Brussels, 10 August 2017 (07.00 a.m. CEST)

KBC Group: exceptionally strong result of 855 million euros in the second quarter

Against the background of strong economic growth, low inflation, an appreciating euro and low interest rates, KBC delivered an exceptionally strong performance in the second quarter of 2017, posting a net profit of 855 million euros. The quarter under review included robust total income and significant loan loss impairment releases. This brought our net result for the first half of the year to 1 485 million euros, one-third higher than the 1 113 million euros recorded in the first half of 2016. Moreover, our lending and deposit volumes continued to grow in the second quarter of 2017, and our solvency and liquidity position remained strong. 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 second quarter of 2017

- Both our banking and insurance franchises in our core markets and core activities continued to perform strongly.
- On a comparable basis, lending to and deposits received from our clients continued to increase in all business units. Lending and deposits each went up by 2% quarter-on-quarter and by a respective 4% and 8% year-on-year.
- Net interest income – our main source of income – was slightly higher (+0.3%) than in the previous quarter (even after a technical shift to trading and fair value income), but was down 4% on its year-earlier level. The net interest margin came to 1.86%, down 2 basis points quarter-on-quarter and 8 basis points year-on-year.
- Year-on-year, the premium income we earned on our non-life insurance products increased by 6% while claims fell by 9%. Consequently, our non-life combined ratio for the first half of 2017 ended up at an exceptional 84%. Sales of our life insurance products decreased by some 12% quarter-on-quarter and were down 26% on the high level recorded a year ago.
- Our net fee and commission income remained strong: it went up 19% year-on-year, thanks in the main to our asset management services. Compared to the previous quarter, net fee and commission income slightly decreased by 2%.
- Our other income items combined rose 15% quarter-on-quarter and 4% year-on-year, thanks primarily to high trading and fair value income.
- Our operating expenses were significantly down on their level in the first quarter, which had included the upfront booking of most of the bank taxes for the full year. Excluding these taxes, expenses increased by 3% quarter-on-quarter and 5% year-on-year. As a consequence, when the bank taxes are evenly spread throughout the year and certain non-operating items excluded, our adjusted cost/income ratio for the first half of 2017 stands at a comfortable 53%.
- The quarter under review included 78 million euros in net loan loss impairment releases. This was due essentially to 87 million euros in impairment releases in Ireland, combined with a generally very low level of impairment in all other countries. Consequently, our cost of credit amounted to a very favourable -0.10% in the first half 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 15.7% (fully loaded, Danish compromise), despite the first-time consolidation of United Bulgarian Bank and Interlease.

Johan Thijs, our Group CEO, says:

'We have continued where we left off in the first quarter, delivering another excellent performance in the second quarter on the back of robust revenues – including resilient net interest income, solid net fee and commission income and high trading and fair value results – and the release of loan loss provisions, especially in Ireland. This resulted in an exceptionally strong 855 million euros of net profit being posted in the quarter under review. Combined with the 630 million euros recorded in the first quarter, this brings our net result for the first half of 2017 to 1 485 million euros, a 33% increase on the figure for the comparable period of 2016.

The second quarter was also an important one on the strategic front. First of all, we finalised the acquisition of United Bulgarian Bank and Interlease, which has enabled us to take a quantum leap in Bulgaria, one of our six core countries. We have now become a strong market player in this core market and will be able to make a significant positive impact on the banking, insurance, asset management and leasing businesses that we will pursue there.

Secondly, we fleshed out our 'Digital First' strategy in Ireland at an Investor Visit event in Dublin on 21 June. We also provided an update of our group strategy, our capital deployment plan and our financial guidance. We have summarised our updated strategy in the slogan 'more of the same but differently'. This means that we will leave our highly successful business model and strategy largely unchanged, but adapt it to the new digital reality. In all of this, our clients will drive the pace of action and change.

Ultimately, our goal is to ensure that our clients, shareholders and other stakeholders benefit from our activities, something which all our employees are committed to working towards. In closing, I'd like to take this opportunity again to thank all the stakeholders who have put their trust in us to help them achieve their goals and dreams.'

Overview KBC Group (consolidated, IFRS)	2Q2017	1Q2017	2Q2016	1H2017	1H2016
Net result (in millions of EUR)	855	630	721	1 485	1 113
Basic earnings per share (in EUR)	2.01	1.47	1.69	3.49	2.60
Breakdown of the net result by business unit (in millions of EUR)					
Belgium	483	301	371	785	579
Czech Republic	183	181	191	364	320
International Markets	177	114	123	292	183
Group Centre	12	33	37	45	31
Parent shareholders' equity per share (in EUR, end of period)	39.8	39.4	35.5	39.8	35.5

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.

We are convinced that our strategy – powered by our culture and the efforts of our people – helps us earn, keep and grow trust day by day and, therefore, gives us the capacity to become the reference in our core markets.

Highlights in the quarter under review

- The quarter under review was marked by some important developments on the strategic front. First of all, we finalised the acquisition of United Bulgarian Bank (UBB) and Interlease in mid-June 2017 for a total consideration of 0.6 billion euros. The acquisition – which was announced on 30 December 2016 – was approved by the relevant regulatory authorities and received anti-trust approval. Together, UBB-CIBANK and DZI will seek to become the reference in bank-insurance in Bulgaria, one of KBC's core markets, boasting strong macroeconomic fundamentals offering attractive potential for further development of financial services. Following this acquisition, KBC will also become active in leasing, asset management and factoring in Bulgaria, offering its clients a full range of financial services. The operational integration of the business entities will be gradually introduced in the coming 18 months.

- Secondly, we presented our detailed plans for Ireland at an Investor Visit event in Dublin in June 2017 and also provided an update of our group's strategy, capital deployment plans and financial guidance. As before, KBC will focus on strengthening its integrated bank-insurance business model in its core markets in a highly cost-efficient way. It will also concentrate on achieving sustainable and profitable growth within the framework of solid risk, capital and liquidity management and on creating superior client experience via a seamless, multi-channel, client-centric distribution approach. As we find ourselves in an ever changing environment and are faced with shifting client behaviour and expectations, changing technology and digitalisation and a challenging macroeconomic environment, we will adapt the way we implement this strategy. Client-centricity – the core of our strategy – will be further fine-tuned into 'think client, but design for a digital world'. However, it is the client who will drive the pace of action and change. We intend to invest a further 1.5 billion euros group-wide in digital transformation between 2017 and year-end 2020. We have translated this updated strategy into a new capital deployment plan and updated our guidance on certain financial parameters (see the press release and presentation of 21 June 2017 at www.kbc.com).

- We also redeveloped the strategy of our Irish bank and presented this on the Investor visit event. As Ireland has become one of the group's core markets recently, KBC Bank Ireland will now strive to achieve at least a 10% share of the retail and micro-SME markets and will plan to develop the bank-insurance model there too. In its 'Digital First' client-centric strategy, KBC Bank Ireland will accelerate its efforts and investments in expertise and resources to evolve fully into a digital-first client-centric bank, while continuing to carefully and efficiently manage its legacy portfolio for maximum recovery. It will facilitate 'always-on 24/7 accessibility' in terms of distribution and service. To digitalise and innovate faster, the bank will intensify its collaboration with KBC group entities and leverage proven innovations and learnings from other KBC core markets. Moreover, its new core banking system with an open architecture will allow KBC Bank Ireland to tap into opportunities offered by the fintech community and provide services from and to other market players, thus broadening the value proposition to its own clients and playing a frontrunner role for KBC Group.

- At its Global Awards for Excellence ceremony in London in early July, Euromoney – one of the UK's leading professional magazines in the financial sector – honoured KBC with the 'World's Best Bank Transformation Award 2017'. This award illustrates that the redefinition and repositioning of KBC is appreciated on the international stage and regarded as a major strategic strength. KBC also received the 'Best Bank Transformation Award in Western Europe' and the award for 'Best Bank in Belgium'. Earlier this year, ČSOB won the Euromoney award for 'Best Private Bank in the Czech Republic'. These multiple awards are recognition that KBC, more than ever, is a reference in the area of client-oriented bank-insurance.

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)	**2Q2017**	**1Q2017**	**4Q2016**	**3Q2016**	**2Q2016**	**1H2017**	**1H2016**
Net interest income	1 028	1 025	1 057	1 064	1 070	2 052	2 137
Non-life insurance (before reinsurance)	179	187	178	164	141	366	286
Earned premiums	*369*	*360*	*363*	*357*	*349*	*729*	*690*
Technical charges	*-190*	*-173*	*-185*	*-193*	*-208*	*-363*	*-404*
Life insurance (before reinsurance)	-24	-28	-44	-34	-38	-52	-73
Earned premiums	*267*	*312*	*413*	*336*	*402*	*579*	*827*
Technical charges	*-291*	*-341*	*-457*	*-370*	*-440*	*-631*	*-901*
Ceded reinsurance result	-10	-4	-15	-1	-13	-13	-21
Dividend income	30	15	19	12	36	44	46
Net result from financial instruments at fair value through P&L	249	191	224	69	154	439	247
Net realised result from available-for-sale assets	52	45	8	26	128	97	155
Net fee and commission income	430	439	376	368	360	869	706
Other net income	47	77	101	59	47	124	98
Total income	1 980	1 946	1 903	1 727	1 885	3 926	3 581
Operating expenses	-910	-1 229	-963	-895	-904	-2 139	-2 090
Impairment	71	-8	-73	-28	-71	64	-99
on loans and receivables	78	-6	-54	-18	-50	72	-54
on available-for-sale assets	-2	-1	-4	-7	-20	-3	-43
on goodwill	0	0	0	0	0	0	0
other	-5	0	-15	-3	-1	-5	-2
Share in results of associated companies and joint ventures	3	5	5	9	6	8	13
Result before tax	1 144	715	871	814	916	1 858	1 405
Income tax expense	-288	-85	-186	-184	-194	-373	-292
Net post-tax result from discontinued operations	0	0	0	0	0	0	0
Result after tax	855	630	685	629	721	1 485	1 113
attributable to minority interests	0	0	0	0	0	0	0
attributable to equity holders of the parent	**855**	**630**	**685**	**629**	**721**	**1 485**	**1 113**
Basic earnings per share (EUR)	2.01	1.47	1.61	1.47	1.69	3.49	2.60
Diluted earnings per share (EUR)	2.01	1.47	1.61	1.47	1.69	3.49	2.60

Key consolidated balance sheet figures KBC Group (in millions of EUR)		**30-06-2017**	**31-03-2017**	**31-12-2016**	**30-09-2016**	**30-06-2016**
Total assets		296 479	287 293	275 200	266 016	265 681
Loans and advances to customers		139 350	135 304	133 231	131 973	131 383
Securities (equity and debt instruments)		70 898	72 329	73 262	72 774	73 494
Deposits from customers and debt certificates		189 938	181 722	177 730	170 425	175 870
Technical provisions, before reinsurance		18 905	19 234	19 657	19 745	19 724
Liabilities under investment contracts, insurance		13 339	13 128	12 653	12 506	12 427
Parent shareholders' equity		16 665	16 506	15 957	15 135	14 834

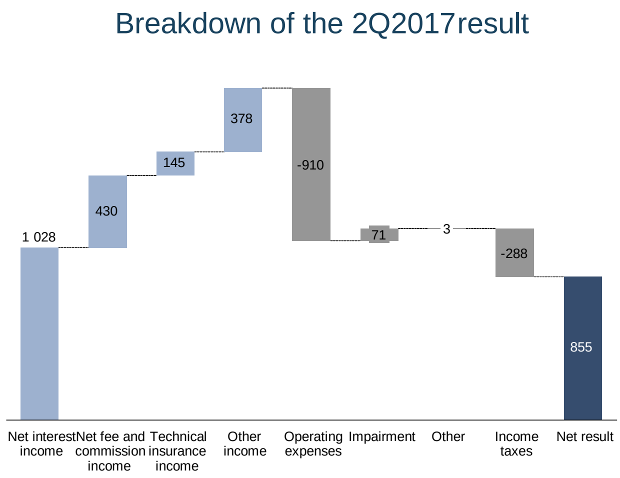
Selected ratios for the KBC group (consolidated)	**1H2017**	**FY2016**
Profitability and efficiency		
Return on equity	20%	18%
Cost/income ratio, banking (between brackets: when evenly spreading the bank taxes and excluding certain non-operating items)	56% (53%)	55% (57%)
Combined ratio, non-life insurance	84%	93%
Solvency		
Common equity ratio according to Basel III Danish Compromise method (phased-in/fully loaded)	15.8%/15.7%	16.2%/15.8%
Common equity ratio according to FICOD method (fully loaded)	14.8%	14.5%
Leverage ratio according to Basel III (fully loaded)	5.7%	6.1%
Credit risk		
Credit cost ratio*	-0.10%	0.09%
Impaired loans ratio	6.9%	7.2%
for loans more than 90 days overdue	3.9%	3.9%
Liquidity		
Net stable funding ratio (NSFR)	130%	125%
Liquidity coverage ratio (LCR)	141%	139%

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

Analysis of the quarter (2Q2017)

The net result for the quarter amounted to 855 million euros, compared to 630 million euros in the previous quarter and 721 million euros in the corresponding quarter a year earlier.
Note: while the recently acquired UBB and Interlease entities in Bulgaria are included in the group's balance sheet and solvency figures as of 2Q2017, their contribution to the results will only be consolidated as of the next quarter.

Our total income was up 2% on the figure for the previous quarter. Slightly higher net interest income and increased trading and fair value income, dividend income and realised gains offset lower technical insurance income, net fee and commission income and other net income.



Net interest income (1 028 million euros) was slightly up (+0.3%) on its level in the previous quarter, but still down 4% on its year-earlier level. In both cases, it benefited from lower funding costs and strong loan volume growth (see below), as well as the positive effect of enhanced ALM management. These positive items were offset by a lower level of interest income generated by the dealing rooms (including a shift to trading and fair value income), the continued effect of low reinvestment yields, lower prepayment fees on mortgage loan refinancing and loan margin pressure in most core countries. As a result, our net interest margin came to 1.86% for the quarter under review, down 2 and 8 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: on a comparable basis (i.e. excluding UBB and Interlease), our total volume of lending rose by 2% quarter-on-quarter and by 4% year-on-year, with growth in all business units. Deposits too increased, going up 2% quarter-on-quarter and 8% year-on-year on a comparable basis, and again increasing in all business units.

Technical income from our non-life and life insurance activities (earned premiums less technical charges, plus the ceded reinsurance result) stood at 145 million euros in the quarter under review. Non-life insurance activities contributed 169 million euros to that technical insurance income, 8% less than in the previous quarter, as increased premium income was offset by a higher level of technical charges and a lower reinsurance result. Compared to a year ago, however, the non-life activities contributed 32% more to the result, thanks essentially to higher premium income combined with lower technical charges. As a result, our combined ratio for the first half of 2017 came to an exceptionally good 84%, compared to 93% for full-year 2016. The technical insurance income of our life insurance activities stood at -24 million euros, compared to -28 million euros in the previous quarter and -38 million euros in the year-earlier quarter. Compared to the first quarter of 2017 and the second quarter of 2016, the aggregate sales of life insurance products fell by 12% and 26%, respectively. In both cases, the bulk of the decline was due to a decrease in the sale of guaranteed interest life products in Belgium. Consequently, the share of guaranteed interest products in the total sale of life insurance products dropped to 53% in the second quarter of 2017, with unit-linked products accounting for the remaining 47%.

Notwithstanding being 2% lower than the very strong performance in the previous quarter, our net fee and commission income remained high in the quarter under review. Year-on-year, it increased significantly by no less than 19% to 430 million euros. The overall strong performance of this income line was largely attributable to the contribution of entry and management fees generated by our asset management activities. At the end of June 2017, our total assets under management stood at 215 billion euros, only marginally down quarter-on-quarter, but up almost 4% year-on-year, thanks mainly to a positive price performance.

All other income items amounted to an aggregate 378 million euros, compared to 328 million euros in the previous quarter and 365 million euros in the year-earlier quarter. The figure for the second quarter of 2017 included 52 million euros in gains realised on the sale of available-for-sale securities (mainly shares), 30 million euros in dividend income (the second quarter of the year traditionally includes the bulk of dividends received) and 47 million euros in other net income. It also included a high 249-million-euro net result from financial instruments at fair value (trading and fair value income), up on the already high 191 million euros in the previous quarter and the 154 million euros in the year-earlier quarter. In both cases, this came about largely because of the higher value of derivatives used for asset/liability management purposes (mainly related to CZK swaps) and stronger dealing room results, despite the aggregate negative impact of various (market, credit and funding) value adjustments.

Disregarding bank taxes, costs went up 3% quarter-on-quarter and 5% year-on-year

At first sight, costs fell significantly compared to the previous quarter (-26% to 910 million euros), but this was due entirely to the fact that the first quarter of the year includes the upfront booking of the largest part of the bank tax for the full year (361 million euros in the first quarter of 2017, compared with a mere 19 million euros in the quarter under review).

Disregarding these bank taxes, costs were up 3% on the previous quarter and 5% on the year-earlier quarter. In both cases, this increase related to higher staff costs (wage drift, pension expenses, etc.), increased professional fees (related to closure of the deal to acquire UBB/Interlease, among other things), higher ICT expenses, etc.

As a result, the cost/income ratio of our banking activities stood at 56% in the first half of 2017. 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 half of 2017 came to a solid 53%, compared to 57% for full year 2016.

Significant net loan loss impairment releases in the quarter under review

In the second quarter of 2017, we released 78 million euros of loan loss impairment (leading to a positive impact on the results). This compares with a net impairment addition (with a negative impact) of 6 million euros in the previous quarter and 50 million euros in the year-earlier quarter. The net impairment release in the quarter under review can essentially be attributed to Ireland, where there was a net release of 87 million euros due mainly to the increase in the 9-month average house price index, some model-related adjustments and an improvement in the portfolio of non-performing loans. In all the other core countries, there was either a small release of impairment (Belgium: 4 million euros, Hungary: 9 million euros) or very low level of impairment additions (7 million euros in the Czech Republic, 1 million euros in Slovakia, 3 million euros in Bulgaria and 11 million euros in the Group Centre). Consequently, the annualised loan loss impairment for the entire group in the first half of 2017 accounted for an extremely low -0.10% of the total loan portfolio (a negative figure indicates a positive impact on the results).

Loan quality improved further: at the end of June 2017, some 6.9% of our loan book (which for the first time includes the UBB loans) was classified as impaired, with 3.9% being 'impaired and more than 90 days past due' (compared with 7.2% and 3.9%, respectively, at the beginning of 2017 and 7.8% and 4.4%, respectively, at the end of June 2016).

Impairment on assets other than loans stood at 7 million euros, compared to 1 million in the previous quarter and 21 million euros in the second quarter of 2016.

Income tax expense

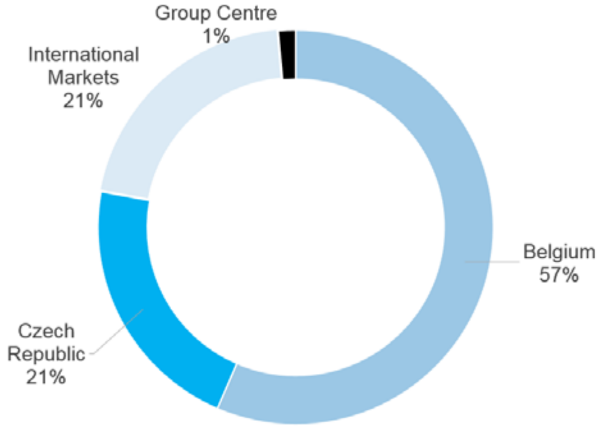
There was an income tax charge of 288 million euros in the second quarter of 2017, compared to 85 million euros in the previous quarter and 194 million euros in the year-earlier quarter. The quarter-on-quarter difference is – aside from the higher taxable base in the current quarter – also accounted for by the fact that the first quarter of 2017 had benefited from a high amount of deferred tax assets (including 66 million euros related to the liquidation of an Irish group company).

Results per business unit (quarter-on-quarter)

Our quarterly profit of 855 million euros breaks down as follows:

- 483 million euros for the Belgium Business Unit
  At first sight, the net result increased by 60% quarter-on-quarter. However, excluding the effect of the bank tax (the largest part of which is booked in the first quarter), the net result was more or less in line with the previous quarter, as the seasonally higher level of dividend income, higher realised gains on the sale of financial assets and significantly lower loan loss impairments (even a slight release in the second quarter of 2017) were offset by a slight decrease in net interest income, a lower level of technical insurance income, a decrease in trading and fair value income, lower (but still strong) net fee and commission income, lower other net income and slightly higher costs.

Contribution of the business units to the group result (2Q2017)



- 183 million euros for the Czech Republic Business Unit.
  The net result was more or less unchanged on its level for the previous quarter. Excluding the effect of the bank tax, this translates into a decrease of 9% compared to the strong performance recorded in the previous quarter, with the positive impact of higher net interest income, increased technical insurance income and high trading and fair value income being offset by lower realised gains on the sale of financial assets and the lower level of other net income (the previous quarter had benefited from a positive one-off item), higher costs and increased loan loss impairment.

- 177 million euros for the International Markets Business Unit (25 million euros for Slovakia, 47 million euros for Hungary, 5 million euros for Bulgaria and 99 million euros for Ireland). Excluding the effect of the bank tax, this comes to a quarter-on-quarter increase of 21% for the business unit as a whole, which was mainly attributable to Ireland, where loan loss impairment releases increased from 50 million in the previous quarter to 87 million euros in the quarter under review, primarily on account of the increase in the 9-month average house price index, some model-related adjustments and an improvement in the portfolio of non-performing loans.

- 12 million euros for the Group Centre, 21 million euros down on the previous quarter, which had included the positive impact of the booking of a 66 million euros deferred tax asset relating to the liquidation of IIB Finance Ireland.

	Belgium		Czech Republic		International Markets	
Selected ratios per business unit	1H2017	FY2016	1H2017	FY2016	1H2017	FY2016
Cost/income ratio, banking (between brackets: when evenly spreading bank taxes and excl. certain non-operating items)	56% (52%)	54% (55%)	41% (40%)	45% (46%)	66% (64%)	64% (66%)
Combined ratio, non-life insurance	81%	92%	98%	96%	89%	94%
Credit cost ratio*	0.11%	0.12%	0.06%	0.11%	-1.10%	-0.16%

* 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 June 2017, our total equity stood at 18.1 billion euros (16.7 billion euros in parent shareholders' equity and 1.4 billion euros in additional tier-1 instruments), up 0.7 billion euros on its level at the beginning of the year. The change during the first six months of the year resulted from the inclusion of the profit for that period (+1.5 billion euros), the payout of the final dividend in May (-0.8 billion euros), changes in the available-for-sale and cash flow hedge reserves (-0.2 and +0.2 billion euros, respectively) and a number of minor items.

At 30 June 2017, our fully loaded common equity ratio (Basel III, under the Danish compromise) stood at a strong 15.7% (this figure includes the -0.5% impact of the acquisition of UBB and Interlease). Our leverage ratio (Basel III, fully loaded) came to 5.7%. The solvency ratio for KBC Insurance under the Solvency II framework was a sound 217% at 30 June 2017.

Our liquidity position remained excellent too, as reflected in an LCR ratio of 141% and an NSFR ratio of 130% at the end of June 2017.

Analysis of the year-to-date period (1H2017)

The net result for the first half of 2017 amounted to 1 485 million euros, compared to 1 113 million euros in 1H2016.

Highlights (compared to 1H2016):

- Somewhat lower net interest income (-4% to 2 052 million euros). On a comparable basis, the volume of deposits increased (+8%), as did the volume of lending (+4%). The net interest margin in 1H2017 came to 1.87% (1.95% in 1H2016).
- A higher contribution made by the technical insurance result (+57% to 301 million euros), due especially to the non-life insurance activities, where premium income rose and claims fell (1H2016 had included the effect of the Brussels' terrorist attacks and the bad weather conditions). The resulting year-to-date non-life combined ratio stood at an exceptionally good 84%. Life insurance sales were down by 22%, mainly on account of a decrease in the sale of interest-guaranteed products.
- Significantly higher net fee and commission income (+23% to 869 million euros), attributable primarily to our asset management services. At the end of June 2017, total assets under management stood at 215 billion euros, a year-on-year increase of 4%, thanks to a positive price performance.

- A higher level of all other income items combined (704 million euros). This included a significantly higher net result from financial instruments at fair value (+78% to 439 million euros), lower net realised gains from available-for-sale assets (-38% to 97 million euros, since the reference period had included the gain on the sale of Visa Europe shares), somewhat lower dividend income (-4% to 44 million euros) and an increase in other net income (+26% to 124 million euros).
- Slightly higher operating expenses (+2% to 2 139 million euros), owing basically to higher staff costs (wage drift and pension expenses), increased ICT costs and higher professional fees. As a result, the year-to-date cost/income ratio came to 56%, or an adjusted 53% when the bank taxes are evenly spread throughout the year and certain non-operating items are excluded.
- Significantly lower loan loss impairment (from a net addition of 54 million euros in 1H2016 to a net release of 72 million euros in 1H2017). As a result, the annualised credit cost ratio for the whole group stood at an excellent -0.10% (a negative figure indicates a positive impact on the results).
- The net result for 1H2017 breaks down as follows: 785 million euros for the Belgium Business Unit (+35% compared to 1H2016), 364 million euros for the Czech Republic Business Unit (+14%), 292 million euros for the International Markets Business Unit (+60%) and 45 million euros for the Group centre (+43%). The 1H2017 result for the International Markets Business Unit breaks down into 166 million euros for Ireland (+213%, due essentially to loan loss impairment releases), 68 million euros for Hungary (+4%), 47 million euros for Slovakia (-17%) and 9 million euros for Bulgaria (+10%).

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. 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 have receded following the outcome of the Dutch and French elections, but concerns remain about 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 economic growth worldwide continued in the second quarter of 2017. Against this background, the Fed raised its policy rate as planned by another 25 basis points in June 2017. Economic growth in the euro area remained well above its long-term rate, leading to further improvements on the European labour market. On balance, oil prices fell slightly during the second quarter, keeping a lid on headline inflation. Core inflation remained low in the euro area, partly as a result of subdued wage growth. Global long-term government bond yields were overall broadly unchanged, remaining at low levels with German yields slightly higher and US yields slightly lower. Meanwhile, the intra-EMU sovereign yield spreads narrowed, while the euro continued to strengthen against the US dollar, reflecting the strong momentum of growth in the euro area.

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: from early 2018 on, we expect the ECB to gradually phase out its QE programme and to end it by mid-2018. It will probably only raise its policy rate in 2019. In the meantime, we expect another policy rate hike by the Fed in 2017 and three more in 2018 (each time by 25 basis points). As a result, we believe that the US dollar will appreciate against the euro in 2017, as it will benefit from short-term interest rate support. Given the low inflation environment and still highly accommodating global monetary policies, German and US long-term bond yields are expected to rise only moderately in the period ahead.

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

Our guidance:

- For Ireland, our updated guidance for loan impairment is for a net release of 160 to 200 million euros for full year 2017.
- We estimate the impact of the first-time application of IFRS 9 (replacing the relevant requirements of IAS 39 as of 1 January 2018) on our fully loaded common equity ratio to be a decrease of 45-55 basis points, mainly related to reclassifications of the banking book (estimate based on the situation at mid-2017).
- 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).
- The planned 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 second half of 2017, and an estimated one-off negative upfront impact on the income statement in the second half of 2017 (estimated at -230 million euros, related to a reduction in the amount of deferred tax assets). More information in this regard is provided under the note on post-balance sheet events in the 'Consolidated financial statements' of the 2Q2017 quarterly report.

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

E-mail: pressofficekbc@kbc.be

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