by business unit	Belgium	Czech Republic	International Markets	Group Centre
	361 million euros	170 million euros	93 million euros	-3 million euros

Belgium: the net result (361 million euros) was down 12% quarter-on-quarter. It included higher net interest income (+2%) and a lower level of trading and fair value income (negative impact of various valuation adjustments), as well as lower net fee and commission income. Other net income was up 29 million euros quarter-on-quarter due to the positive impact of the settlement of legacy legal cases in the fourth quarter. Costs were lower (reduction in ICT, staff and marketing expenses) and loan loss impairment edged up to 48 million euros, caused by a number of corporate loans.

Czech Republic: the net result (170 million euros) was up 2% on its level for the previous quarter, due mainly to increased net interest income (rising interest rates, etc.) and slightly higher net fee and commission income, which was partly compensated by lower trading and fair value income. Costs rose whereas loan loss impairment charges were zero.

International Markets: the 93-million-euro net result breaks down as follows: 13 million euros in Slovakia, 49 million euros in Hungary, 19 million euros in Bulgaria and 11 million euros in Ireland. For the business unit as a whole, the net result was down 34% quarter-on-quarter, which was largely due to lower trading and fair value income, higher bank taxes in Ireland and lower loan loss releases over the quarter.

Group Centre: the net result (-3 million euros) was up 14 million euros on the level recorded in the previous quarter, due largely to the higher value of derivatives used for asset/liability management purposes, partly offset by higher income taxes.

	Belgium		Czech Republic		International Markets	
Selected ratios by business unit	**FY2018**	**FY2017**	**FY2018**	**FY2017**	**FY2018**	**FY2017**
Cost/income ratio, banking excluding certain non-operating items	58%	53%	46%	43%	65%	72%
Combined ratio, non-life insurance	87%	86%	97%	97%	90%	93%
Credit cost ratio[1]	0.09%	0.09%	0.03%	0.02%	-0.46%	-0.74%
Impaired loans ratio[2]	2.6%	2.8%	2.4%	2.4%	12.2%	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
	19.6 billion euros	16.0%	139%	136%

At the end of December 2018, total equity stood at 19.6 billion euros (17.2 billion euros in parent shareholders' equity and 2.4 billion euros in additional tier-1 instruments), up 1.5 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 1.5 billion euros during the year resulted from the inclusion of the profit for that period (+2.6 billion euros), the issuance of a new additional tier-1 instrument in April 2018 (+1 billion euros), payment of the final dividend for 2017 in May 2018 and the decision to pay an interim dividend for 2018 in November 2018 (-0.8 billion euros and -0.4 billion euros, respectively), the share buyback (-0.2 billion euros), changes in various revaluation reserves (an aggregate -0.5 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 31 December 2018, our fully loaded common equity ratio (Basel III, under the Danish compromise) has increased by 24 basis points, quarter-on-quarter, to 16.22%. In line with our capital distribution policy, the Board of Directors decided that for the year 2018 the capital above the 'Reference Capital Position' (16%) will be paid out, which brought the common equity ratio at 16% at the end of full-year 2018. A total (gross) dividend for 2018 of 3.5 euros per share will be proposed to the AGM (which will lead to a pay-out ratio of 59%). Our leverage ratio (Basel III, fully loaded) came to 6.1%. The solvency ratio for KBC Insurance under the Solvency II framework was a sound 217% at year-end 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 December 2018.

Analysis of the year-to-date period (FY2018)

Net result	
2 570 million euros	The net result for 2018 was in line with its 2017 level (2 575 million euros). On a comparable basis, the positive effect of the increase in net interest income, technical insurance income, dividend income, other net income and lower income taxes was offset by the significant drop in trading and fair value income, lower net fee and commission income, higher operating expenses and slightly lower level of loan loss impairment releases.

Highlights (compared to full-year 2017, on a comparable basis):

- Higher net interest income (up 3% to 4 543 million euros), thanks *inter alia* to the consolidation of UBB/Interlease (for the full twelve months in the 2018 figures, but for just six months in the 2017 figures), lower funding costs, interest rate increases in the Czech Republic and higher commercial lending volumes, which more than offset overall pressure on margins, the negative effects of low reinvestment yields in most euro area core countries and the lower net positive impact of FX swaps used in asset/liability management. The volume of deposits increased (+1%, or +5% excluding debt certificates and repos), as did the volume of lending (+5%). The average net interest margin in 2018 came to 2%, up 5 basis points on the level recorded in the reference period.
- A higher contribution to profit made by the technical insurance result (up 10% to 701 million euros). Life insurance sales (1 817 million euros) were down slightly (-3%), as the increased sales of guaranteed-interest products were more than offset by lower sales of unit-linked products. The non-life insurance technical result was higher (+3%) than in the year-earlier period, with higher premium income only being partly compensated by higher technical charges (the reference period had benefited from a positive one-off release) and a lower ceded reinsurance result. The non-life combined ratio for 2018 stood at 88%, the same level as for full-year 2017.
- Lower net fee and commission income (down 5% to 1 719 million euros), attributable primarily to our asset management services (lower entry and management fees from mutual funds and unit-linked life insurance products). This was partly offset by higher net fee and commission income from banking services (up 2% year-on-year due mainly to higher fees from payment services), lower distribution fees paid and the consolidation of UBB/Interlease (included for twelve months, as opposed to six months in the reference figures). At the end of December 2018, total assets under management stood at 200 billion euros, down 8% on the level recorded a year earlier.
- A lower level of all other income items combined (down 25% to 548 million euros) caused mainly by a significantly lower trading and fair value result (negative impact from various valuation adjustments, decrease in the dealing room result and lower value of derivatives used for asset/liability management purposes), partly offset by an increase in dividend income and other net income (note that other net income in 2017 had included the booking of -116 million euros as a result of an industry-wide review of tracker rate mortgage products originated in Ireland before 2009).
- Higher operating expenses (up 4% to 4 234 million euros), partly due to Bulgaria (distorted due to the consolidation of UBB/Interlease for twelve months in 2018 as opposed to six months in 2017), higher bank taxes, some one-off items and FX effects. Excluding these items, the increase would be around 1.7%. The cost/income ratio came to 57.5%, or an adjusted 57% when certain non-operating items are excluded (compared to 54% and 55%, respectively, for 2017).
- A net release of loan loss impairment (62 million euros in 2018, compared to 87 million euros in 2017) thanks largely to the impairment releases in Ireland (112 million euros, mainly related to the effect of increased house prices on the mortgage loan portfolio). As a result, the annualised credit cost ratio for the whole group stood at an excellent -0.04% (a negative figure indicates a positive impact on the results), compared to -0.06% for 2017.
- Lower income taxes (down 32% to 740 million euros), mainly because the 2017 figure had included the one-off, upfront booking of -211 million euros, caused by the 2018 reform of the Belgian corporation tax system (see above).
- The net result for 2018 breaks down as follows: 1 450 million euros in the Belgium Business Unit, 654 million euros in the Czech Republic Business Unit, 533 million euros in the International Markets Business Unit and -67 million euros in the Group Centre. The result for the International Markets Business Unit for 2018 breaks down into 196 million euros in Hungary, 155 million euros in Ireland, 96 million euros in Bulgaria and 82 million euros in Slovakia.

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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. KBC closely monitors and manages each of these risks within a strict risk framework, but they may all have a negative impact on asset values or could generate additional charges beyond anticipated levels.

At present, a number of items are considered to constitute the main challenges for the financial sector. These relate to recent macroeconomic and political developments, such as Brexit, trade conflicts and the Italian budget, all of which impact the global and European economies, including KBC's home markets. Economic growth and interest rate forecasts have been lowered, with a heightened risk that the low interest rate environment will persist for longer than anticipated. Regulatory risk remains a dominant theme for the sector, as does enhanced consumer protection. Digitalisation (with technology as a catalyst) presents both opportunities and threats to the business model of traditional financial institutions. Finally, cyber risk has become one of the main threats during the past few years, not just for the financial sector, but for the economy as a whole.

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

Our view on interest rates and foreign exchange rates: Given the heightened downside risks to the outlook for the euro area economy, any significant tightening of ECB policy entailing an initial rate rise is still some time away. The ECB's first step towards a normalisation of its policy rate will only be taken after the summer of 2019 at the earliest. Over the past few months, the outlook for the US economy has remained steady despite some rising risks. However, the combination of increased financial market volatility and the Fed's more subdued outlook for headline inflation have made the case for a less aggressive Fed going forward. Given this shift in guidance, we now only expect one additional rate hike by the Fed in 2019. The short-term factors that supported the US dollar against the euro are waning now that the Fed has taken a more cautious stance. In the medium to long run, expectations of an ECB rate hike and the consequences of late-cyclical fiscal stimuli (twin deficits) in the US could lead to the euro appreciating.

Despite a still generally positive outlook for the global economy, uncertainty has increased about the economic conditions going forward. Investors continue to seek safe-haven assets, and long-term benchmark yields have fallen. With inflation expectations somewhat lower, safe haven trends persisting, and technical and policy factors at play that keep German bonds scarce, it is difficult to see a likely trigger for sharply increasing benchmark yields.

Unlike the dovish stance of the ECB, the Czech National Bank has been tightening its monetary policy in the light of a buoyant Czech growth and inflation environment. Given these favourable conditions, the Czech currency is expected to appreciate moderately by the end of 2019. We expect two more increases in the policy rate in the Czech Republic before the end of 2020.

Our view on economic growth: European economic conditions are generally solid, although the growth peak is behind us. Decreasing unemployment rates and 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 driver of growth. The main elements that could substantially impede European economic sentiment and growth remain the risk of further economic de-globalisation, including an escalation of trade conflicts, Brexit and political turmoil in some euro area countries.

Guidance

- Solid returns for all business units
- Negative impact of the first-time application of IFRS 16 (as of January 1st 2019) on our CET1 ratio of approximately 6 basis points
- Impact of the reform of the Belgian corporation income tax system: recurring positive impact on P&L from 2018 on, and one-off negative impact in the fourth quarter of 2017 should be fully recuperated in roughly three years' time
- Basel IV impact (as of January 1st 2022) for KBC estimated to increase RWA by roughly 8 billion euros (fully loaded basis) at year-end 2018, corresponding to RWA inflation of 9% and an impact on the CET1 ratio of -1.3 percentage points

Press Release

Outside trading hours - Regulated information*

For accounting year 2018 a total gross dividend of 3.5 euros per share will be proposed to the AGM, comprising an interim dividend of 1 euro per share (paid in November 2018) and a final dividend of 2.5 euros per share, which will be paid in May 2019. This results in a pay-out ratio of 59% for financial year 2018.

The statutory auditor, PwC Bedrijfsrevisoren cvba/Reviseurs d'Entreprises scrl, represented by Roland Jeanquart and Tom Meuleman, has confirmed that its audit work, which is substantially complete, has not to date revealed any significant matters requiring adjustments to the 2018 consolidated income statement, the condensed consolidated statement of comprehensive income for the year, the consolidated balance sheet and the consolidated statement of changes in equity and explanatory notes, comprising a summary of significant accounting policies and other explanatory notes included in this press release.

Financial calendar for 2019:

- 2018 Annual Report and 2018 Risk Report: 29 March 2019
- Annual General Meeting: 2 May 2019
- Final dividend dates: ex-date: 7 May 2019, record date: 8 May 2019, payment date: 9 May 2019
- Publication of 1Q 2019 results: 16 May 2019
- Publication of 2Q 2019 results: 8 August 2019
- Publication of 3Q 2019 results: 14 November 2019

Download the KBC IR APP

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**			
	4Q 2018	**3Q 2018**	**2Q 2018**	**1Q 2018**	**4Q 2017**	**3Q 2017**	**2Q 2017**	**1Q 2017**
Net interest income	1 166	1 136	1 117	1 125	1 029	1 039	1 028	1 025
+ accrued interest from 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)	2	79	54	96	235	182	249	191
- accrued interest from FX derivatives					-108	-75	-66	-56
- network income					-26	-25	-24	-24
+ result from 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	407	424	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

Accrued interest from FX derivatives: this item has been 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): this item has been moved from 'FIFV' to 'Net fee and commission income'.
Result from 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-sale 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 recognised in other comprehensive income (i.e. eliminated from the net result).

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