Press Release

Outside trading hours - Regulated information*

Brussels, 6 August 2020 (07.00 a.m. CEST)

KBC Group: Second-quarter result of 210 million euros

KBC Group – overview (consolidated, IFRS)	2Q2020	1Q2020	2Q2019	1H2020	1H2019
Net result (in millions of EUR)	210	-5	745	205	1 175
Basic earnings per share (in EUR)	0.47	-0.04	1.76	0.43	2.75
Breakdown of the net result by business unit (in millions of EUR)					
Belgium	*204*	*-86*	*388*	*119*	*564*
Czech Republic	*77*	*88*	*248*	*165*	*425*
International Markets	*-45*	*35*	*104*	*-11*	*175*
Group Centre	*-26*	*-43*	*4*	*-68*	*11*
Parent shareholders' equity per share (in EUR, end of period)	44.9	43.8	42.8	44.9	42.8

The quarter under review started with the society in lockdown due to the coronavirus crisis. Over and above the human suffering caused by the pandemic itself, this also triggered unprecedented economic consequences. Even though society is now gradually reopening, it is clear that the coronavirus crisis will have a significant impact, especially in particular sectors. However, the various relief measures implemented in our home countries may help contain the overall impact going forward. Obviously, the long-term impact on the economy also depends on the occurrence and intensity of new outbreaks of the virus now and in the coming months.

Since the start of the coronavirus crisis, we have been working hard with government agencies to support all customers impacted by coronavirus, by efficiently instituting relief measures – including loan deferrals – and adapting or extending these measures where necessary. In these difficult times, we have also managed to continue providing our customers in all our home markets with a high level of service, thanks in the main to the efforts and investments we have made over the past few years on the digital transformation front, in combination with the expertise and commitment of our employees in all our home countries. Meanwhile we will continue to work on solutions to proactively make life easier for our customers. The interaction between human and machine, between branch and digital app, supported by artificial intelligence and data analysis, plays a prominent role here. We will be communicating on this and other topics in more depth during a strategy update session on 12 November.

We believe that the world emerging from the coronavirus crisis will have to be a more sustainable one and we are working tirelessly to contribute to such a scenario. With that in mind, we successfully launched our second green bond in June for the amount of 500 million euros. By issuing green bonds, we aim to create a closer link with socially responsible investors, to provide finance to customers directly involved in sustainable projects and to contribute to the development of a liquid and efficient green bond market, which would help to finance the transition to a low-carbon economy.

As regards our financial results, we generated a net profit of 210 million euros in the second quarter of 2020. The result was significantly impacted by the recording of 845 million euros in loan loss impairment charges, the bulk of which related to the potential economic consequences of the coronavirus crisis. In this regard, we wish to reiterate our guidance for full-year 2020, i.e. an estimated 1.1 billion euros in loan loss impairment charges. As expected, net interest income and net fee and commission income fell in the second quarter, while our non-life insurance result, on the other hand, was very solid and our life insurance business witnessed strong sales in the second quarter. What's more, our trading and fair value result, which had been hit hard during the first quarter of the year, recovered to a large extent in the quarter under review. Last but not least, our strict cost control measures, together with the additional cost savings announced when the first-quarter results were published, helped reduce our operating expenses (excluding bank taxes) by 6% quarter-on-quarter and by 8% year-on-year.

Our solvency position remained very strong, with a common equity ratio of 16.6% on a fully loaded basis, well above the current minimum capital requirement of 7.95%. Our liquidity position remained solid too, with an LCR of 136% and an NSFR of 142% at the end of June 2020. As a result, our current capital and liquidity buffers allow us to face today's challenges with confidence. It should also be noted that, in line with the recent ECB recommendation, we cannot execute our usual dividend policy. As a consequence, no interim dividend will be paid out in November 2020.

In closing, I would like to take this opportunity to explicitly thank all those stakeholders who have continued to put their trust in us. I can assure you that, in these challenging times, we remain fully committed to maintaining our position as the reference in bank-insurance in all our home markets.

Johan Thijs, Chief Executive Officer

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Financial highlights in the second quarter of 2020

The result of the quarter under review was significantly impacted by the recording of loan loss impairment charges related to the pandemic.
That aside, costs were reduced significantly, the non-life insurance result was excellent and trading & fair value income recovered following the initial drop in the first quarter. Net interest income and fee and commission went down compared to the previous quarter.

- Net interest income decreased by 9% quarter-on-quarter and by 4% year-on-year, mainly on account of the effect of interest rates being cut by the CNB in the Czech Republic, the depreciation of the Czech koruna and Hungarian forint against the euro, low reinvestment yields in general, lower portfolio lending margins in most core countries (except Belgium) and the lower netted positive impact of ALM FX swaps. Year-on-year, these negative effects were partially offset by good loan volume growth, the beneficial effect of ECB tiering, lower funding costs, a larger bond portfolio (also quarter-on-quarter) and the full consolidation of ČMSS since June 2019. Loan volumes remained more or less stable quarter-on-quarter and were up 4% year-on-year, with year-on-year growth recorded in all business units. Deposits excluding debt certificates grew by 5% quarter-on-quarter and 11% year-on-year, again with year-on-year growth in all business units.
- Technical income from our non-life insurance activities (premiums less charges, plus the ceded reinsurance result) was up 40% on its level in the year-earlier quarter, due mainly to lower technical charges (largely related to the effect of the lockdown on economic activity). Consequently, the combined ratio for the first half of 2020 amounted to an excellent 83%. Sales of our life insurance products were up 32% and 22% on their respective levels in the previous and year-earlier quarters, thanks to increased sales of unit-linked products.
- Net fee and commission income was 10% and 11% lower than the figure recorded in the previous and year-earlier quarters, respectively, due to a combination of lower fees from our asset management activities (both entry and management fees) and lower fees in relation to banking services (lower payment fees due mainly to the lockdown).
- Trading and fair value result rebounded quite strongly to 253 million euros after the significantly negative figure (-385 million euros) of the previous quarter, which had been severely impacted by the initial effects of the outbreak of the coronavirus pandemic. The recovery in the second quarter was due to, among other things, rising stock markets and decreasing counterparty credit spreads and KBC funding spread.
- Net other income was more or less in line with the figure recorded in the previous quarter, but down year-on-year as the year-earlier quarter had benefited from a 82-million-euro one-off gain on the revaluation of the 55% participation in ČMSS (related to the acquisition of the remaining stake in that company).
- Costs excluding bank taxes – the bulk of which is recorded in the first quarter – were down 6% and 8% on the figures recorded in the previous and year-earlier quarters, respectively, thanks to the announced cost savings and the foreign exchange effect. When certain non-operating items are excluded and the bank taxes spread evenly throughout the year, the cost/income ratio amounted to 59% for the first half of 2020, compared to 58% for full-year 2019.
- Loan loss impairment charges amounted to 845 million euros in the quarter under review, with almost 90% of this figure relating to collective impairment charges for the coronavirus crisis. As a consequence, the credit cost ratio for the first six months of the year amounted to 0.64%, up from 0.12% for full-year 2019.
- Our liquidity position remained strong with an LCR of 136% and NSFR of 142%. Our capital base remained robust as well, with a fully loaded common equity ratio of 16.6%.

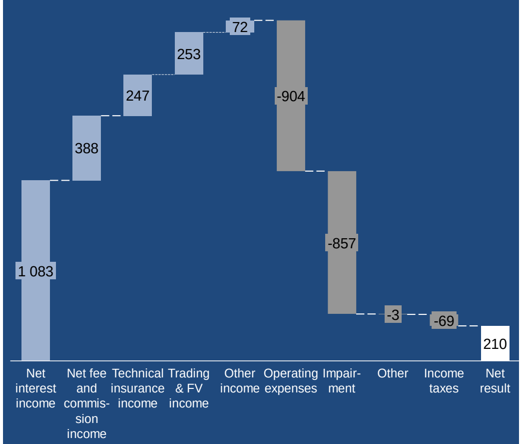
The cornerstones of our strategy

Our strategy rests on four principles:

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

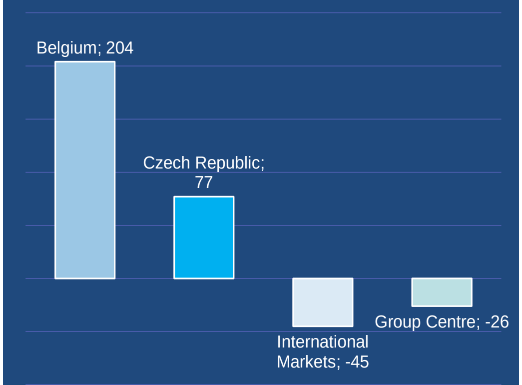
Breakdown of 2Q2020 result

(in millions of EUR)



Contribution of the business units to 2Q2020 group result

(in millions of EUR)



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Overview of results and balance sheet

Consolidated income statement, IFRS KBC Group (in millions of EUR)	2Q2020	1Q2020	4Q2019	3Q2019	2Q2019	1H2020	1H2019
Net interest income	1 083	1 195	1 182	1 174	1 132	2 278	2 261
Non-life insurance (before reinsurance)	255	185	229	192	174	440	335
Earned premiums	*435*	*443*	*441*	*440*	*425*	*879*	*840*
Technical charges	*-180*	*-258*	*-212*	*-248*	*-251*	*-439*	*-505*
Life insurance (before reinsurance)	6	0	2	-5	1	6	-2
Earned premiums	*276*	*297*	*364*	*291*	*317*	*574*	*668*
Technical charges	*-271*	*-297*	*-363*	*-297*	*-316*	*-568*	*-669*
Ceded reinsurance result	-13	-7	-11	-9	1	-21	-5
Dividend income	17	12	17	14	39	30	51
Net result from financial instruments at fair value through P&L[1]	253	-385	130	-46	-2	-132	97
Net realised result from debt instruments at fair value through other comprehensive income	2	0	0	5	0	3	2
Net fee and commission income	388	429	445	444	435	816	845
Net other income	53	50	47	43	133	102	192
Total income	2 043	1 479	2 041	1 813	1 913	3 522	3 775
Operating expenses	-904	-1 338	-1 045	-975	-988	-2 242	-2 283
Impairment	-857	-141	-82	-26	-40	-997	-109
Of which: on financial assets at amortised cost and at fair value through other comprehensive income[2]	*-845*	*-121*	*-75*	*-25*	*-36*	*-966*	*-103*
Share in results of associated companies & joint ventures	-3	-3	-1	0	4	-7	8
Result before tax	279	-3	912	812	889	276	1 392
Income tax expense	-69	-2	-210	-200	-144	-71	-217
Result after tax	210	-5	702	612	745	205	1 175
attributable to minority interests	0	0	0	0	0	0	0
attributable to equity holders of the parent	**210**	**-5**	**702**	**612**	**745**	**205**	**1 175**
Basic earnings per share (EUR)	0.47	-0.04	1.66	1.44	1.76	0.43	2.75
Diluted earnings per share (EUR)	0.47	-0.04	1.66	1.44	1.76	0.43	2.74

Key consolidated balance sheet figures KBC Group (in millions of EUR)	30-06-2020	31-03-2020	31-12-2019	30-09-2019	30-06-2019
Total assets	317 388	301 451	290 735	294 830	289 548
Loans and advances to customers, excl. reverse repos	157 563	158 364	155 816	154 863	154 169
Securities (equity and debt instruments)	72 131	67 176	65 633	65 122	63 746
Deposits from customers & debt certificates, excl. repos	210 811	208 293	203 369	205 270	199 138
Technical provisions, before reinsurance	18 775	18 816	18 560	18 549	18 652
Liabilities under investment contracts, insurance	12 505	11 979	13 610	13 456	13 381
Parent shareholders' equity	18 710	18 220	18 865	18 086	17 799

Selected ratios KBC group (consolidated)	1H2020	FY2019
Return on equity	2%[3]	14%
Cost/income ratio, banking (when excluding certain non-operating items and spreading bank taxes evenly throughout the year)	66% (59%)	58% (58%)
Combined ratio, non-life insurance	83%	90%
Common equity ratio, Basel III Danish Compromise, fully loaded [transitional]	16.6% [16.6%]	17.1%
Common equity ratio, FICOD fully loaded [transitional]	15.4% [15.5%]	15.8%
Leverage ratio, Basel III fully loaded [transitional]	6.0% [6.0%]	6.8%
Credit cost ratio	0.64%	0.12%
Impaired loans ratio	3.4%	3.5%
for loans more than 90 days past due	1.9%	1.9%
Net stable funding ratio (NSFR)	142%	136%
Liquidity coverage ratio (LCR)	136%	138%

1 Also referred to as 'Trading and fair value income'.
2 Also referred to as 'Loan loss impairment'.
3 4% when bank taxes are spread evenly 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 (2Q2020)

Total income 2 043 million euros	Total income increased by 38% quarter-on-quarter, due almost entirely to the recovery of our trading and fair value income, following the huge drop in the previous quarter that had been caused by the initial financial market turmoil after the outbreak of the pandemic. All other income items combined fell slightly quarter-on-quarter, with the decrease in net interest income and in net fee and commission income being partly offset by higher technical insurance income and seasonally higher dividend income.

Net interest income amounted to 1 083 million euros in the quarter under review, down 9% on the figure recorded in the previous quarter and 4% year-on-year. In both cases, the decrease was mainly related to the effect of interest rates being cut by the CNB in the Czech Republic, the depreciation of the Czech koruna and Hungarian forint against the euro, low reinvestment yields in general, lower portfolio lending margins in most core countries (except Belgium), the lower netted positive impact of ALM FX swaps, and the fact that the previous quarter had included a positive one-off item. In the year-on-year comparison, these negative effects were partially offset by good loan volume growth (see next paragraph), the beneficial effect of ECB tiering, lower funding costs, a larger bond portfolio (also quarter-on-quarter) and the full consolidation of ČMSS since June 2019 (ČMSS was consolidated for the full three months in the second quarter of 2020, but for just one month in the second quarter of 2019 – this impact is referred to as the 'ČMSS impact' elsewhere in this publication).

The total volume of customer lending (158 billion euros) was more or less stable quarter-on-quarter but went up by 4% year-on-year, with year-on-year growth recorded in all business units. Customer deposits including debt certificates (211 billion euros) were up 1% quarter-on-quarter and 7% year-on-year, again with year-on-year growth in all business units. Excluding debt certificates, deposits were even up 5% quarter-on-quarter and 11% year-on-year. The net interest margin for the quarter under review amounted to 1.82%, 15 and 12 basis points down on the figures recorded in the previous quarter and year-earlier quarter, respectively.

Technical income from our **non-life insurance activities** (earned premiums less technical charges, plus the ceded reinsurance result) contributed 247 million euros to total income, up 43% quarter-on-quarter and 40% on the corresponding year-earlier quarter. The quarter-on-quarter increase came about primarily because of lower technical charges (the quarter under review included the positive effect of the lockdown on claims, whereas the previous quarter had included the significant impact of storms in Belgium), which more than offset the slight decrease in earned premiums. The year-on-year increase was due mainly to a combination of lower charges (a lower level due to lockdown in the quarter under review, whereas the reference quarter had been negatively impacted by storm-related claims and a re-assessment of claims provisions) and a slight increase in premium income, despite a lower ceded reinsurance result. Overall, the combined ratio for the first half of 2020 came to an excellent 83%, compared to 90% for full-year 2019.

Technical income from our **life insurance activities** (earned premiums less technical charges, plus the ceded reinsurance result) amounted to 1 million euros, compared to 4 million euros in the previous quarter and 0 million euros in the year-earlier quarter. Sales of life insurance products in the quarter under review (561 million euros) were up 32% and 22% on the level recorded in the previous and year-earlier quarters, respectively (thanks to increased sales of unit-linked products in Belgium due to the launch of new products), which more than offset lower sales of guaranteed-interest products. Overall, the share of unit-linked products in our total life insurance sales increased to 58% in the quarter under review, with guaranteed-interest products accounting for the remaining 42%.

In the quarter under review, **net fee and commission income** amounted to 388 million euros. Compared to the previous and year-earlier quarters, this represented a significant drop of 10% and 11%, respectively. In both cases, the decrease was caused primarily by the effects of the coronavirus pandemic on asset management-related fees (a decline in entry fees due to decreased sales and margins, and a decline in management fees due to the lower average level of assets under management in combination with lower margins). Moreover, fees related to banking services also fell (payment services fees, for instance, decreased due in part to the generally lower level of activity following lockdown). These negative items were only partially offset by the lower level of distribution fees paid (quarter-on-quarter) and the ČMSS impact (year-on-year). At the end of June 2020, our total assets under management amounted to 202 billion euros, up 4% quarter-on-quarter but down 4% year-on-year. The quarter-on-quarter increase was due to a recovery in asset prices (+5%) in the second quarter, combined with a limited net outflow of assets (-1%). The year-on-year decrease resulted from a combination of lower asset prices (-1%) and net outflows (-3%).

The **net result from financial instruments at fair value** (trading and fair value income) amounted to a positive 253 million euros, as opposed to -385 million euros in the previous quarter (which had been impacted by the initial market turmoil following the outbreak of the coronavirus crisis) and -2 million euros in the year-earlier quarter. The trading and fair value results for the quarter under review recovered largely from their level of the previous quarter, as they were positively impacted by rising stock markets and decreasing counterparty credit spreads and KBC funding spread, partly offset by lower long-term interest rates.

The **other remaining income** items included dividend income of 17 million euros, up on the figure recorded in the previous quarter (as the second quarter of the year traditionally includes the bulk of received dividends), but down on the year-earlier figure as a consequence of generally lower dividend payments due to the coronavirus crisis. The remaining income lines also include 53 million euros in net other income. This is in line with the normal run rate for this item, but down on the figure recorded in the year-earlier quarter, which had benefited from an 82-million-euro revaluation gain on the stake in ČMSS that had been triggered by the acquisition of the remaining participation in that company in that quarter.

Operating expenses

904 million euros

Excluding bank taxes, operating expenses in the second quarter were down 6% on the previous quarter, thanks to strict cost containment. The cost/income ratio for the first half of 2020 amounted to 66%, or 59% when certain non-operating items are excluded and bank taxes are spread evenly through the year.

Operating expenses in the second quarter of 2020 amounted to 904 million euros. The quarter-on-quarter comparison is distorted by the upfront recognition in the first quarter of most of the bank taxes for the full year (27 million euros in the second quarter of 2020; 407 million euros in the first quarter of 2020; 30 million euros in the second quarter of 2019). Excluding bank taxes, expenses decreased by 6% quarter-on-quarter and by 8% year-on-year, thanks in essence to the announced cost savings, which led to, inter alia, a decrease in accruals for variable remuneration, a reduction in FTEs, lower marketing, travel, facilities and event costs (these four cost items were directly related to the effects of lockdown), as well as to the depreciation of the Czech koruna and Hungarian forint against the euro. These items largely offset the negative impact of items such as wage drift and the ČMSS impact (year-on-year).

The cost/income ratio of our banking activities came to 66% for the first half of 2020, but was distorted by most of the bank taxes being recorded in the first quarter. Excluding certain non-operating items and spreading bank taxes evenly throughout the year, the ratio amounted to 59%, compared to 58% for full-year 2019.

Loan loss impairment

845-million-euro charge

We recorded a net loan loss impairment charge of 845 million euros, up on the 121 million euros recorded in the previous quarter. Almost 90% of the loan loss impairment in the second quarter related to collective impairment charges for the effects of the coronavirus crisis. The credit cost ratio for the first half of the year went up to 0.64%.

In the second quarter of 2020, we recorded an 845-million-euro net loan loss impairment charge, compared with a net charge of 121 million euros in the previous quarter and 36 million euros in the second quarter of 2019. 746 million euros of that 845 million euros related to collective impairment charges for the coronavirus crisis. Of this amount, 596 million euros related to an expert-based calculation (‘management overlay’ based on certain stress assumptions depending on country, segment, sector and probability-weighted macroeconomic scenarios) and 150 million euros was captured by the ECL models through updated macroeconomic variables. A detailed calculation and background information regarding this calculation can be found in Note 1.4 of the ‘Consolidated financial statements’ section of the quarterly report. It should be noted that the full collective expected credit losses for the coronavirus crisis – based on the assumptions at the end of the second quarter - have already been recorded in the first half of 2020.

Broken down by country, loan loss impairment charges in the second quarter of 2020 came to 458 million euros in Belgium, 170 million euros in the Czech Republic, 41 million euros in Slovakia, 55 million euros in Hungary, 23 million euros in Bulgaria and 97 million euros in Ireland. For the entire group, the credit cost ratio increased to 0.64% for the first half of 2020 (0.20% excluding the amount recorded for the coronavirus pandemic), up from 0.12% for full-year 2019.

The impaired loans ratio was down slightly on its level at the start of the year. At the end of June 2020, some 3.4% of our total loan book was classified as impaired (stage 3), compared to 3.5% at year-end 2019. Impaired loans that are more than 90 days past due amounted to 1.9% of the loan book, comparable to the figure recorded at year-end 2019.

For an indication of the expected impact of loan loss impairment for full-year 2020, see 'Guidance' on page 10 of this publication.

Impairment on assets other than loans amounted to 12 million euros, compared to 20 million euros in the previous quarter and 4 million euros in the second quarter of 2019. The figures for the quarter under review and the previous quarter relate principally to the accounting treatment of various payment moratoria in our home countries.

Net result by business unit	Belgium	Czech Republic	International Markets	Group Centre
	204 million euros	77 million euros	-45 million euros	-26 million euros

Belgium: the net result (204 million euros) increased by 290 million euros quarter-on-quarter. Excluding bank taxes (the bulk of which are recorded in the first quarter and hence distort the quarter-on-quarter comparison), the net result still went up by 75 million euros (58%), as the strong rebound in trading and fair value income (following the huge drop in the first quarter of the year), higher technical non-life insurance result (lower claims) and lower costs more than offset the negative impact of the significant increase in loan loss impairment charges (most of which related to the impact of the coronavirus crisis) and lower net fee and commission income and net interest income.

Czech Republic: the net result (77 million euros) was down 12% on its level for the previous quarter. Excluding bank taxes (the bulk of which are recorded in the first quarter) and the effect of the depreciation of the Czech koruna against the euro, the net result was down 32% quarter-on-quarter, as significantly higher loan loss impairment charges (primarily related to the impact of the coronavirus crisis) and lower net interest income (following the CNB's rate cuts, among other things) more than offset the rebound in the trading and fair value result (following the decline in the first quarter) and the reduction in costs.

International Markets: the -45-million-euro net result breaks down as follows: -6 million euros in Slovakia, 16 million euros in Hungary, 14 million euros in Bulgaria and -70 million euros in Ireland. For the business unit as a whole, the net result was down 80 million euros quarter-on-quarter, or 127 million euros excluding bank taxes. The latter decrease came about mainly on account of higher loan loss impairment charges (in all countries; largely related to the impact of the coronavirus crisis), which were only partially offset by increased trading and fair value income and lower costs.

Group Centre: the net result (-26 million euros) was up 17 million euros quarter-on-quarter, thanks essentially to higher trading and fair value income and increased net interest income, which more than offset the absence of loan loss impairment reversals in the quarter under review and the lower ceded reinsurance result.

	Belgium		Czech Republic		International Markets	
Selected ratios by business unit	1H2020	FY2019	1H2020	FY2019	1H2020	FY2019
Cost/income ratio, banking (excluding certain non-operating items and spreading bank taxes evenly throughout the year)	58%	60%	48%	47%	68%	68%
Combined ratio, non-life insurance	85%	89%	86%	94%	78%	88%
Credit cost ratio*	0.63%	0.22%	0.62%	0.04%	0.82%	-0.07%
Impaired loans ratio	2.4%	2.4%	2.2%	2.3%	7.8%	8.5%

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

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

Equity, solvency and liquidity	Total equity	Common equity ratio (fully loaded)	Liquidity coverage ratio	Net stable funding ratio
	20.2 billion euros	16.6%	136%	142%

At the end of June 2020, total equity amounted to 20.2 billion euros, comprising 18.7 billion euros in parent shareholders' equity and 1.5 billion euros in additional tier-1 instruments. Total equity was down 0.2 billion euros on its level at the end of 2019, owing to the combined effect of a number of items, including the profit for the half-year period (+0.2 billion euros), a decrease in the revaluation reserves for equity instruments of the insurance company (the so-called 'insurance overlay approach'; -0.1 billion euros), translation differences (-0.3 billion euros, due largely to the depreciation of the Czech koruna and Hungarian forint in the period under review) and a number of other minor items. We have provided details of these changes in the 'Consolidated financial statements' section of the quarterly report (under 'Consolidated statement of changes in equity').

At 30 June 2020, our fully loaded common equity ratio (Basel III, under the Danish compromise) amounted to a solid 16.6%, compared to 16.3% at 31 March 2020 and 17.1% at the end of 2019. Our fully loaded leverage ratio (Basel III, fully loaded) came to 6.0%, compared to 6.8% at the end of 2019. The solvency ratio for KBC Insurance under the Solvency II framework was 198% at the end of June 2020, compared to 202% at the end of 2019.

Our liquidity position remained excellent too, as reflected in an LCR ratio of 136% and an NSFR ratio of 142% at the end of the quarter under review (compared to 138% and 136%, respectively, at the end of 2019).

Analysis of the year-to-date period (1H2020)

Net result	
205 million euros	The net result for the first half of 2020 amounted to 205 million euros, compared to 1 175 million euros in the corresponding period of 2019. The decline was largely accounted for by the impact of the coronavirus lockdown and related economic turmoil, which pushed up loan loss impairments from 103 million euros in the first half of 2019 to 966 million euros in the period under review. Moreover, net fee and commission income, trading and fair value income, dividend income and net other income were all down on their reference period levels. On the positive side, net interest income increased slightly and the technical insurance result rose, while costs fell compared to the first half of 2019.

Highlights (compared to the first half of 2019):

- Slightly higher **net interest income** (up 1% to 2 278 million euros), as inter alia higher commercial lending volumes (see below), somewhat lower funding costs, the effect of ECB tiering, a larger bond portfolio and the ČMSS impact (consolidated for six months in 2020 compared to just one month in the first half of 2019) more than offset the negative impact of rate cuts in the Czech Republic, the negative effects of lower reinvestment yields, continued pressure on portfolio margins in most core countries (except Belgium), the lower netted positive impact of ALM FX swaps and the depreciation of the Czech koruna and Hungarian forint against the euro. The volume of deposits and debt certificates increased by 7% (or 11% excluding debt certificates) and lending volumes increased by 4%, with growth in all business units. The net interest margin in the first half of 2020 came to 1.89%, down 7 basis points year-on-year.
- An increase in the contribution to profit made by the **technical insurance result** (up 30% to 425 million euros). The non-life insurance technical result was up 27% on the figure for the year-earlier period, thanks largely to the lower level of technical charges (partly related to the lower level of claims due to the lockdown). The year-to-date non-life combined ratio amounted to 83%, compared to 90% for full-year 2019. Life insurance sales

(988 million euros) were up by 1%, with the increase in sales of unit-linked products being partly offset by a decrease in sales of guaranteed-interest products.

- Lower **net fee and commission income** (down 3% to 816 million euros), attributable primarily to a decline in fees for asset management services (lower sales and a lower level of assets under management). At the end of June 2020, total assets under management amounted to 202 billion euros, down 4% on the level recorded a year earlier (-1% price decrease, -3% net outflow).

- Lower **trading and fair value income** (down from 97 million euros to -132 million euros). The figure for the first six months of the year is the result of a huge drop in the first quarter (the outbreak of the coronavirus crisis initially caused stock markets to tumble, credit spreads to widen and long-term interest rates to fall) followed by a significant, but still partial, recovery in the second quarter.

- A lower level of all **other income items combined** (down 45% to 135 million euros) attributable to the fact that the reference period had included the ČMSS-related positive one-off gain of 82 million euros and also – to a lesser extent – to lower dividend income.

- Lower **operating expenses** (down 2% to 2 242 million euros). Excluding bank taxes, operating expenses were down 3%, thanks to items such as a reduction in FTEs, lower accruals for variable remuneration, lower travel, marketing, facilities and event costs and the depreciation of the Czech koruna and Hungarian forint against the euro. These items more than offset the higher depreciation charges and the ČMSS impact (consolidated for six months in 2020 compared to just one month in the first half of 2019), among other things. The year-to-date cost/income ratio came to 66%, or an adjusted 59% when bank taxes are evenly spread throughout the year and certain non-operating items are excluded (compared to 58% for full-year 2019).

- A significant increase in **loan loss impairment charges** (net addition of 966 million euros, compared to 103 million euros in the first half of 2019). Over 80% (789 million euros) of these impairment charges in the period under review was related to collective impairment charges for the coronavirus crisis, with 639 million euros based on a ‘management overlay’ and 150 million euros captured by the ECL models through updated macroeconomic variables. As a result, the credit cost ratio for the whole group went up to 0.64%, compared to 0.12% for full-year 2019.

- The 205-million-euro **net result** for the first half of 2020 breaks down as follows: 119 million euros for the Belgium Business Unit (down 445 million euros on the year-earlier level), 165 million euros for the Czech Republic Business Unit (down 260 million euros), -11 million euros for the International Markets Business Unit (down 185 million euros) and -68 million euros for the Group Centre (down 79 million euros). The result for the International Markets Business Unit for the first half of 2020 included -3 million euros for Slovakia, 25 million euros for Hungary, 24 million euros for Bulgaria and -58 million euros for Ireland.

Risk statement, economic views and guidance

Risk statement

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

At present, a number of items are considered to constitute the main challenges for the financial sector. These stem primarily from the impact of the coronavirus crisis on the global economy and, in particular, the financial sector (including credit, market and liquidity risks and the impact of persisting low interest rates on our results). These risks come on top of risks relating to macroeconomic and political developments, such as Brexit and trade conflicts, all of which affect global and European economies, including KBC's home markets. Regulatory and compliance risks (including anti-money laundering regulations and GDPR) remain a dominant theme for the sector, as does enhanced consumer protection. Digitalisation (with technology as a catalyst) presents both opportunities and threats to the business model of traditional financial institutions, while climate-related risks are becoming increasingly prevalent. Finally, cyber risk has become one of the main threats during the past few years, not just for the financial sector, but for the economy as a whole.

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

Our view on economic growth

Global economic growth suffered in the second quarter from the coronavirus (Covid-19) pandemic shock, leading to an unprecedented fall in quarterly GDP growth in the euro area and the US. Belgium followed the general euro area trend, whereas Ireland outperformed it, relatively speaking. Central and Eastern European countries were severely hit, too. During the second quarter, however, most advanced economies reopened their economies after intensive lockdown periods, initiating a strong recovery. This rebound became visible in all major economies, with China leading the way and returning to positive growth levels in the second quarter. Sentiment indicators and other data point to a similarly strong recovery in the euro area and the US. Nevertheless, caution is warranted, as the path to recovery could turn out to be a long and bumpy one, and will be heavily reliant on how the Covid-19 situation pans out. New virus outbreaks will undoubtedly slow down the recovery. The other main risk factors include the resurgence of the US-China trade and economic conflict and ongoing Brexit negotiations. Our base-case scenario assumes a steady but gradual path to recovery in both Europe and the US. We forecast for the European and US economy a strong recovery in the third and fourth quarter of 2020 and a continued recovery in 2021. However, risks are tilted to the downside. New outbreaks of Covid-19 followed by partial or full lockdowns may temporarily disrupt the course of recovery. We expect real GDP levels in the euro area to recover to their pre-coronavirus levels by the end of 2023 at the earliest.

Despite the expected recovery, the economic damage caused by the pandemic will be substantial. However, some negative effects have been postponed thanks to the temporary unemployment schemes and temporary moratoria on loans that mitigated the initial impact of the Covid-19 crisis. We expect European unemployment rates to go up in the second half of 2020 and in 2021. Moreover, we expect bankruptcies among European firms to increase, but the effect will be spread over a number of years. Hence non-performing loan ratios will gradually climb.

Our view on interest rates and foreign exchange rates

The recovery is strongly supported by monetary and fiscal stimuli. We expect the ECB – and the Czech and Hungarian National Banks – to keep their policy rates unchanged in the years to come. Additional monetary stimulus measures by the ECB are likely, in the form of additional quantitative easing, in particular by extending the Pandemic Emergency Purchasing Programme. These market interventions will also guarantee low longer-term interest rates and compressed intra-EMU spreads in the coming years, despite country-specific risks (particularly in Southern Europe) and a structural upswing in public deficits and public debt ratios across Europe. Moreover, the ECB will continue to support European financial institutions through the TLTROs and the tiered deposit rate instrument. In recent months, fiscal stimuli have been extended substantially, both at EU level and by the EU member states. The 'Next Generation EU' instrument, launched by the European Commission and approved by the European Council, creates a tool for financial solidarity within the EU and has clearly succeeded in calming the financial markets. Moreover, the number and span of fiscal stimulus initiatives launched by national EU governments continue to increase. Combined monetary and fiscal stimulus will underpin the recovery in Europe, similar to the policy initiatives launched in the US.

The recent recovery of the euro against the US dollar should be seen as market optimism towards the economic recovery in Europe and the policy initiatives to support this trend. We expect the euro to continue its gradual appreciation against the dollar, although the rate at which it appreciates may slow down. Central European currencies have also recovered from their Covid-19 crisis dips. In particular, we expect the Czech koruna and Hungarian forint to remain relatively stable around their current levels in the near future. Bulgaria's accession to the ERM-II is a welcome and expected step towards euro area membership, though that is not expected anytime in the next three years.

Guidance

- Full-year 2020 guidance:
  - *Net interest income*: approximately 4.4 billion euros (up from 4.3 billion euros mentioned in the previous report);
  - *Operating expenses excluding bank taxes:* decrease of approximately 3.5% year-on-year;
  - *Loan loss impairment:* approximately 1.1 billion euros. Depending on a number of events such as the length and depth of the economic downturn, the significant number of government measures in each of our core countries, and the unknown number of customers who will call upon these mitigating actions, we estimate loan loss impairment for full-year 2020 to range between approx. 0.8 billion euros (optimistic scenario) and approx.1.6 billion euros (pessimistic scenario);
- The impact of the coronavirus lockdown on digital sales, services and digital signing has so far been very positive. KBC is clearly benefiting from the digital transformation efforts it has made to date;
- Basel IV has been postponed by one year (as of 1 January 2023 instead of 2022);
- In line with the recent ECB recommendation, we cannot execute our usual dividend policy. As a consequence, no interim dividend will be paid out in November 2020;
- We will provide a strategy update together with the results for the third quarter of 2020, while new long-term guidance and our capital deployment plan will be updated when the results for full-year 2020 are published.

Upcoming events	3Q2020 results and strategy update: 12 November 2020 4Q2020 results and update of new long-term guidance & capital deployment plan: 11 February 2021
More information on 2Q2020	Quarterly report: www.kbc.com / Investor Relations / Reports Company presentation: www.kbc.com / Investor Relations / Presentation
Detailed impact of coronavirus crisis	Quarterly report, Note 1.4 in 'Consolidated financial statements according to IFRS' Company presentation, section 2 on 'Covid-19'
Definitions of ratios	'Details of ratios and terms at KBC Group level' in the last section of the quarterly report.

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