Press Release

Outside trading hours - Regulated information*

Brussels, 15 November 2018, (07.00 a.m. CET)

KBC Group: Third-quarter result of 701 million euros

KBC Group - overview (consolidated, IFRS)	3Q2018 (IFRS 9)	2Q2018 (IFRS 9)	3Q2017 (IAS 39)	9M2018 (IFRS9)	9M2017 (IAS39)
Net result (in millions of EUR)	701	692	691	1 948	2 176
Basic earnings per share (in EUR)	1.63	1.61	1.62	4.54	5.11
Breakdown of the net result by business unit (in millions of EUR)					
Belgium	409	437	455	1 089	1 240
Czech Republic	168	145	170	484	534
International Markets	141	163	78	440	370
Group Centre	-17	-53	-12	-64	32
Parent shareholders' equity per share (in EUR, end of period)	40.6	39.9	40.6	40.6	40.6

We delivered a net profit of 701 million euros in the third quarter of 2018. An excellent result, thanks, among other things, to higher levels of net interest income, trading and fair value income and other net income, an outstanding combined ratio in our non-life insurance activities, and – yet again – a net release of some loan loss impairments, the bulk of which related to our Irish mortgage book. Adding this third-quarter results figure to the 556 million euros and 692 million euros earned in the first and second quarters of the year brings our result for the first nine months of 2018 to a solid 1 948 million euros. Loans increased by 5% year-on-year and deposits excluding debt certificates by 6%. Our solvency position remained strong too. At the end of September 2018, our common equity ratio was 16%, up again on the 15.8% recorded in the previous quarter and comfortably surpassing the regulatory minimum levels in this respect. As announced earlier, we will, in line with our dividend policy, pay an interim dividend of 1 euro per share on 16 November 2018, as an advance payment on the total dividend for 2018.

Early in the third quarter, we completed the buyback of 2.7 million own shares and subsequently cancelled them, reducing our total number of shares to 415 897 567. And as already announced, KBC Bank Ireland reached an agreement with Goldman Sachs to sell part of its legacy loan portfolio, which will significantly reduce that entity's impaired loans ratio as well as lower the group's ratio. We expect the deal to be completed in the fourth quarter of this year.

On the digital front, our focus is on developing innovative client-centric solutions that make our clients' lives easier. To name just a few examples, we not only added multi-banking possibilities to our KBC Mobile app in Belgium, but also recently added new specific non-banking features to this app, including the ability to pay for car parking services and the possibility to use the app to buy digital tickets for public transport. In Ireland, we added a new feature to the mobile app that allows customers to easily mark a card as lost or stolen and moreover instantly receive a digital replacement. And in the Czech Republic, ČSOB was crowned Best Internet Bank in that country by Capital Finance International, yet more proof of the success of our client-centric digital initiatives.

On the broader economic front, European economic conditions remain attractive, although we believe that the growth peak is behind us. The risk of further economic de-globalisation with an escalation of ongoing trade conflicts, Brexit and political turmoil in Italy are the main factors that could impede European economic growth.

Lastly, I'm very proud to announce that we not only received top scores in the international Extel Awards, but that we were also recently honoured by the Belgian Association of Financial Analysts with the award for 'Best Financial Communication'. This is especially gratifying since open and transparent communication to our stakeholders ranks very high on our priority list. To close, I would like to take the opportunity to explicitly thank all our stakeholders for the trust they put in us and to assure them that we are more focused than ever in our efforts to become the reference in bank-insurance in all our core countries.

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 income statement 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). To enhance transparency, we have – as of 2018 and in line with IFRS 9 – also moved interest accruals for FX derivatives in the banking book from 'Trading and fair value income' to 'Net interest income'. We have also shifted network income (i.e. 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 third 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, with increases in all business units. Deposits excluding debt certificates were flat quarter-on-quarter and up 6% year-on-year, the latter again with increases in all business units.
- Net interest income was up 2%, both quarter-on-quarter and year-on-year (on a comparable basis). It benefited from a number of factors, including 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 down 5% compared to the year-earlier quarter, as higher earned premiums were more than offset by higher technical charges (which had benefited from a positive one-off release in the reference quarter) and a lower result from ceded reinsurance. The resulting combined ratio for the first nine months of the year amounted to an excellent 88%, fully in line with the figure recorded for full-year 2017. Sales of our life insurance products fell by 10% on their level recorded in the previous quarter and by 5% on their level of the third quarter of 2017.
- On a comparable basis, our net fee and commission income was down 3% and 2%, respectively, on its quarter-earlier and year-earlier levels. This came about mostly because of lower asset management-related fees, relating to the low investment appetite of clients, among other things.
- All other income items combined were up 24% quarter-on-quarter, owing to higher trading and fair value income, a higher level of other net income (the previous quarter had been impacted by a negative one-off item) and notwithstanding seasonally lower dividend income, among other factors. On a comparable basis, all other income items combined were up 32% year-on-year, due primarily to the fact that the reference quarter had been impacted by a provision of 54 million euros set aside for the industry wide review of the tracker rate mortgage products originated in Ireland before 2009.
- Costs excluding bank taxes were up 1% quarter on-quarter and 7% year-on-year, due, among other things, to staff and ICT-expenses and a number of one-off items. When bank taxes are spread evenly throughout the year and certain non-operating items are excluded, the cost/income ratio amounted to 57% in the first nine months of 2018, compared to the 55% recorded for full-year 2017.
- The quarter benefited from an 8-million-euro release of loan loss impairments, mainly in Ireland. Consequently, our annualised cost of credit amounted to a very favourable -0.07% (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 0.01%, compared to 0.09% for full-year 2017.
- Our liquidity position remained strong, as did our capital base, with a common equity ratio of 16.0% (fully loaded, Danish compromise). Our leverage ratio amounted to 6.1% at end September 2018.

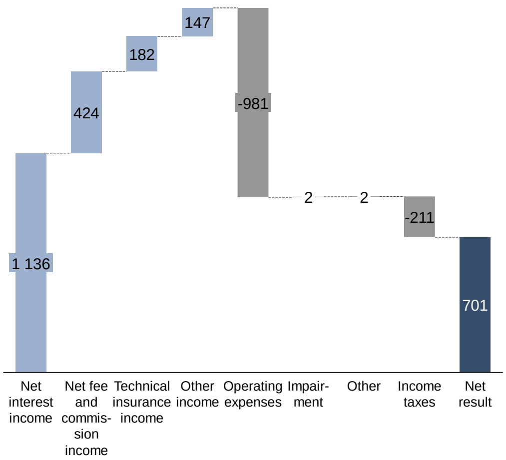
The cornerstones of our strategy

Our strategy rests on four principles:

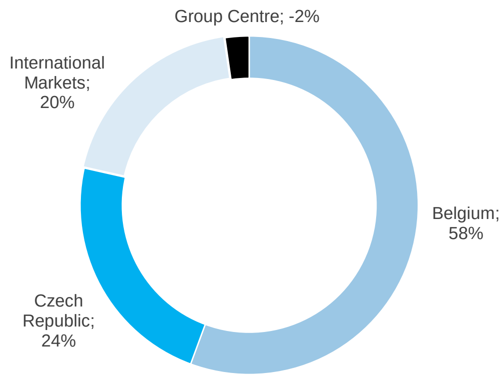
- We place our clients at the centre of everything we do.
- We look to offer our clients a unique bank-insurance experience.
- We focus on our group's long-term development and aim to achieve sustainable and profitable growth.
- We meet our responsibility to society and local economies.

Breakdown of the 3Q2018 result

(in millions of EUR)



Contribution of the business units to the group result (3Q2018)



Overview of results and balance sheet

Consolidated income statement, IFRS KBC Group (in millions of EUR)	3Q2018 (IFRS 9)	2Q2018 (IFRS 9)	1Q2018 (IFRS 9)	4Q2017 (IAS 39)	3Q2017 (IAS 39)	9M2018 (IFRS 9)	9M2017 (IAS 39)
Net interest income	1 136	1 117	1 125	1 029	1 039	3 378	3 091
Non-life insurance (before reinsurance)	197	202	162	152	188	562	554
Earned premiums	*403*	*392*	*378*	*384*	*378*	*1 173*	*1 107*
Technical charges	*-205*	*-190*	*-216*	*-232*	*-190*	*-611*	*-553*
Life insurance (before reinsurance)	-9	1	-7	-3	-3	-15	-55
Earned premiums	*293*	*315*	*336*	*410*	*282*	*944*	*861*
Technical charges	*-302*	*-314*	*-343*	*-414*	*-284*	*-959*	*-916*
Ceded reinsurance result	-6	-14	-9	-10	16	-29	2
Dividend income	12	34	21	8	11	67	55
Net result from financial instruments at fair value through P&L[1]	79	54	96	235	182	229	622
Net realised result from available-for-sale assets	-	-	-	51	51	-	148
Net realised result from debt instruments at fair value through other comprehensive income	0	8	1	-	-	9	-
Net fee and commission income	424	438	450	430	408	1 312	1 277
Other net income	56	23	71	-14	4	150	128
Total income	1 888	1 863	1 912	1 878	1 896	5 663	5 822
Operating expenses	-981	-966	-1 291	-1 021	-914	-3 239	-3 053
Impairment	2	1	56	-2	-31	60	32
Of which: on loans and receivables[2]	-	-	-	30	-15	-	57
Of which: on financial assets at amortised cost and at fair value through other comprehensive income[2]	8	21	63	-	-	92	-
Share in results of associated companies & joint ventures	2	3	6	-5	8	12	16
Result before tax	911	901	683	850	959	2 496	2 818
Income tax expense	-211	-210	-127	-451	-268	-548	-641
Result after tax	701	692	556	398	691	1 949	2 176
attributable to minority interests	0	0	0	0	0	0	0
attributable to equity holders of the parent	**701**	**692**	**556**	**399**	**691**	**1 948**	**2 176**
Basic earnings per share (EUR)	1.63	1.61	1.30	0.92	1.62	4.54	5.11
Diluted earnings per share (EUR)	1.63	1.61	1.30	0.92	1.62	4.54	5.11

Key consolidated balance sheet figures KBC Group (in millions of EUR)	30-09-2018 (IFRS 9)	30-06-2018 (IFRS 9)	31-03-2018 (IFRS 9)	31-12-2017 (IAS 39)	30-09-2017 (IAS 39)
Total assets	304 740	301 934	304 022	292 342	296 885
Loans and advances to customers, excl. reverse repos	146 011	145 346	142 512	140 999	139 538
Securities (equity and debt instruments)	63 030	63 936	66 050	67 743	69 273
Deposits from customers and debt certificates, excl. repos	194 056	192 951	188 034	193 708	188 962
Technical provisions, before reinsurance	18 533	18 595	18 754	18 641	18 696
Liabilities under investment contracts, insurance	13 444	13 428	13 338	13 552	13 294
Parent shareholders' equity	16 878	16 616	17 119	17 403	17 003

Selected ratios KBC group (consolidated)	9M2018	FY2017
Return on equity	16%[5]	17%
Cost/income ratio, banking (when excluding certain non-operating items and evenly spreading the bank tax)	59% (57%)	54% (55%)
Combined ratio, non-life insurance	88%	88%
Common equity ratio, Basel III Danish Compromise (fully loaded)	16.0%	16.3%
Common equity ratio, FICOD (fully loaded)	15.1%	15.1%
Leverage ratio, Basel III (fully loaded)	6.1%	6.1%
Credit cost ratio[3]	-0.07%	-0.06%
Impaired loans ratio[4]	5.5%	6.0%
for loans more than 90 days past due	3.2%	3.4%
Net stable funding ratio (NSFR)	134%	134%
Liquidity coverage ratio (LCR)	138%	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 Excluding the part of the Irish portfolio for which a sales agreement has been signed, the impaired loans ratio would amount to 4.5% in 9M2018.
5 17%, when evenly spreading the bank tax throughout the year.

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 (3Q2018)

Total income 1 888 million euros	Total income increased slightly (+1%) quarter-on-quarter. Overall, net interest income and trading and fair value income rose, while technical insurance income, net fee and commission income and dividend income were down. Net other income was up, as the previous quarter had been impacted by a negative one-off item.

Net interest income amounted to 1 136 million euros in the quarter under review. On a comparable basis, it was up 2%, both quarter-on-quarter and year-on-year. In general, the pressure on commercial loan margins in most core countries, the negative effect of low reinvestment yields (in our core countries in the euro area) and the lower netted positive impact of ALM forex swaps 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 by 5% year-on-year, with increases in all business units. Customer deposits including debt certificates remained more or less flat quarter-on-quarter, and were up 3% 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 the contingent capital securities being redeemed in January), deposits were up 6% year-on-year, again with increases in all business units. The net interest margin came to 1.98% for the quarter under review, down 2 basis points on the level recorded in the previous quarter and up 2 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 191 million euros to total income, roughly in line with the previous quarter, as the increase in technical charges was offset by an increase in premium income in all core countries and a better ceded reinsurance result. Compared to the third quarter of 2017, non-life technical income fell by 5%, with the growth of earned premiums being offset by the lower ceded reinsurance result and higher technical charges (since the third quarter of 2017 had benefited from a one-off 26-million-euro release of provisions in Belgium). Overall, the combined ratio for the first nine months of 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 -10 million euros, compared to 0 million euros in the previous quarter and -1 million euros in the year-earlier quarter (the latter had also benefited from a 23-million-euro release of provisions in Belgium). Sales of life insurance products (383 million euros) suffered under the low investment appetite of clients (related to market uncertainty) and the holiday season, and were consequently down 10% on the level recorded in the previous quarter, with most of the drop relating to guaranteed-interest products. Compared to the year-earlier quarter, sales of life insurance products were down 5% (decline in sales of unit-linked products). Overall, the share of guaranteed-interest products in our total life insurance sales stood at 60% in the third quarter of 2018, with unit-linked products accounting for the remaining 40%.

At 424 million euros, net fee and commission income was – on a comparable basis – down 3% and 2%, 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 (again on account of the generally low investment appetite of clients and the holiday season) and lower fee income from banking services, together with higher commissions paid on non-life insurance sales. The 2% year-on-year drop was caused by the decrease in asset management-related fees which more than offset the increase in banking fees (for payment services, securities transactions, etc.). At the end of September 2018, our total assets under management stood at 214 billion euros, more or less stable both quarter-on-quarter and year-on-year. In both cases, the limited positive impact of improved price performance was offset by likewise limited net outflows.

All other remaining income items amounted to an aggregate 147 million euros, as opposed to 119 million euros in the previous quarter and 111 million euros in the year-earlier quarter (on a comparable basis). The figure for the third quarter of 2018 included 12 million euros in dividend income (down on the previous quarter, since the bulk of dividends is traditionally received in the second quarter of the year). It also included 56 million euros in other net income, significantly up on both reference quarters as the second quarter of 2018 had been negatively impacted by a 38-million-euro one-off item related to the settlement of a legacy legal case, while the third quarter of 2017 had been adversely impacted by 54 million euros 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 79-million-euro net result from financial instruments at fair value (trading and fair value income). This figure was up 44% on the figure recorded in the previous quarter, due mainly to the higher value of derivatives used for asset/liability management purposes and the positive impact of various valuation adjustments, which more than offset the weaker dealing room income and the drop in realised gains on the sale of shares in the insurance portfolio. Compared to the third quarter of 2017, trading and fair value income was down 16% on a comparable basis, due primarily to lower dealing room income in the Czech Republic and lower realised gains on the sale of shares in the insurance portfolio, which more than offset the positive impact of various valuation adjustments.

Operating expenses

981 million euros

Excluding bank taxes, operating expenses in the third quarter were up 1% on the previous quarter. When the bank taxes are spread evenly throughout the year and certain non-operational items are excluded, the year-to-date cost/income ratio came to 57%.

Operating expenses in the third quarter of 2018 stood at 981 million euros. Excluding bank taxes, this constitutes an increase of 1% quarter-on-quarter, caused mainly by somewhat higher staff expenses in a number of countries apart from Belgium (wage inflation, etc.), higher marketing and ICT costs and a few one-off items, partly offset by lower facility-related expenses. Costs rose 7% year-on-year, due in part to higher bank taxes, increased staff expenses, higher ICT costs, increased marketing and professional fee expenses and a few one-off items.

As a result, the cost/income ratio of our banking activities stood at 59% in the first nine months of the year. When the bank taxes are spread evenly throughout the year (the bulk of bank taxes is effectively booked in the first quarter of the year) and certain non-operating items are excluded, the cost/income ratio came to 57%, compared to 55% for full-year 2017.

Loan loss impairments

8-million-euro net release

Another net release of loan loss impairment charges thanks largely to Ireland. Very favourable credit cost ratio of -0.07%.

In the third quarter of 2018, we recorded an 8-million-euro net release of loan loss impairments. This compares with a net release of 21 million euros in the previous quarter and a net addition of 15 million euros in the third quarter of 2017. As has been the case for a number of consecutive quarters now, the net release in the third quarter of 2018 was largely attributable to Ireland (net release of 15 million euros in the quarter under review), which came about mainly because of the positive effect of increased house prices on the mortgage loan portfolio, as well as the general improvement in the performance of the portfolio. In the Czech Republic, loan loss impairment charges edged up to 12 million euros, caused by one large corporate loan. In all the other core countries, there was either a small release of loan loss impairments (Slovakia, Hungary, Bulgaria, Group Centre) or a generally very low level of loan loss impairment charges (Belgium). Consequently, the credit cost ratio for the entire group amounted to a very favourable -0.07% for the first nine 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 0.01% in the first nine months of the year (0.09% in full-year 2017).

The impaired loans ratio improved further in all business units. At the end of September 2018, some 5.5% of our total loan book was classified as impaired, compared with 6.0% at year-end 2017. Impaired loans 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 a limited amount (6 million euros) of impairments on assets other than loans. This compares to 20 million euros in the previous quarter (mainly related to the impact of the review of residual values of financial car leases under short-term contracts in the Czech Republic and a legacy property file in Bulgaria) and to 17 million euros in the third quarter of 2017 (relating to available-for-sale shares, facilities assets and ICT, among other things).

Net result by business unit

Belgium	Czech Republic	International Markets	Group Centre
409 million euros	168 million euros	141 million euros	-17 million euros

Belgium: the net result (409 million euros) was down 6% quarter-on-quarter. It included a virtually stable level of trading and fair value income and only slightly lower net interest income (-1%), as well as lower net fee and commission income, technical insurance income and dividend income (seasonal effect). Costs were slightly lower (reduction in staff expenses, among other things) and loan loss impairments stood at a very low level.

Czech Republic: the net result (168 million euros) was up 16% on its level for the previous quarter, due mainly to increased net interest income (increasing interest rates, etc.) and higher trading and fair value income. Costs were up, as were loan loss impairments (due to one corporate loan).

International Markets: the 141-million-euro net result breaks down as follows: 27 million euros in Slovakia, 51 million euros in Hungary, 31 million euros in Bulgaria and 32 million euros in Ireland. For the business unit as a whole, the net result was down 13% quarter-on-quarter, which was largely due to a lower level of net loan loss releases in Ireland (15 million euros, compared to 39 million euros in the previous quarter).

Group Centre: the net result (-17 million euros) was up 36 million euros on the level recorded in the previous quarter, which had been impacted by a negative one-off item related to the settlement of a legacy legal case (38 million euros).

Selected ratios by business unit	Belgium 9M2018	Belgium FY2017	Czech Republic 9M2018	Czech Republic FY2017	International Markets 9M2018	International Markets FY2017
Cost/income ratio, banking excluding certain non-operating items and spreading the bank tax evenly throughout the year	57%	53%	46%	43%	63%	72%
Combined ratio, non-life insurance	87%	86%	96%	97%	88%	93%
Credit cost ratio[1]	0.06%	0.09%	0.04%	0.02%	-0.56%	-0.74%
Impaired loans ratio[2]	2.4%	2.8%	2.3%	2.4%	18.9%	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
19.3 billion euros	16.0%	138%	134%

At the end of September 2018, total equity stood at 19.3 billion euros (16.9 billion euros in parent shareholders' equity and 2.4 billion euros in additional tier-1 instruments), up 1.2 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 1.2 billion euros during the first nine months of the year resulted from the inclusion of the profit for that period (+1.9 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 -0.2 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 September 2018, our fully loaded common equity ratio (Basel III, under the Danish compromise) stood at a strong 16.0%, compared to 15.8% three months earlier. 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 216% at 30 September 2018. Our liquidity position remained excellent too, as reflected in an LCR ratio of 138% and an NSFR ratio of 134% at the end of September 2018.

Analysis of the year-to-date period (9M2018)

Net result

1 948 million euros

The net result for the first nine months of 2018 was down 10% on its level in the corresponding period of 2017. On a comparable basis, the positive effect of the increase in net interest income, dividend income, other net income, technical insurance income and the higher level of loan loss impairment releases could not fully offset the significant drop in trading and fair value income, lower net fee and commission income and higher expenses.

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

- Higher net interest income (up 3% to 3 378 million euros), thanks *inter alia* to the consolidation of UBB/Interlease (for the full nine months in the 2018 figures, but for just three 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 and the negative effects of low reinvestment yields in most core countries. The volume of deposits increased (+3%, or +6% excluding debt certificates), as did the volume of lending (+5%). The average net interest margin in the first nine months of 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 3% to 518 million euros). Life insurance sales (1 307 million euros) were up slightly (+1%), as the increased sale of guaranteed-interest products more than offset the drop in the sale of unit-linked products. The non-life insurance technical result was somewhat lower (-4%) than in the year-earlier period, with higher premium income being offset by higher technical charges (the reference period had benefited from a positive one-off release) and a lower ceded reinsurance result. The year-to-date non-life combined ratio stood at 88%, the same level as in full-year 2017.
- Lower net fee and commission income (down 3% to 1 312 million euros), attributable primarily to our asset management services and, to a lesser extent, to lower securities-related fees, partly offset by increased payment services-related fees, lower distribution fees paid and the consolidation of UBB/Interlease (included for nine months, as opposed to three months in the reference figures). At the end of September 2018, total assets under management stood at 214 billion euros, in line with the level recorded a year earlier.

- A lower level of all other income items combined (down 26% to 455 million euros) caused mainly by a significantly lower trading and fair value result (lower value of derivatives used for asset/liability management purposes and decrease in the dealing room result), partly offset by an increase in dividend income and other net income (note that other net income in the first nine months of 2017 had included the booking of -54 million euros as a result of an industry-wide review of tracker rate mortgage products originated in Ireland before 2009).
- Higher operating expenses (up 6% to 3 239 million euros), partly due to Bulgaria (distorted due to the consolidation of UBB/Interlease for nine months in 2018 as opposed to three months in 2017), higher bank taxes, some one-off items and FX effects. Excluding these items, the increase would be around 3%. The year-to-date cost/income ratio came to 59%, or an adjusted 57% 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 (92 million euros in the first nine months of 2018, compared to 57 million euros in the year-earlier period) thanks largely to the impairment releases in Ireland (96 million euros, largely 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 -0.07% (a negative figure indicates a positive impact on the results), compared to -0.06% for full-year 2017.
- The net result for the first nine months of 2018 breaks down as follows: 1 089 million euros in the Belgium Business Unit, 484 million euros in the Czech Republic Business Unit, 440 million euros in the International Markets Business Unit and -64 million euros in the Group Centre. The result for the International Markets Business Unit for the first nine months of 2018 breaks down into 147 million euros in Hungary, 144 million euros in Ireland, 77 million euros in Bulgaria and 69 million euros in Slovakia.

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 risk remains a dominant theme for the sector (even though the 'Basel IV' agreement in December 2017 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, the Italian budget discussions 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 end its Asset Purchase Programmes in December 2018. The first step towards policy rate normalisation will only be taken several months after the end of QE (quantitative easing), which is likely to be in September 2019. In the meantime, we expect the Fed to carry out one more rate hike this year while its balance sheet rundown continues as planned. We expect the Fed rate cycle to peak at 3.375% at the end of 2019. Consequently, we believe that the US dollar will continue strengthening against the euro in the short run, as it benefits from short-term interest rate support arising from persistent monetary policy divergence. On a somewhat longer-term horizon, however, the euro will probably start appreciating again. Despite the flight to quality and safe-haven effects, persistent excess liquidity, the sustained German budget surplus, relatively subdued European (core) inflation and still highly accommodating monetary policy of the ECB, German long-term bond yields are expected to rise in the period ahead, albeit only modestly. 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 by the end of 2019. We expect two more increases in the policy rate before the end of 2020 in the Czech Republic.

Our view on economic growth: European economic conditions remain attractive, although we believe that the growth peak is behind us. Persistently decreasing unemployment rates, with growing labour shortages even arising in some European economies, combined with gradually rising wage inflation will continue to support private consumption. Moreover, investments will remain an important driver of growth. The main elements that could 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 Italy.

Press Release

Outside trading hours - Regulated information*

Guidance for the remainder 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.

Annex

Pro forma recalculation of 2017 reference figures for the main income lines, KBC Group (in millions of EUR, unaudited figures)	3Q2018	2Q2018	1Q2018	Pro forma recalculation of 2017 reference figures 4Q2017	3Q2017	2Q2017	1Q2017
Net interest income	1 136	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)	79	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	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

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).

For more information, please contact:

Kurt De Baenst, General manager Investor Relations, KBC-group
Tel +32 2 429 35 73 - E-mail: kurt.debaenst@kbc.be

Viviane Huybrecht, General Manager, Corporate Communication/Spokesperson, KBC Group
Tel +32 2 429 85 45 - E-mail: pressofficekbc@kbc.be

KBC Group NV
Havenlaan 2 – 1080 Brussels
Viviane Huybrecht
General Manager
Corporate Communication /Spokesperson
Tel. +32 2 429 85 45

Press Office
Tel. +32 2 429 65 01 Stef Leunens
Tel. +32 2 429 29 15 Ilse De Muyer
Tel. +32 2 429 32 88 Pieter Kussé
E-mail: pressofficekbc@kbc.be

KBC press releases are available at www.kbc.com **or can be obtained by sending an e-mail to** pressofficekbc@kbc.be

Follow us on www.twitter.com/kbc_group

Check this document's authenticity