Press Release

Outside trading hours - Regulated information*

Brussels, 12 November 2020 (07.00 a.m. CET)

KBC Group: Third-quarter result of 697 million euros

KBC Group – overview (consolidated, IFRS)	3Q2020	2Q2020	3Q2019	9M2020	9M2019
Net result (in millions of EUR)	697	210	612	902	1 787
Basic earnings per share (in EUR)	1.64	0.47	1.44	2.08	4.19
Breakdown of the net result by business unit (in millions of EUR)					
Belgium	*486*	*204*	*368*	*605*	*932*
Czech Republic	*116*	*77*	*159*	*281*	*584*
International Markets	*123*	*-45*	*85*	*113*	*260*
Group Centre	*-28*	*-26*	*0*	*-97*	*10*
Parent shareholders' equity per share (in EUR, end of period)	46.6	44.9	43.5	46.6	43.5

During the third consecutive quarter of facing up to the challenges of the pandemic, the harsh reality that coronavirus is still far from being eradicated has become very clear. It is still causing human suffering all over the world and unprecedented economic upheaval. However, the various government relief measures should help control the overall impact going forward. Obviously, the long-term impact of the coronavirus crisis on society will be significant. It will also depend on the number and intensity of any new outbreaks, as well as on the timing of developing and distributing a vaccine or cure.

Meanwhile, we have been working hard with government agencies to support all customers impacted by coronavirus, by efficiently implementing various relief measures, including loan deferrals. In our six home countries combined, we have granted a total of 13.7 billion euros in loan payment deferrals by the end of September 2020 (according to the EBA definition) and have also granted 0.6 billion euros' worth of loans under public corona guarantee schemes. At the same time, we have continued providing a high level of service to our customers in all our core markets, thanks to the expertise and commitment of our employees, in combination with the efforts and investments we have made over the past few years on the digital transformation front. Given that the pandemic has accelerated the trend to digitalisation, we are clearly benefiting from our digital transformation efforts. We will continue to work on solutions to proactively make life easier for our customers, thanks in part to the extensive use of artificial intelligence and data analysis. We will be communicating on this and other topics in more depth during a separate strategy session today, with the accompanying press release being issued at 1 p.m. CET.

As regards our financial results, we generated a net profit of 697 million euros in the third quarter of 2020, leading to a return on equity of 15% in the third quarter of 2020 (when bank taxes are spread evenly throughout the year). The third quarter profit is well above the 210 million euros recorded in the previous quarter, which had included 746 million euros in collective impairment charges for the coronavirus crisis. Our net interest income went up quarter-on-quarter, while our trading and fair value result fared well too, though it was down on the exceptionally high level recorded in the previous quarter. In the current lower-for-longer interest rate environment, this quarterly result is also clearly benefiting from the diversification achieved through KBC's integrated bank-insurance model. This was reflected in a strong non-life result (good premium growth and an excellent combined ratio of 83% year-to-date), as well as higher net fee and commission income. Costs remained clearly under control. Adding the result for this quarter to the one for the first half of the year brings our net profit for the first nine months of 2020 to 902 million euros.

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 142% and an NSFR of 146% at the end of September 2020. Consequently, our current capital and liquidity buffers allow us to face today's challenges with confidence.

In closing, I would like to take this opportunity to explicitly thank all stakeholders who have continued to put their trust in us. I also wish to express my sincere thanks to all colleagues who have expended huge efforts to serve our customers and support the sound functioning of the group in these challenging times.

Johan Thijs, Chief Executive Officer

* This news item contains information that is subject to the transparency regulations for listed companies.

Financial highlights in the third quarter of 2020

- Commercial bank-insurance franchises in our core markets performed well.
- Net interest income increased by 4% quarter-on-quarter and decreased by 4% year-on-year. The quarter-on-quarter increase was due mainly to the positive impact of TLTRO III, a positive one-off item related to inflation-linked bonds (insurance), higher margins on the new production of mortgage loans than the margins on the outstanding portfolios in Belgium, the Czech Republic and Slovakia, and the higher netted impact of ALM FX swaps. These items more than offset the negative impact of past rate cuts made by the CNB in the Czech Republic and the lower reinvestment yields in general. Year-on-year, the decrease was mainly related to the past CNB rate cuts in the Czech Republic, the year-on-year depreciation of the Czech koruna and Hungarian forint against the euro and the negative impact of lower reinvestment yields, which could not be fully offset by the positive impact of TLTRO III, the above-mentioned positive one-off item, ECB tiering and a larger loan and bond portfolio.
- Loan volumes were up 1% quarter-on-quarter and 4% year-on-year, with year-on-year growth recorded in all business units. The volume of granted loans with payment holidays in the various relief schemes amounted to 13.7 billion euros by the end of September 2020 (EBA definition).
  Deposits excluding debt certificates grew by 1% quarter-on-quarter and 9% year-on-year, 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 down 9% on its level in the previous quarter, which had included significantly lower technical charges related to the effect of the lockdown. It was up 22% year-on-year, thanks to a combination of higher premium income and lower technical charges. Consequently, the combined ratio for the first nine months of 2020 amounted to an excellent 83%. Sales of our life insurance products were down 25% on the level recorded in the previous quarter and up 4% on their level in the year-earlier quarter.
- Net fee and commission income was slightly higher (1%) than the level recorded in the previous quarter and down 12% year-on-year. Quarter-on-quarter, the positive effect of higher asset management fees was partly offset by the higher level of distribution fees paid. Year-on-year, both asset management fees and banking service fees were down, while distribution fees were up.
- The trading and fair value result amounted to 85 million euros, down on the very high level recorded in the previous quarter, and up year-on-year. On the whole, the huge drop in the trading and fair value result in the first quarter of the year has now been offset for a large part by the positive trading and fair value result recorded in the two subsequent quarters.
- All other income items combined were 31% and 19% lower than the figures recorded in the previous and year-earlier quarters, respectively, primarily because the quarter under review included a negative one-off item related to the tracker mortgage review in Ireland, and lower dividend income.
- Costs have been reduced. Excluding bank taxes, they were down 4% compared to the year-earlier quarter as a result of cost-saving measures. Compared to the low level recorded in the previous quarter, costs were up 3%. The resulting cost/income ratio amounted to 59% for the first nine months of the year, compared to 58% for full-year 2019 (when certain non-operating items are excluded and bank taxes spread evenly throughout the year).
- Loan loss impairment charges amounted to 52 million euros in the quarter under review, well down on the 845-million-euro charge in the previous quarter, which had incorporated 746 million euros' worth of collective impairment charges for the coronavirus crisis. As a consequence, the credit cost ratio for the first nine months of the year amounted to 0.61%, up from 0.12% for full-year 2019.
- Our liquidity position remained strong with an LCR of 142% and NSFR of 146%. Our capital base remained robust as well, with a fully loaded common equity ratio of 16.6%.

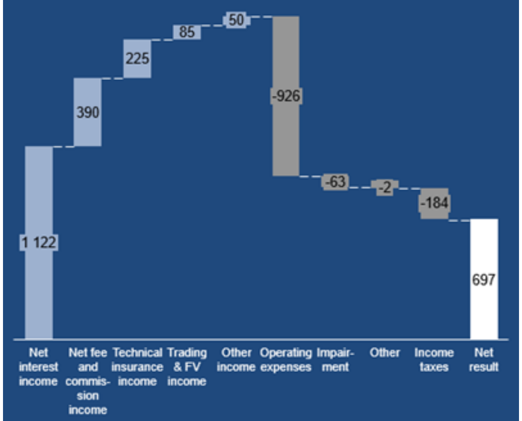
The cornerstones of our strategy

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

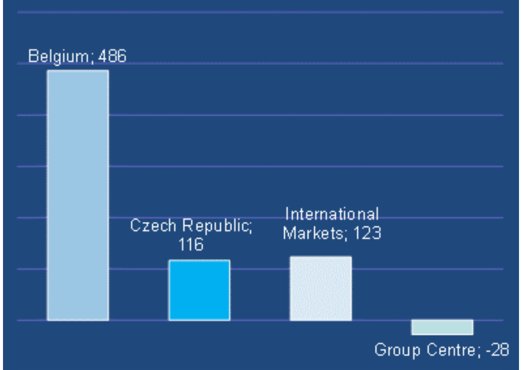
Breakdown of 3Q2020 result

(in millions of EUR)



Contribution of the business units to 3Q2020 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)	3Q2020	2Q2020	1Q2020	4Q2019	3Q2019	9M2020	9M2019
Net interest income	1 122	1 083	1 195	1 182	1 174	3 400	3 436
Non-life insurance (before reinsurance)	233	255	185	229	192	673	527
Earned premiums	*448*	*435*	*443*	*441*	*440*	*1 327*	*1 280*
Technical charges	*-215*	*-180*	*-258*	*-212*	*-248*	*-654*	*-753*
Life insurance (before reinsurance)	1	6	0	2	-5	6	-7
Earned premiums	*267*	*276*	*297*	*364*	*291*	*841*	*959*
Technical charges	*-266*	*-271*	*-297*	*-363*	*-297*	*-834*	*-966*
Ceded reinsurance result	-9	-13	-7	-11	-9	-30	-14
Dividend income	12	17	12	17	14	41	65
Net result from financial instruments at fair value through P&L[1]	85	253	-385	130	-46	-47	51
Net realised result from debt instruments at fair value through other comprehensive income	1	2	0	0	5	4	7
Net fee and commission income	390	388	429	445	444	1 207	1 289
Net other income	37	53	50	47	43	139	234
Total income	1 872	2 043	1 479	2 041	1 813	5 394	5 588
Operating expenses	-926	-904	-1 338	-1 045	-975	-3 168	-3 258
Impairment	-63	-857	-141	-82	-26	-1 060	-134
Of which: on financial assets at amortised cost and at fair value through other comprehensive income[2]	*-52*	*-845*	*-121*	*-75*	*-25*	*-1 018*	*-128*
Share in results of associated companies & joint ventures	-2	-3	-3	-1	0	-9	8
Result before tax	881	279	-3	912	812	1 157	2 204
Income tax expense	-184	-69	-2	-210	-200	-255	-417
Result after tax	697	210	-5	702	612	902	1 787
attributable to minority interests	0	0	0	0	0	0	0
attributable to equity holders of the parent	**697**	**210**	**-5**	**702**	**612**	**902**	**1 787**
Basic earnings per share (EUR)	1.64	0.47	-0.04	1.66	1.44	2.08	4.19
Diluted earnings per share (EUR)	1.64	0.47	-0.04	1.66	1.44	2.08	4.19

Key consolidated balance sheet figures KBC Group (in millions of EUR)	30-09-2020	30-06-2020	31-03-2020	31-12-2019	30-09-2019
Total assets	321 193	317 388	301 451	290 735	294 830
Loans and advances to customers, excl. reverse repos	157 773	157 563	158 364	155 816	154 863
Securities (equity and debt instruments)	71 310	72 131	67 176	65 633	65 122
Deposits from customers & debt certificates, excl. repos	211 672	210 811	208 293	203 369	205 270
Technical provisions, before reinsurance	18 613	18 775	18 816	18 560	18 549
Liabilities under investment contracts, insurance	12 482	12 505	11 979	13 610	13 456
Parent shareholders' equity	19 384	18 710	18 220	18 865	18 086

Selected ratios KBC group (consolidated)	9M2020	FY2019
Return on equity	6%[3]	14%
Cost/income ratio, banking (when excluding certain non-operating items and spreading bank taxes evenly throughout the year)	61% (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]	15.5% [15.5%]	15.8%
Leverage ratio, Basel III fully loaded	5.9%	6.8%
Credit cost ratio	0.61%	0.12%
Impaired loans ratio	3.2%	3.5%
for loans more than 90 days past due	1.8%	1.9%
Net stable funding ratio (NSFR)	146%	136%
Liquidity coverage ratio (LCR)	142%	138%

1 Also referred to as 'Trading and fair value income'.
2 Also referred to as 'Loan loss impairment'.
3 This is 7% 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 (3Q2020)

Total income 1 872 million euros	• Total income down 8% quarter-on-quarter. • Net interest income and net fee and commission income up. • Technical insurance income, dividend income, trading and fair value income, and net other income down.

Net interest income amounted to 1 122 million euros in the quarter under review, up 4% on the figure recorded in the previous quarter and down 4% year-on-year. The quarter-on-quarter increase was due mainly to the positive impact of TLTRO III, a positive one-off item related to inflation-linked bonds (insurance), higher margins on the new production of mortgage loans than the margins on the outstanding portfolios in Belgium, the Czech Republic and Slovakia, and the higher netted impact of ALM FX swaps. These items more than offset the negative impact of the rate cuts made in the past by the CNB in the Czech Republic and the lower reinvestment yields in general. Year-on-year, the decrease was mainly related to the past CNB rate cuts in the Czech Republic, the year-on-year depreciation of the Czech koruna and Hungarian forint against the euro and the negative impact of lower reinvestment yields, which could not be fully offset by the positive impact of TLTRO III, the above-mentioned positive one-off item, ECB tiering and a larger loan and bond portfolio.

The total volume of customer lending (158 billion euros) was up 1% quarter-on-quarter and 4% year-on-year, with year-on-year growth recorded in all business units. The volume of granted loans with payment holidays in the various relief schemes amounted to 13.7 billion euros by the end of September 2020 according to the EBA definition (broken down evenly among home loans, SME loans and loans to corporations). For approximately 1 billion euros of that amount, the moratorium has already expired by the end of September 2020 (of which 97% resumed payments). In addition to this, we granted some 0.6 billion euros in loans that fall under the various corona-related government guarantee schemes in our home markets.

Customer deposits including debt certificates (212 billion euros) were up 1% quarter-on-quarter and 4% year-on-year, with year-on-year growth in all business units. Excluding debt certificates, deposits were up by no less than 9% year-on-year. All growth figures disregard forex movements.

The net interest margin for the quarter under review amounted to 1.81%, down 1 and 13 basis points, respectively, on the figures recorded in the previous and year-earlier quarters.

Technical income from our **non-life insurance activities** (earned premiums less technical charges, plus the ceded reinsurance result) contributed 225 million euros to total income, down 9% on the excellent performance recorded in the previous quarter and up 22% on the corresponding year-earlier quarter. Notwithstanding higher earned premium income, the quarter-on-quarter non-life technical income decrease came about primarily because of higher technical charges (claims gradually returning to more normal levels following the exceptionally low level in the second quarter as a consequence of the lockdown). The year-on-year increase was due to a combination of lower charges and higher premium income. Overall, the combined ratio for the first nine months 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 0 million euros, compared to 1 million euros in the previous quarter and -6 million euros in the year-earlier quarter. Sales of life insurance products in the quarter under review (420 million euros) were down 25% on the level recorded in the previous quarter, due to lower sales of both unit-linked and guaranteed-interest life products in Belgium. Sales were up 4% on the level recorded in the year-earlier quarter, driven by higher sales of unit-linked products in Belgium (due to the shift from mutual funds to unit-linked products by private banking customers) and only partially offset by lower sales of guaranteed-interest products (due mainly to the suspension of universal single life insurance in Belgium). Overall, in the quarter under review, both unit-linked products and guaranteed-interest products accounted for approximately half of our total life insurance sales.

In the quarter under review, **net fee and commission income** amounted to 390 million euros. This figure was slightly up (1%) on the level of the previous quarter, with the increase in fees for our asset management business (higher management fees) more than offsetting the higher level of distribution fees paid for non-life insurance products (higher sales), with fee income from our banking activities remaining stable (recovery of payment transaction fees largely offset by a decrease in securities-related fees). Compared to the year-earlier quarter, net fee and commission income was down 12%, due to a combination of lower asset management related fees, lower fees for banking services (especially for payment services), higher distribution fees paid and the year-on-year depreciation of the Czech koruna and Hungarian forint against the euro. At the end of September 2020, our total assets under management amounted to 204 billion euros, up 1% quarter-on-quarter but down 4% year-on-year. The quarter-on-quarter increase was due to a further recovery in asset prices (+1%), combined with a limited net inflow in mutual funds. The year-on-year decrease resulted mainly from lower asset prices.

The **net result from financial instruments at fair value** (trading and fair value income) amounted to 85 million euros, continuing its recovery from the very negative level in the first quarter (-385 million euros), though much less so than the exceptional rebound recorded in the second quarter. Consequently, it was down 168 million euros on the very high level recorded in that second quarter (lower dealing room results, lower amount resulting from market value adjustments and lower result of the insurance share portfolio) and up 131 million euros year-on-year (thanks mainly to higher dealing room results and a higher amount resulting from market value adjustments).

The **other remaining income** items included dividend income of 12 million euros, down on the figure recorded in the previous quarter (as the second quarter of the year traditionally includes the bulk of received dividends), and also slightly down on the year-earlier figure. The remaining income lines also included 37 million euros in net other income, somewhat below the normal run rate for this item as, among other things, it included a negative 6 million euros for the tracker mortgage review in Ireland (4 million euros of which relating to the tracker mortgage fine).

Operating expenses

926 million euros

- Operating expenses excluding bank taxes up 3% quarter-on-quarter, but down 4% year-on-year.
- Cost/income ratio for the first nine months of 2020 at 59% (when certain non-operating items are excluded and bank taxes are spread evenly through the year).

Operating expenses in the third quarter of 2020 amounted to 926 million euros. Excluding bank taxes, this constitutes an increase of 3% compared to the low level recorded in the second quarter of 2020. This was due to a number of factors, including higher staff expenses (wage inflation and the fact that the previous quarter had benefited from a decrease in accruals for variable remuneration), increased marketing costs (seasonal), higher facilities expenses and higher depreciation expenses. These items were not fully offset by the positive impact of, inter alia, a decrease in FTEs and a reduction in ICT and professional fees.

Year-on-year, expenses excluding bank taxes were down 4%, thanks essentially to lower staff expenses (lower accruals for variable remuneration and a decrease in FTEs), lower ICT costs, some direct coronavirus crisis impact (lower facilities, marketing and professional fees) and the year-on-year depreciation of the Czech koruna and Hungarian forint against the euro. These items more than offset the negative impact of wage drift and increased depreciation costs, among other things.

The cost/income ratio of our banking activities came to 61% for the first nine months of 2020. Excluding certain non-operating items and spreading bank taxes evenly throughout the year, the ratio amounted to 59%, more or less in line with the 58% recorded for full-year 2019.

Loan loss impairment

52-million-euro charge

- Net loan loss impairment charges significantly down on their level in the previous quarter, which had included 746 million euros in collective impairment charges related to the coronavirus crisis.
- Credit cost ratio for the first nine months at 0.61%.

In the third quarter of 2020, we recorded a 52-million-euro net loan loss impairment charge, compared with a net charge of 845 million euros in the previous quarter and 25 million euros in the third quarter of 2019. The huge drop compared to the previous quarter came about because the second quarter had included 746 million euros in collective impairment charges for the coronavirus crisis. In the third quarter, this amount was adjusted slightly (reduced by 5 million euros, following updated macroeconomic forecasts and management overlay), bringing the collective impairment charges related to the coronavirus crisis for the first nine months to 784 million euros. Of this amount, 637 million euros was based on a 'management overlay' and 147 million euros captured by the ECL models through updated macroeconomic variables. A detailed calculation and background information regarding collective impairment charges for the coronavirus crisis is provided in Note 1.4 of the 'Consolidated financial statements' section of the quarterly report.

Broken down by country, loan loss impairment charges in the third quarter of 2020 came to 41 million euros in Belgium, 15 million euros in the Czech Republic, 2 million euros in Bulgaria and 2 million euros for the Group Centre, while both Slovakia and Hungary recorded small net reversals of impairment (5 million euros and 3 million euros, respectively).

For the entire group, the credit cost ratio amounted to 0.61% for the first nine months of 2020 (0.17% excluding the amount recorded for the coronavirus crisis), up from 0.12% for full-year 2019. The impaired loans ratio was down on its level at the start of the year: at the end of September 2020, some 3.2% 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 1.8% of the loan book, compared to 1.9% 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 11 million euros, compared to 12 million euros in the previous quarter and 1 million euros in the third quarter of 2019. The figure for the quarter under review included several small items (4 million euros of which resulting from an impairment on a lease contract relating to a head-office building in Hungary), whereas the figure for the previous quarter had related primarily to the accounting treatment of payment moratoria in our various countries.

Net result by business unit	Belgium	Czech Republic	International Markets	Group Centre
	486 million euros	116 million euros	123 million euros	-28 million euros

Belgium: the net result (486 million euros) went up by 282 million euros quarter-on-quarter, due mainly to the drop in loan loss impairment compared to the significant amount recorded in the second quarter, which comprised 378 million euros in collective impairment charges for the coronavirus crisis. Other items accounting for the quarter-on-quarter difference were higher net interest income and lower trading and fair value income (compared to the high level recorded in the second quarter). Net fee and commission income and costs remained virtually unchanged.

Czech Republic: the net result (116 million euros) was up 50% on its level for the previous quarter, due mainly to significantly lower loan loss impairment charges, as the second quarter had included 152 million euros in collective impairment charges for the coronavirus crisis. This more than offset the quarter-on-quarter decrease in net interest income, trading and fair value income and technical insurance result, and the increase in expenses (compared to the very low level in the second quarter).

International Markets: the 123-million-euro net result breaks down as follows: 33 million euros in Slovakia, 51 million euros in Hungary, 27 million euros in Bulgaria and 13 million euros in Ireland. For the business unit as a whole, the net result was up 169 million euros quarter-on-quarter. This increase came about mainly on account of lower loan loss impairment charges in all countries, as the second quarter had included 215 million euros in collective impairment charges for the coronavirus crisis.

Group Centre: the net result (-28 million euros) was slightly lower (-2 million euros) than the figure recorded in the previous quarter, with the drop in trading and fair value income, lower ceded reinsurance result and higher costs being partly offset by higher net interest income (TLTRO III).

Selected ratios by business unit	Belgium 9M2020	Belgium FY2019	Czech Republic 9M2020	Czech Republic FY2019	International Markets 9M2020	International Markets FY2019
Cost/income ratio, banking (excluding certain non-operating items and spreading bank taxes evenly throughout the year)	57%	60%	51%	47%	66%	68%
Combined ratio, non-life insurance	83%	89%	87%	94%	82%	88%
Credit cost ratio*	0.59%	0.22%	0.64%	0.04%	0.79%	-0.07%
Impaired loans ratio	2.2%	2.4%	2.1%	2.3%	7.2%	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
	20.9 billion euros	16.6%	142%	146%

At the end of September 2020, total equity amounted to 20.9 billion euros, comprising 19.4 billion euros in parent shareholders' equity and 1.5 billion euros in additional tier-1 instruments. Total equity was up 0.5 billion euros on its level at the end of 2019. This was due to the combined effect of a number of items, including the profit for the nine-month period (+0.9 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), an increase in the revaluation reserve for bonds (+0.1 billion euros), translation differences (-0.4 billion euros, due to the depreciation of the Czech koruna and Hungarian forint in the period under review) and a number of minor items. We have provided details of these changes under 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section of the quarterly report.

At 30 September 2020, our fully loaded common equity ratio (Basel III, under the Danish compromise) amounted to a solid 16.6%, stable compared to three months earlier (despite 1 billion euros in RWA add-ons for anticipated PD-migrations) and down somewhat on the 17.1% recorded at the end of 2019 (due chiefly to the absence of IFRS interim profit recognition). Our fully loaded leverage ratio (Basel III) came to 5.9%, compared to 6.8% at the end of 2019. The solvency ratio for KBC Insurance under the Solvency II framework was 196% at the end of September 2020, compared to 202% at the end of 2019.

Our liquidity position remained excellent too, as reflected in an LCR ratio of 142% and an NSFR ratio of 146% 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 (9M2020)

Net result	
902 million euros	• Net result down by half on the corresponding period of 2019. • Loan loss impairment charges significantly up, as they included 784 million euros in collective impairment charges for the coronavirus crisis. • Net interest income, net fee and commission income, trading and fair value income, dividend income and net other income down. • Technical insurance result up and costs down.

Highlights (compared to the first nine months of 2019):

- Slightly lower **net interest income** (down 1% to 3 400 million euros), as inter alia, the rate cuts made by the CNB in the Czech Republic, the depreciation of the Czech koruna and Hungarian forint against the euro, the negative impact related to lower reinvestment yields and loan portfolio margin pressure in most core countries (except in Belgium) could not be fully offset by the positive impact of TLTRO III, a positive one-off item related to inflation-linked bonds (insurance), ECB tiering, the ČMSS impact (consolidated for nine months in the year-to-date period in 2020 compared to just four months in the corresponding period in 2019) and a larger loan and bond portfolio. The volume of deposits and debt certificates increased by 4% (or 9% excluding debt certificates) and lending volumes increased by 4%, with growth in all business units. All growth figures disregard forex movements. The net interest margin in the first nine months of 2020 came to 1.86%, down 9 basis points year-on-year.

- Increased **technical insurance result** (up 28% to 649 million euros). The non-life insurance technical result was up 25%, thanks largely to the lower level of technical charges (partly related to the lower level of claims in the lockdown period and a negative one-off item in the reference period) and higher earned premiums, notwithstanding a lower ceded reinsurance result. The year-to-date non-life combined ratio amounted to an excellent 83%, compared to 90% for full-year 2019. Life insurance sales (1 407 million euros) were up by 2%, with the increase in sales of unit-linked products more than offsetting the decrease in sales of guaranteed-interest products.

- Lower **net fee and commission income** (down 6% to 1 207 million euros), attributable primarily to a decline in fees for asset management services, and to a lesser extent, lower fees for banking services, higher distribution fees paid and the year-on-year depreciation of the Czech koruna and Hungarian forint against the euro, notwithstanding the positive ČMSS impact. At the end of September 2020, total assets under management amounted to 204 billion euros, down 4% on the level recorded a year earlier (mainly due to price decreases).

- Lower **trading and fair value income** (down 98 million euros to -47 million euros). The figure for the first nine months of the year was the result of a huge drop in the first quarter (as 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 recovery in the second and third quarters.

- Lower level of all **other income items combined** (down 40% to 184 million euros), mainly attributable to the fact that the reference period had included the ČMSS-related one-off gain of +82 million euros and – to a lesser extent – to the lower level of dividend income.

- Lower **operating expenses** (down 3% to 3 168 million euros). Excluding bank taxes, operating expenses were down by 4%, in line with the guidance for full-year 2020 (see further below). This was due to items such as lower staff expenses (lower accruals for variable remuneration and a decrease in FTEs), lower ICT costs, some direct coronavirus crisis impact (lower facilities, marketing and professional fees) and the year-on-year depreciation of the Czech koruna and Hungarian forint against the euro. These items more than offset the negative impact of wage drift, increased depreciation costs and the ČMSS impact, among other things. The year-to-date cost/income ratio came to 61%, 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).

- Significant increase in **loan loss impairment charges** (up 890 million euros to 1 018 million euros). Over three-quarters (784 million euros) of these impairment charges in the period under review was related to collective impairment charges for the coronavirus crisis, with 637 million euros based on a 'management overlay' and 147 million euros captured by the ECL models through updated macroeconomic variables. As a result, the credit cost ratio for the whole group rose to 0.61%, compared to 0.12% for full-year 2019.

- The 902-million-euro **net result** for the first nine months of 2020 breaks down as follows: 605 million euros for the Belgium Business Unit (down 327 million euros on the year-earlier level), 281 million euros for the Czech Republic Business Unit (down 303 million euros), 113 million euros for the International Markets Business Unit (down 147 million euros) and -97 million euros for the Group Centre (down 107 million euros). The result for the International Markets Business Unit for the first nine months of 2020 included 30 million euros for Slovakia, 76 million euros for Hungary, 50 million euros for Bulgaria and -45 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

Growth in the euro area and US bounced back strongly in the third quarter of 2020, as did KBC's home markets. It followed the sharp contraction in the second quarter caused by the pandemic and subsequent policy responses, which led to a lockdown of large parts of the economy. Therefore, the robust third-quarter growth figures largely represent a mechanical impact of economies opening up again, supported by massive monetary and fiscal stimulus packages. The Chinese economy is a notable frontrunner in the recovery cycle, as it returned to positive growth as early as the second quarter of 2020.

However, the pace of this recovery should be treated with caution. First of all, economic activity is still below pre-pandemic levels in both the service and manufacturing sectors, underlining the fact that there is still a long way to go to full recovery. Secondly, forward looking indicators point to downside risks with regard to the strength of the continued recovery in the fourth quarter of 2020 and the first quarter of 2021. In particular, the recovery in the service sector seems to be losing strength of late, with the manufacturing sector still showing some resilience.

The ongoing second wave of the pandemic is also leading to policy responses such as renewed partial or full lockdowns, which will at least temporarily disrupt the road to recovery. Such temporary restrictive policy measures are already being implemented in many European countries. The respective governments are, however, doing their best to limit the direct impact of these measures on economic activity as much as possible.

The other main risk factors to recovery include the Brexit transition phase ending without an EU-UK agreement, as well as renewed tensions in the economic conflict between the US and China.

Our view on interest rates and foreign exchange rates

The US and euro area economies are strongly supported by monetary and fiscal stimuli. We expect the Fed and the ECB to keep their policy rates unchanged in the years to come. Additional quantitative easing by the ECB is likely, with the size and duration of the Pandemic Emergency Purchasing Programme probably being extended. These market interventions will help to preserve the low longer-term interest rate environment for even longer and compress intra-EMU spreads – and Bulgarian sovereign spreads – in the coming years.

The Hungarian central bank recently tightened its policy stance to support the weakening exchange rate of the Hungarian forint against the euro. This depreciation was largely the result of increased global risk aversion. We expect the tightening to be a temporary policy measure, as the forint is forecast to appreciate to a certain extent again in the fourth quarter of 2020. The Czech koruna has also weakened against the euro, which – like the forint – is likely to be a temporary situation. We expect the Czech National Bank (CNB) to keep its policy rate unchanged. If the CNB decides to intervene, it is more likely to use unconventional policy measures.

Since August, the exchange rate of the US dollar has broadly stabilised against the euro, after having weakened significantly over a number of months previously. We expect the dollar to resume its gradual depreciation against the euro in the fourth quarter of 2020, since a major driving force behind the euro – real interest rate differentials – is expected to remain in place.

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 4.5 billion euros (increased from the 4.4 billion euros stated in the previous quarterly 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);
- We will provide a strategy update today, while new long-term financial guidance and our capital deployment plan will be updated when the results for full-year 2020 are published (11 February 2021).

Upcoming events	Strategy update: 12 November 2020, 1 p.m. CET 4Q2020 results and updated new long-term financial guidance & capital deployment plan: 11 February 2021 1Q2021 results: 11 May 2021
More information on 3Q2020	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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