# Press Release

Outside trading hours - Regulated information*

Brussels, 16 November (07.00 a.m. CET)

# KBC Group: strong result of 691 million euros in the third quarter

**Against the background of sustained economic expansion, only moderately rising inflation, a stronger euro and stable low interest rates, KBC turned in a strong performance in the third quarter of 2017, posting a net profit of 691 million euros. In the quarter under review, our core businesses once again performed well, while costs remained under control and the level of loan loss impairment remained very low. Moreover, the recently acquired Bulgarian companies also contributed positively to net profit. Adding the third quarter result to the similarly very good results for the first two quarters of the year brings the net result for the first nine months of 2017 to 2 176 million euros, significantly up on the 1 742 million euros recorded in the corresponding period of 2016. Our solvency and liquidity positions remained strong too. In line with our dividend policy, we will pay an interim dividend of 1 euro per share on 17 November 2017.**

## Financial highlights for the third quarter of 2017

- Both our existing banking and insurance franchises in our core markets continued to perform well, while the recently acquired Bulgarian companies, UBB and Interlease, also contributed 14 million euros to the net result. Our group result for the quarter under review accordingly came to a strong 691 million euros.

- Lending to our clients went up 1% quarter-on-quarter and 6% year-on-year, with increases in all business units. Deposits from our clients remained flat quarter-on-quarter, but increased 12% year-on-year with growth in all business units. Of the year-on-year volume growth, some 1.4 percentage points (for lending) and 1.9 percentage points (for deposits) was attributable to the first-time inclusion of UBB/Interlease in the figures.

- Net interest income – our main source of income – was up 1% on the previous quarter and down just 2% on its year-earlier level, thanks largely to the positive effect of the first-time consolidation of

UBB/Interlease. The net interest margin came to 1.83%, down 3 basis points quarter-on-quarter and 7 basis points year-on-year.

- Higher premium income, a better reinsurance result and a one-off release of provisions in Belgium boosted technical income from our non-life insurance activities by 23% year-on-year. Consequently, our non-life combined ratio for the first nine months of 2017 ended up at an exceptionally good 83%. Sales of our life insurance products dropped just slightly quarter-on-quarter, but were down 10% on their level a year ago.

- Our net fee and commission income remained strong, increasing year-on-year by 11%, thanks mainly to our asset management activities and the first-time inclusion of UBB/Interlease in the figures. Compared to the previous quarter, however, there was a decrease of 5% which partly reflects the effect of the holiday season.

- All other income items combined fell 34% quarter-on-quarter, but were up 49% year-on-year. This was largely accounted for in both cases by variations in the level of trading and fair value income and a negative item of 54 million euros in the quarter under review (related to an ongoing industry wide review of the tracker rate mortgage products originated in Ireland before 2009).

- Our operating expenses were more or less flat quarter-on-quarter and up 2% year-on-year. Excluding UBB/Interlease, costs decreased by 2% quarter-on-quarter, but remained unchanged year-on-year. As a consequence, our cost/income ratio for the first nine months of 2017 stood at a solid 54%.

- At 15 million euros, loan loss impairment charges in the quarter under review remained very low. They included a net impairment release of 26 million euros in Ireland and generally low levels of additional impairment charges in all other core countries. Consequently, our cost of credit amounted to a very favourable -0.05% in the first nine months of 2017 (a negative figure indicates a positive impact on profit).

- Our liquidity position remained strong, as did our capital base, with a common equity ratio of 15.9% (fully loaded, Danish compromise).

Johan Thijs, our group CEO, comments:

*‘We have delivered yet another strong performance in the third quarter. A number of factors were instrumental in achieving this, including growth of net interest income, solid net fee and commission income and a high level of insurance income thanks in part to some releases of provisions. Moreover, our costs remained under control, and loan loss impairment charges continued to be very low. On top of that, our recently acquired Bulgarian entities UBB and Interlease contributed 14 million euros to this quarter’s result. Moreover, the quarterly result was also influenced by an ongoing industry wide review of the tracker rate mortgage products originated in Ireland before 2009, for which a negative 54 million euros in this quarter has been booked.*
*All this resulted in 691 million euros of net profit being posted in the quarter under review. Combined with the 630 million euros recorded in the first quarter, and the exceptionally strong 855 million euros in the second quarter, this brings our net result for the first nine months of 2017 to 2 176 million euros, up 25% on the figure for the corresponding period of 2016.*
*We continued to work relentlessly on executing our strategy, which has proven very successful to date. We are on track as regards our digital agenda, and are working on further developing our bank-insurance*

*business and on supporting the local economies and clients in the countries in which we operate. We are ahead of our agenda on the operational integration of the recently acquired UBB and Interlease entities in Bulgaria, which will make us a leading player in that core country too.*
*We are truly grateful for the trust that our clients place in our company and our employees, and remain fully committed and focused in our efforts to become the reference in client-centric bank-insurance in all our core countries.'*

| Overview KBC Group (consolidated, IFRS) | 3Q2017 | 2Q2017 | 3Q2016 | 9M2017 | 9M2016 |
|---|---|---|---|---|---|
| Net result (in millions of EUR) | 691 | 855 | 629 | 2 176 | 1 742 |
| Basic earnings per share (in EUR) | 1.62 | 2.01 | 1.47 | 5.11 | 4.07 |
| Breakdown of the net result by business unit (in millions of EUR) | | | | | |
| Belgium | 455 | 483 | 414 | 1 240 | 993 |
| Czech Republic | 170 | 183 | 145 | 534 | 465 |
| International Markets | 78 | 177 | 106 | 370 | 289 |
| Group Centre | -12 | 12 | -36 | 32 | -5 |
| Parent shareholders' equity per share (in EUR, end of period) | 40.6 | 39.8 | 36.2 | 40.6 | 36.2 |

# The core of our strategy

Our core strategy remains focused on providing bank-insurance products and services to retail, SME and mid-cap clients in our core countries of Belgium, Bulgaria, the Czech Republic, Hungary, Ireland and Slovakia.

Our strategy consists of four interacting cornerstones:

- We put our clients' interests at the heart of what we do and strive to offer them high quality service and relevant solutions at all times.
- We strive to offer our clients a unique bank-insurance experience.
- We develop our group with a long-term perspective in order to achieve sustainable and profitable growth.
- We take our responsibility towards society and local economies very seriously and aim to reflect that in our everyday activities.

client centricity

bank-insurance

sustainable profitable growth

role in society

# Overview of our results and balance sheet

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.

| Consolidated income statement, IFRS KBC Group (in millions of EUR) | 3Q2017 | 2Q2017 | 1Q2017 | 4Q2016 | 3Q2016 | 9M 2017 | 9M 2016 |
|---|---|---|---|---|---|---|---|
| Net interest income | 1 039 | 1 028 | 1 025 | 1 057 | 1 064 | 3 091 | 3 201 |
| Non-life insurance (before reinsurance) | 188 | 179 | 187 | 178 | 164 | 554 | 450 |
| *Earned premiums* | *378* | *369* | *360* | *363* | *357* | *1 107* | *1 047* |
| *Technical charges* | *-190* | *-190* | *-173* | *-185* | *-193* | *-553* | *-597* |
| Life insurance (before reinsurance) | -3 | -24 | -28 | -44 | -34 | -55 | -107 |
| *Earned premiums* | *282* | *267* | *312* | *413* | *336* | *861* | *1 163* |
| *Technical charges* | *-284* | *-291* | *-341* | *-457* | *-370* | *-916* | *-1 271* |
| Ceded reinsurance result | 16 | -10 | -4 | -15 | -1 | 2 | -23 |
| Dividend income | 11 | 30 | 15 | 19 | 12 | 55 | 58 |
| Net result from financial instruments at fair value through P&L | 182 | 249 | 191 | 224 | 69 | 622 | 317 |
| Net realised result from available-for-sale assets | 51 | 52 | 45 | 8 | 26 | 148 | 181 |
| Net fee and commission income | 408 | 430 | 439 | 376 | 368 | 1 277 | 1 074 |
| Other net income | 4 | 47 | 77 | 101 | 59 | 128 | 157 |
| Total income | 1 896 | 1 980 | 1 946 | 1 903 | 1 727 | 5 822 | 5 308 |
| Operating expenses | -914 | -910 | -1 229 | -963 | -895 | -3 053 | -2 985 |
| Impairment | -31 | 71 | -8 | -73 | -28 | 32 | -127 |
| on loans and receivables | -15 | 78 | -6 | -54 | -18 | 57 | -71 |
| on available-for-sale assets | -6 | -2 | -1 | -4 | -7 | -9 | -51 |
| on goodwill | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| other | -11 | -5 | 0 | -15 | -3 | -16 | -5 |
| Share in results of associated companies and joint ventures | 8 | 3 | 5 | 5 | 9 | 16 | 22 |
| Result before tax | 959 | 1 144 | 715 | 871 | 814 | 2 818 | 2 218 |
| Income tax expense | -268 | -288 | -85 | -186 | -184 | -641 | -476 |
| Net post-tax result from discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Result after tax | 691 | 855 | 630 | 685 | 629 | 2 176 | 1 742 |
| attributable to minority interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **attributable to equity holders of the parent** | **691** | **855** | **630** | **685** | **629** | **2 176** | **1 742** |
| Basic earnings per share (EUR) | 1.62 | 2.01 | 1.47 | 1.61 | 1.47 | 5.11 | 4.07 |
| Diluted earnings per share (EUR) | 1.62 | 2.01 | 1.47 | 1.61 | 1.47 | 5.11 | 4.07 |

| Key consolidated balance sheet figures KBC Group (in millions of EUR) | 30-09-2017 | 30-06-2017 | 31-03-2017 | 31-12-2016 | 30-09-2016 |
|---|---|---|---|---|---|
| Total assets | 296 885 | 296 479 | 287 293 | 275 200 | 266 016 |
| Loans and advances to customers | 140 466 | 139 350 | 135 304 | 133 231 | 131 973 |
| Securities (equity and debt instruments) | 69 273 | 70 898 | 72 329 | 73 262 | 72 774 |
| Deposits from customers and debt certificates | 190 824 | 189 938 | 181 722 | 177 730 | 170 425 |
| Technical provisions, before reinsurance | 18 696 | 18 905 | 19 234 | 19 657 | 19 745 |
| Liabilities under investment contracts, insurance | 13 294 | 13 339 | 13 128 | 12 653 | 12 506 |
| Parent shareholders’ equity | 17 003 | 16 665 | 16 506 | 15 957 | 15 135 |

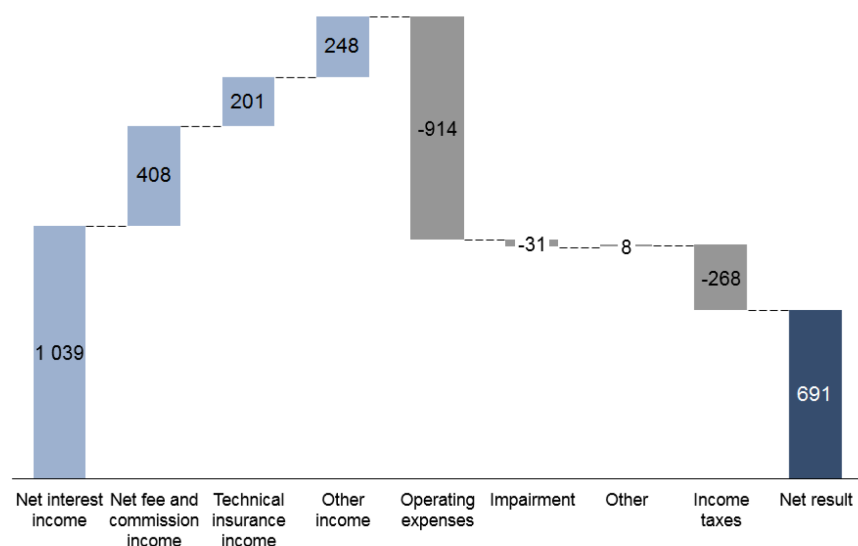
| Selected ratios for the KBC group (consolidated) | 9M2017 | FY2016 | 9M2016 |
|---|---|---|---|
| Profitability and efficiency | | | |
| Return on equity | 19% | 18% | 18% |
| Cost/income ratio, banking (between brackets: when evenly spreading the bank taxes and excluding certain non-operating items) | 54% (54%) | 55% (57%) | 57% (57%) |
| Combined ratio, non-life insurance | 83% | 93% | 94% |
| Solvency | | | |
| Common equity ratio according to Basel III Danish Compromise method (phased-in/fully loaded) | 16.1%/15.9% | 16.2%/15.8% | 15.1%/15.3% |
| Common equity ratio according to FICOD method (fully loaded) | 15.2% | 14.5% | 13.6% |
| Leverage ratio according to Basel III (fully loaded) | 5.8% | 6.1% | 6.2% |
| Credit risk | | | |
| Credit cost ratio* | -0.05% | 0.09% | 0.07% |
| Impaired loans ratio | 6.6% | 7.2% | 7.6% |
| for loans more than 90 days overdue | 3.7% | 3.9% | 4.2% |
| Liquidity | | | |
| Net stable funding ratio (NSFR) | 130% | 125% | 123% |
| Liquidity coverage ratio (LCR) | 150% | 139% | 137% |

* Negative figure indicates a net impairment release (with positive impact on results).

# Analysis of the quarter (3Q2017)

The net result for the quarter amounted to 691 million euros, compared to 855 million euros in the previous quarter and 629 million euros in the corresponding quarter a year earlier.
*Note: the results of the recently acquired UBB and Interlease entities in Bulgaria are included in the group's results as of the third quarter of 2017 (net result of 14 million euros). Please note that UBB and Interlease were already included in the balance sheet at 30 June 2017.*

**Our total income was down 4% on the figure for the previous quarter, as higher technical insurance income and net interest income were offset by lower trading and fair value income, a negative item in other net income and a seasonal drop in some other income items.**




Net interest income (1 039 million euros) was up 1% on its level in the previous quarter, but down 2% on its year-earlier level. Net interest income benefited from lower funding costs and continued loan volume growth – see below – and from the first-time inclusion of UBB/Interlease in the figures, which accounted for 28 million euros of net interest income. These positive items were offset in part by a more negative level of interest income generated by the dealing rooms, the continued effect of low reinvestment yields, lower prepayment fees on mortgage loan refinancing (mainly year-on-year) and loan margin pressure in most core countries. As a result, our net interest margin came to 1.83% for the quarter under review, down 3 and 7 basis points, respectively, on the

figure recorded in the previous and year-earlier quarters. As already mentioned, interest income continued to be supported by loan volume growth: our total volume of lending rose by 1% quarter-on-quarter and by 6% year-on-year, with growth in all business units. Deposits remained flat quarter-on-quarter and went up 12% year-on-year with increases in all business units. Excluding UBB/Interlease, the year-on-year organic growth of loans would have been 4% and the year-on-year growth of deposits some 10%.
Technical income from our non-life and life insurance activities (earned premiums less technical charges, plus the ceded reinsurance result) stood at a high 201 million euros in the quarter under review. Non-life insurance activities contributed 202 million euros to this technical insurance income figure, 19% and 23% more than in the previous and year-earlier quarters, respectively, thanks to increased non-life premium income in almost all core countries, a higher reinsurance result and a one-off release of non-life provisions in Belgium (26 million euros). Consequently, our combined ratio for the first nine months of 2017 came to an exceptionally good 83% (86% excluding the one-off provisions release), compared to 93% for full year 2016. Technical insurance income from our life insurance activities stood at -1 million euros, an improvement on the -25 million euros recorded in the previous quarter and the -35 million euros posted in the year-earlier quarter, due to the fact that it also benefited from a release of life-related provisions in Belgium (23 million euros), among other things. Sales of life insurance products were 3% lower than in the previous quarter, and were down 10% on the year-earlier quarter, with most of the decline occurring in the sale of guaranteed interest products in Belgium (related to the low interest rate environment). Consequently, the share of guaranteed interest products in total sales of life insurance products dropped to 54% in the third quarter of 2017, with unit-linked products accounting for the remaining 46%.

Net fee and commission income – at 408 million euros – remained robust. Year-on-year, it was up 11%, thanks mainly to the contribution made by our asset management activities in Belgium, and, to a lesser extent, to higher payment service fees in a number of countries and to the first-time inclusion of UBB/Interlease in the figures (accounting for 12 million euros). Compared to the previous quarter, however, there was a decrease of 5% which partly reflects the effect of the holiday season (lower entry fees due to a drop in sales of funds and lower securities-related transactions, etc.). At the end of September 2017, our total assets under management stood at 217 billion euros, up 1% quarter-on-quarter and almost 4% year-on-year, due in both cases mainly to the positive price performance.

All other income items amounted to an aggregate 248 million euros, compared to 378 million euros in the previous quarter and 166 million euros in the year-earlier quarter. The figure for the third quarter of 2017 included a relatively high 51 million euros in gains realised on the sale of available-for-sale securities (predominantly on shares), 11 million euros in dividend income (down on the figure for the second quarter of 2017, when the bulk of dividends is usually received) and 4 million euros in other net income (down quarter-on-quarter and year-on-year since it includes an additional provision of 54 million euros related to an ongoing industry wide review of the tracker rate mortgage products originated in Ireland before 2009). It also included the 182-million-euro net result from financial instruments at fair value (trading and fair value income). The latter was up on the 69 million euros recorded in the year-earlier quarter, but down on the very high 249 million euros recorded in the previous quarter, due principally to the lower mark-to-market value change of derivatives used for asset/liability management purposes (partly related to CZK swaps) and a decrease in dealing room income.

## Operating expenses flat quarter-on-quarter

At 914 million euros, operating expenses were flat quarter-on-quarter and up 2% year-on-year (disregarding UBB/Interlease, expenses were even down 2% quarter-on-quarter and flat year-on-year). The flat level of costs quarter-on-quarter – despite the 20-million-euro impact of UBB/Interlease – was attributable mainly to lower staff expenses, professional fees, facilities expenses and ICT costs, among other things. The 2% year-on-year increase in costs, on the other hand, resulted from an increase in staff expenditure (wage drift), ICT

costs, depreciation and the impact of UBB/Interlease, partly offset by decreases in professional fees, facilities expenses and marketing costs.

As a result, the cost/income ratio of our banking activities stood at a solid 54% in the first nine months of 2017, compared to 55% for full year 2016. When the bank taxes are evenly spread throughout the year and certain non-operating items are excluded (mark-to-market of derivatives used for asset/liability management purposes, the impact of legacy legal cases, the effect of the liquidation of group companies, etc.), our adjusted cost/income ratio for the first nine months of 2017 also amounted to 54%, compared to 57% for full year 2016.

## Low level of loan loss impairment in the quarter under review

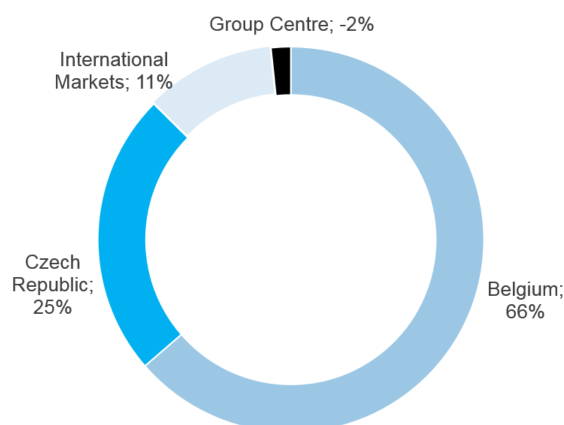
In the third quarter of 2017, there was only a very small increase in loan loss impairment (15 million). There had been a net impairment release (with a positive impact on the results) of 78 million euros in the previous quarter and an increase of 18 million euros in the year-earlier quarter. The low level of impairment in the quarter under review was attributable to the combination of a 26-million-euro impairment release in Ireland (which came about mainly because of the positive movement in the 9-month average house price index and an improvement in the portfolio of non-performing loans), and a relatively low level of additional impairment charges in all other core countries: 21 million euros in Belgium (quarter-on-quarter increase due to one large corporate loan), 1 million euros in the Czech Republic, 7 million euros in Slovakia, 0 million euros in Hungary, 7 million euros in Bulgaria (almost entirely relating to the UBB portfolio) and 6 million euros in the Group Centre.
Consequently, annualised loan loss impairment for the entire group in the first nine months of 2017 accounted for an extremely low -0.05% of the total loan portfolio (a negative figure indicates a positive impact on the results).
Loan quality improved further: at the end of September 2017, some 6.6% of our loan book was classified as impaired, with 3.7% being 'impaired and more than 90 days past due'. This compares with 7.2% and 3.9%, respectively, at year-end 2016.

Impairment on assets other than loans stood at 17 million euros, compared to 7 million in the previous quarter and 10 million euros in the third quarter of 2016. The figure for the third quarter of 2017 mainly related to available-for-sale shares, facilities assets and ICT, among other things.

## Results per business unit (quarter-on-quarter)

Our quarterly profit of 691 million euros breaks down as follows:

- 455 million euros for the Belgium Business Unit.
  The net result was down 6% quarter-on-quarter. This was due to a partly seasonal decline in net fee and commission income and dividend income, lower net interest income, a decrease in trading and fair value income following the very high level in the previous quarter, higher
  – but still low – loan loss impairment and an increase in impairment on other assets. This was offset by a number of items, including significantly better technical insurance



income (thanks in part to one-off releases of provisions), increased other net income, and lower operating expenses.

- 170 million euros for the Czech Republic Business Unit.
  The net result was down 7% on its level for the previous quarter, essentially due to trading and fair value income, which – though still high – was lower than the very high level recorded in the previous quarter. Other significant items were a lower level of realised gains on the sale of financial assets and a decrease in fee and commission income, partly offset by a lower level of loan loss impairment and improved technical insurance income.

- 78 million euros for the International Markets Business Unit, 16 million euros of which was accounted for by Slovakia, 40 million euros by Hungary, 22 million euros by Bulgaria (including 14 million euros at UBB/Interlease) and -1 million euros by Ireland. For the business unit as a whole, this represented a quarter-on-quarter decrease of 99 million euros, which was primarily attributable to Ireland, where loan loss impairment releases were lower in the quarter under review and a provision of 54 million euros was set aside relating to an ongoing industry wide review of the tracker rate mortgage products originated in Ireland before 2009.

- -12 million euros for the Group Centre. This is 24 million euros down on the level recorded in the previous quarter, largely situated in trading and fair value income.

| | Belgium | | Czech Republic | | International Markets | |
|---|---|---|---|---|---|---|
| **Selected ratios per business unit** | **9M2017** | **FY2016** | **9M2017** | **FY2016** | **9M2017** | **FY2016** |
| Cost/income ratio, banking (between brackets: when evenly spreading bank taxes and excl. certain non-operating items) | 53% (52%) | 54% (55%) | 41% (42%) | 45% (46%) | 68% (67%) | 64% (66%) |
| Combined ratio, non-life insurance | 80% | 92% | 97% | 96% | 92% | 94% |
| Credit cost ratio* | 0.10% | 0.12% | 0.04% | 0.11% | -0.74% | -0.16% |
| Impaired loans ratio | 2.8% | 3.3% | 2.5% | 2.8% | 22.4% | 25.4% |

* Negative figure indicates a net impairment release (with positive impact on results).

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).

## Strong fundamentals: equity, solvency and liquidity

At the end of September 2017, our total equity stood at 18.4 billion euros (17.0 billion euros in parent shareholders' equity and 1.4 billion euros in additional tier-1 instruments), up 1.0 billion euros on its level at the beginning of the year. The change during the first nine months of the year resulted from the inclusion of the profit for that period (+2.2 billion euros), the payout of the final dividend for 2016 in May and the decision to pay an interim dividend for 2017 in November (an aggregate -1.2 billion euros), changes in the available-for-sale and cash flow hedge reserves (-0.1 and +0.2 billion euros, respectively) and a number of minor items.

At 30 September 2017, our fully loaded common equity ratio (Basel III, under the Danish compromise) stood at a strong 15.9%. Our leverage ratio (Basel III, fully loaded) came to 5.8%. The solvency ratio for KBC Insurance under the Solvency II framework was a sound 221% at 30 September 2017.

Our liquidity position remained excellent too, as reflected in an LCR ratio of 150% and an NSFR ratio of 130% at the end of September 2017.

## Analysis of the year-to-date period (9M2017)

The net result for the first nine months 2017 amounted to 2 176 million euros, compared to 1 742 million euros in the corresponding period of 2016.
*Note: the result for the first nine months of 2017 includes the net result of 14 million euros generated by the recently acquired UBB and Interlease entities in Bulgaria in the period July through September.*

Highlights (compared to 9M2016):

- Somewhat lower net interest income (-3% to 3 091 million euros). The volume of deposits increased by 12% and lending went up by 6%. Of this volume growth, some 1.4 percentage points (for lending) and 1.9 percentage points (for deposits) was attributable to the first-time inclusion of UBB/Interlease in the figures. The net interest margin in the first nine months of 2017 came to 1.86%, down on the 1.94% recorded in the corresponding period of 2016.

- A higher contribution made by the technical insurance result (+57% to 501 million euros). This was due to the non-life insurance activities, where premium income rose, the reinsurance result went up and technical charges fell (thanks in part to a one-off release of provisions in Belgium), and to the life insurance activities, which – among other things – also benefited from a release of provisions Belgium. The year-to-date non-life combined ratio stood at an excellent 83%. Life insurance sales were down by 19%, mainly on account of a decrease in the sale of guaranteed interest products.

- Significantly higher net fee and commission income (+19% to 1 277 million euro) due primarily to our asset management services. At the end of September 2017, total assets under management stood at 217 billion euros, a year-on-year increase of 4%, largely because of a positive price performance.

- A higher level of all other income items combined (953 million euros). This included a significantly higher net result from financial instruments at fair value (almost doubling to 622 million euros), lower net realised gains from available-for-sale assets (-18% to 148 million euros, since the reference period had included the gain on the sale of Visa Europe shares), a slightly lower level of dividend income (-6% to 55 million euros) and lower other net income (-19% to 128 million euros, in part due to the booking of a provision relating to an ongoing industry wide review of the tracker rate mortgage products originated in Ireland before 2009.)

- Slightly higher operating expenses (+2% to 3 053 million euros), owing basically to higher staff costs (wage drift and pension expenses, among other things), increased ICT costs, the first-time inclusion of UBB/Interlease in the figures and, to a lesser extent, higher professional fees and depreciation, while facilities expenses and marketing costs fell somewhat. As a result, the year-to-date cost/income ratio amounted to a solid 54%.

- Much lower loan loss impairment charges (from a net addition of 71 million euros in the first nine months of 2016 to a net release of 57 million euros in the first nine months of 2017), essentially because of impairment releases in Ireland. As a result, the credit cost ratio for the whole group stood at an excellent -0.05% (a negative figure indicates a positive impact on the results).

- The net result for the first nine months of 2017 breaks down as follows: 1 240 million euros for the Belgium Business Unit (+25% on the figure for the first nine months of 2016), 534 million euros for the Czech Republic Business Unit (+15%), 370 million euros for the International Markets Business Unit (+28%, or +23% excluding UBB/Interlease) and 32 million euros for the Group Centre (up 37 million euros). The above result for the International Markets Business Unit breaks down into 164 million euros for Ireland (+84%, due essentially to much higher loan loss impairment releases), 107

million euros for Hungary (roughly unchanged), 63 million euros for Slovakia (-17%) and 31 million euros for Bulgaria (+94%, due to the inclusion in the figures of UBB/Interlease as of the third quarter of 2017).

## 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 in general and, as a consequence, are also relevant to us. Regulatory uncertainty regarding capital requirements is a dominant theme for the sector, besides enhanced consumer protection. Another ongoing challenge remains the low interest rate environment, despite the recent uptrend, particularly for longer maturities, 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. EU political risks receded earlier this year following the outcome of the Dutch and French elections, but the situation in Catalonia might develop into a new source of uncertainty. In addition, concerns remain on the banking sector in certain countries. Financial technology 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.

On the macroeconomic front, the strong momentum of global economic growth continued in the third quarter of 2017. This favourable environment allowed the Fed to start its balance sheet normalisation programme at the beginning of October. Economic growth in the euro area remained well above its long-term potential rate, leading to further improvements on the European labour market. Oil prices rose during the third quarter, which caused a modest increase in headline inflation compared to its second quarter level. Core inflation, however, remained broadly stable at a low level. Both the US and German long-term government bond yields ended the third quarter virtually unchanged at low levels. Meanwhile, intra-EMU sovereign yield spreads remained generally stable, with the notable exception of Spain (slightly higher due to political events in Catalonia), and Portugal (significantly lower due to its sovereign debt rating being upgraded). On balance, the strong economic performance in the euro area caused the euro to appreciate markedly against the US dollar. The euro peaked at the end of August, before depreciating again somewhat as a result of the Fed's determination to pursue its normalisation path.

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

## Our views and guidance

Our view on interest rates and foreign exchange rates: the ECB will continue its QE programme until at least September 2018. From January 2018 on, the volume of these net monthly purchases will be reduced to 30 billion euros. The ECB will only raise its policy rate in 2019. In the meantime, we expect the Fed to carry out another policy rate hike in 2017 and three more in 2018 (each time by 25 basis points). Consequently, we believe that the US dollar will appreciate against the euro in 2017 and in early 2018, as it will benefit from short-term interest rate support. The euro will start appreciating again after this period. Given the low

inflation environment and still highly accommodating global monetary policies, German and US 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 already begun to tighten its monetary policy and is expected to continue to do so in the coming year. We forecast two more rate hikes for next year so that the repo rate will be at 1% by the end of 2018. However, given the economic and inflationary developments together with possible fiscal stimulus by the new government, a more aggressive policy is possible.

Our view on economic growth: the economic environment in the euro area is favourable and, as a result, the consumer sector remains solid. The unemployment rate is steadily falling, which will further support consumption in the period ahead. The most significant risks continue to stem from the trend of de-globalisation and from geopolitical concerns, which could create additional uncertainty and hence affect economic sentiment.

Notice to the holders of the 1 billion USD contingent capital note ('CoCo') of KBC Bank NV:

- we intend to call the CoCo in January 2018. Hence, the capital value of the CoCo has already been excluded from Tier-2 capital. The impact of calling the CoCo has largely been offset by the successful issue of a 500-million-euro tier-2 benchmark in September 2017.

We repeat our guidance:

- For Ireland, our guidance for loan impairment is for a net release of 160 to 200 million euros for full year 2017.
- We estimate the first-time application of IFRS 9 (replacing the relevant requirements of IAS 39 on 1 January 2018) to reduce our fully loaded common equity ratio by 45-55 basis points, mainly on account of reclassifications in the banking book.
- In line with our dividend policy, the Board has decided to pay an interim dividend of 1 euro per share, as an advance payment on the total dividend (payment date 17 November 2017; record date: 16 November 2017, ex-coupon date 15 November 2017).
- We repeat that the planned but not yet approved reform of the Belgian corporate income tax regime announced on 26 July 2017 would impact KBC mainly because of the intended gradual decrease in the tax rate from 33.99% to 29.58% (as of accounting year 2018) and to 25% (as of accounting year 2020). We expect this to have a recurring positive impact on the income statement from 2018 onwards, a slightly positive one-off impact (of roughly +0.2%) on the common equity ratio in the fourth quarter of 2017, and an estimated one-off negative upfront impact on the income statement in the fourth quarter of 2017 (estimated at -230 million euros and related to a reduction in deferred tax assets).

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