Press Release

Outside trading hours - Regulated information*

Brussels, 12 May 2016 (07.00 a.m. CEST)

KBC Group: Strong start to 2016 reflected in profit of 392 million euros, despite high upfront bank taxes

We aspire to being much more than just a bank and an insurance company. We want to enable and protect the dreams of our clients and to continue to earn their trust. We continuously strive to provide high-quality service. The strong start to 2016 is a testimony of this. We grew lending and deposit volumes and increased insurance sales, while the low cost of credit also underpinned the net result. Against a background of persisting low interest rates, modest economic growth in Belgium and firmer growth in Central Europe, KBC kicked off 2016 by posting a strong net profit figure of 392 million euros, compared to an exceptional 862 million euros in the preceding quarter and a very strong 510 million euros in the first quarter of 2015. Our result was driven by stable total income in our traditional business activities, lower operating expenses, higher bank taxes being booked upfront and the very low level of loan impairment charges.

Johan Thijs, our group CEO, adds:

‘ The persisting environment of low interest rates poses a real challenge to financial institutions, including our own. However, clients continue to entrust their deposits to us and count on us to help them realise their projects. Once again, lending and deposit volumes increased, as did insurance sales. We are genuinely grateful for this signal of trust from our clients and this proves the success of our bank-insurance model.

The quarter was characterised by stable total income in our core business, lower operating expenses – disregarding the upfront booking of bank taxes – and a very low cost of credit. We can add a good performance of the insurance business to this, particularly in sales. Our bank-insurance approach ultimately generated a strong result of 392 million euros in the first quarter of this year.

The solvency and liquidity positions of KBC Group remain very healthy, which is comforting for our clients, employees and stakeholders alike.

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. For 2016, we are focusing entirely on the further development of our bank-insurance business and on supporting the local economies and clients in the countries in which we operate. We are continuing to invest in the future and to pro-actively roll out our financial technology plans so we can serve our clients even better going forward. The continuing low level of interest rates as well as the volatility on the financial markets present a challenge for the entire financial sector. However, our bank-insurance model, supported by a solid liquidity and capital base, allows us to generate sustainable results.'

Financial highlights for the first quarter of 2016, compared with the fourth quarter of 2015:

- Both the banking and insurance franchises in our core markets and core activities performed well.
- More loans were again granted in Belgium (+1% in just one quarter), the Czech Republic (+3%), Slovakia (+2%) and Bulgaria (+2%), while clients further increased their deposits in most of our countries: Belgium (+3%), the Czech Republic (+1%), Slovakia (+6%) and Ireland (+4%).
- Net interest income was slightly up thanks to rate cuts, volume growth and lower funding costs and despite the environment of low interest rates and a certain amount of pressure on loan margins. Our net interest margin edged up quarter-on-quarter (from 1.95% to 1.96%).
- Sales of non-life insurance products across almost all our markets were up, and the non-life combined ratio stood at 91% year-to-date, significantly impacted by the claims due to terrorist attacks in Brussels. Excluding these claims, the combined ratio stood at an excellent 82%. Aggregate sales of life products increased.
- Clients continued to entrust their assets to KBC, but the markets performed poorly, causing total assets under management of our group to fall slightly to 207 billion euros. Our net fee and commission income dropped by 7%, due mainly to lower management fees stemming from a more cautious investment allocation.
- Excluding the 335 million euros in bank taxes heavily influencing the financial result, costs were down by 7%. The cost/income ratio stood at 71% year-to-date, due to bank taxes being booked upfront. After evenly spreading the bank taxes and excluding exceptional items, the cost/income ratio came to 57%.
- The cost of credit amounted to an unsustainably low 0.01% of our loan portfolio.
- Our liquidity position remains solid, and our capital base – with a common equity ratio of 14.6% (phased-in, Danish compromise) – remains well above the regulators' target of 10.25% for 2016.

Overview **KBC Group (consolidated)**	**1Q2015**	**4Q2015**	**1Q2016**
Net result, IFRS (in millions of EUR)	510	862	392
Basic earnings per share, IFRS (in EUR)*	1.19	-0.36	0.91
Breakdown of the net result, IFRS, by business unit (in millions of EUR)			
Belgium	330	348	209
Czech Republic	143	119	129
International Markets	24	61	60
Group Centre	13	334	-6
Parent shareholders' equity per share (in EUR, end of period)	33.3	34.5	34.3

* Note: if a coupon is paid on the core-capital securities sold to the Flemish Regional Government and a coupon is paid on the additional tier-1 instruments included in equity, it will be deducted from the numerator (*pro rata*). If a penalty has to be paid on the core-capital securities, it will likewise be deducted.

Business highlights in the quarter under review

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

- On the macroeconomic front, the first quarter of 2016 began with fears that the weakness in the emerging markets would spill over and have an adverse impact on developed markets. Producer confidence in both the manufacturing and service sector deteriorated. This threatened Europe's recovery, which is primarily based on domestic demand growth. Fortunately, sentiment – particularly in the emerging markets and China – stabilised again, reducing the risk to European economic growth for the time being. In the euro area, economic growth doubled from 0.3% quarter-on-quarter in the fourth quarter of 2015 to 0.6% in the first quarter of 2016, underlining the argument of resilient domestic demand. In Belgium, growth in the first quarter slowed down to 0.2%, from 0.5% in Q4 2015, partly due to the impact of the Brussels terrorist attacks in March. Central European first quarter growth figures were not yet available, but forward-looking indicators pointed at some growth deceleration in the beginning of 2016 across the region. Although indicators in Central Europe have been gradually deteriorating, their decline has been moderate so far and the levels remain fairly high. Euro-area inflation remained significantly lower (-0.2% headline inflation and 0.8% core inflation in April), due to persistently low energy prices and slack in the European economy. The low level of inflation led the ECB to ease its monetary policy stance further by cutting its deposit rate to minus 40 basis points and increasing the size of its asset purchase programme from 60 to 80 billion euros per month. Among other measures, the scope of these purchases was extended to the corporate bond market. Uncertainty on the financial markets, stock market corrections and falling benchmark bond yields continued until mid-February. Thereafter, the stock markets recovered, volatility decreased again, and the German 10-year government bond yield rose again from its temporary low of 10 basis points.

- We also embrace our broader role in society. To give one example, we are convinced that we can make a positive contribution to mobility and road safety by offering our clients appropriate solutions. KBC is the only group in Belgium that brings together all aspects of mobility in terms of finance, insurance and assistance. Through companies like KBC Insurance, KBC Autolease and VAB, KBC has access to market leaders and much respected discussion partners in specific areas of mobility. Today, these three companies are facing the same mobility-related trends and challenges. KBC now wants to take this to the next level. By ensuring that KBC Insurance, KBC Autolease and VAB combine their efforts and work together within the KBC Mobility programme, KBC aims to become the reference for sustainable, quality mobility solutions in Belgium. Existing examples are a bicycle loan, mobility advice, car-sharing and roadside bike assistance and our focus on mitigating hassle following an accident using the KBC Assist app. In this way, KBC is actively looking to respond to the changing needs of clients and society. Next to this, on the corporate sustainability and responsibility front, we launched the 'Renovation loan for owners associations' in Belgium to facilitate sustainable and energy-efficient improvements to buildings. In the Czech Republic, ČSOB launched 'ČSOB Helps the Regions', a grant programme where 4 million Czech koruna will be distributed among NGOs operating in local communities. Thanks to the donations generated by the 'Good Will Card' scheme run by ČSOB Private Banking, the 'Help Fund' budget for 2016 increased to 1.3 million Czech koruna, which creates the opportunity to finance special care provided by medical institutions specialised in neuro-rehabilitation. In Hungary, K&H Insurance achieved an outstanding 3rd place in the public vote for the 'Customer-Friendly Insurer of the Year 2015' award. K&H's efforts through its 'Ready, Steady, Money!' financial competition were recognised by the special award in the 'Most Creative Good Deed' category in the 'Three Good Deeds' CSR competition.

- Our long-term commitment to society was highlighted by the combined 80th anniversary of KBC and KBC Ancora's stock market history. It's now 65 years since the Kredietbank's shares were first listed on what was then the Brussels Stock Exchange. Since the KBC merger in 1998, these shares have been listed under the KBC label. And, following the establishment of Almancora by KBC shareholder Cera, it's been 15 years since the share was listed on Euronext, first as Almancora and later as KBC Ancora. Together, KBC and KBC Ancora have now chalked up 80 years of stock market history. Over that period, the two institutions have actively contributed to the development of Belgium's economy and society.

Overview of our results and balance sheet

We provide a full overview of our IFRS consolidated income statement and balance sheet in the 'Consolidated financial statements' section of the quarterly report. Condensed statements of comprehensive income, changes in shareholders' equity, as well as several notes to the accounts, are also available in the same section.

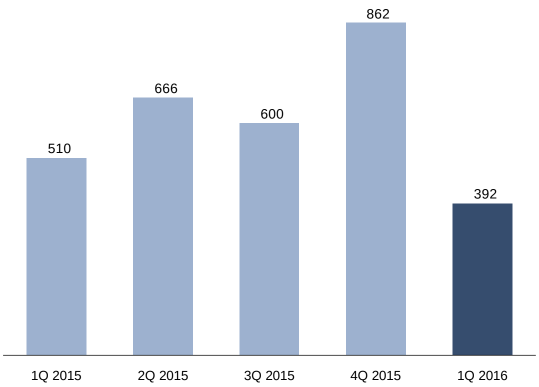
Consolidated income statement, IFRS KBC Group (in millions of EUR)	1Q 2015	2Q 2015	3Q 2015	4Q 2015	1Q 2016
Net interest income	1 091	1 092	1 062	1 066	1 067
Interest income	850	804	770	725	707
Interest expense	-759	-712	-708	-659	-639
Non-life insurance (before reinsurance)	167	155	142	147	145
Earned premiums	*320*	*326*	*335*	*338*	*341*
Technical charges	*-153*	*-172*	*-193*	*-191*	*-196*
Life insurance (before reinsurance)	-48	-51	-51	-51	-35
Earned premiums	*302*	*265*	*289*	*445*	*426*
Technical charges	*-350*	*-316*	*-340*	*-496*	*-461*
Ceded reinsurance result	-11	-7	0	-10	-8
Dividend income	12	39	13	12	10
Net result from financial instruments at fair value through P&L	57	179	47	-68	93
Net realised result from available-for-sale assets	80	36	44	30	27
Net fee and commission income	459	465	383	371	346
Fee and commission income	632	634	547	533	507
Fee and commission expense	-174	-169	-164	-162	-161
Other net income	49	105	96	47	51
Total income	1 855	2 013	1 736	1 543	1 697
Operating expenses	-1 125	-941	-862	-962	-1 186
Impairment	-77	-149	-49	-472	-28
on loans and receivables	-73	-138	-34	-78	-4
on available-for-sale assets	-3	-7	-15	-21	-24
on goodwill	0	0	0	-344	0
other	-1	-5	0	-29	-1
Share in results of associated companies and joint ventures	6	8	6	5	7
Result before tax	659	930	831	114	489
Income tax expense	-149	-264	-231	749	-97
Net post-tax result from discontinued operations	0	0	0	0	0
Result after tax	510	666	600	863	392
attributable to minority interests	0	0	0	0	0
attributable to equity holders of the parent	**510**	**666**	**600**	**862**	**392**
Basic earnings per share (EUR)*	1.19	1.56	1.41	-0.36	0.91
Diluted earnings per share (EUR)*	1.19	1.56	1.41	-0.36	0.91

. * Note: if a coupon is paid on the core-capital securities sold to the Flemish Regional Government and a coupon is paid on the additional tier-1 instruments included in equity, it will be deducted from the numerator (*pro rata*). If a penalty has to be paid on the core-capital securities, it will likewise be deducted.

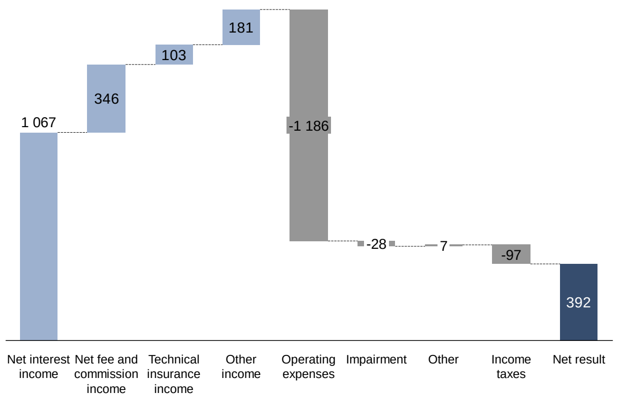
Key consolidated balance sheet figures KBC Group (in millions of EUR)	3-2015	30-06-2015	30-09-2015	31-12-2015	31-03-2016
Total assets	258 396	256 654	257 632	252 356	261 551
Loans and advances to customers	124 632	126 093	126 971	128 223	129 703
Securities (equity and debt instruments)	71 948	70 755	71 115	72 623	72 860
Deposits from customers and debt certificates	167 922	170 159	171 412	170 109	173 646
Technical provisions, before reinsurance	19 181	19 198	19 365	19 532	19 619
Liabilities under investment contracts, insurance	13 263	12 937	12 422	12 387	12 508
Parent shareholders' equity	13 928	13 576	14 022	14 411	14 335
Non-voting core-capital securities	2 000	2 000	2 000	0	0

Analysis of the quarter (1Q2016)

Net result (in millions of EUR)



Breakdown of net result for 1Q2016 (in millions of EUR)



The net result for the quarter under review amounted to 392 million euros, compared to 862 million euros quarter-on-quarter and 510 million euros year-on-year.

Total income up 10% quarter-on-quarter, given the liquidation of KBC Financial Holding Inc. in the fourth quarter of 2015, but stable excluding this item. Net interest income slightly up, good insurance sales and net fee and commission income down.

- Net interest income stood at 1 067 million euros in the first quarter of 2016. In the current environment of low yields, our net interest income was slightly up quarter-on-quarter, but contracted by 2% year-on-year. The quarter-on-quarter trend was driven by better lending income through volume growth, lower funding costs and rate cuts on savings accounts, which offset the impact of lower reinvestment yields and pressure on loan margins. As a result, the net interest margin came to 1.96% for the quarter under review, more or less in line with the level of the previous quarter, but 14 basis points lower than the level of the year-earlier quarter. Interest income continued to be supported by volume growth: loans went up both quarter-on-quarter (by 1%) and year-on-year (by 4%), while deposit volumes went up by 2% quarter-on-quarter and by 3% year-on-year.

- Technical income from our non-life and life insurance activities increased quarter-on-quarter but fell year-on-year. Gross earned premiums less gross technical charges and the ceded reinsurance result contributed 102 million euros to total income, 19% more than in the previous quarter but 6% less than in the year-earlier quarter.
  Earned premiums from our non-life insurance activities increased by 1% quarter-on-quarter and by 7% year-on-year. Claims during the first quarter were up 2% on the previous quarter and 28% on their level in the first quarter of 2015, mainly on account of the contribution to the 'Terrorism Reinsurance and Insurance Pool'. The combined ratio came to a 91% year-to-date, significantly impacted by the claims due to terrorist attacks in Brussels. Excluding these claims, the combined ratio stood at an excellent 82%.
  Sales of guaranteed-rate life insurance products were roughly flat quarter-on-quarter and up 28% year-on-year, driven by the low interest rate environment and the uncertain investment climate. Sales of unit-linked life insurance products (not included in life premium income) were up 29% quarter-on-quarter and 24% year-on-year. The result was driven by successful commercial efforts, particularly in Belgium and Slovakia.
  It should be noted that, during the first quarter of 2016, investment income derived from insurance activities was up 12% on its level of the previous quarter, and down 30% on the year-earlier quarter. Both changes were primarily driven by a lower realised result from available-for-sale assets and changes in impairment (higher year-on-year but lower quarter-on-quarter).

- The financial markets continued to experience persistent uncertainty and investment behaviour was hesitant in this environment. Even so, new entries boosted total assets under management. However, the negative price performance caused total assets under management to decrease to 207 billion euros, 1% lower than the end-of-year figure for 2015. Compared to a year ago, they remained more or less stable, with 4% growth in net entries mitigated by a negative price performance (-5%). The main reasons for the decrease in our net fee and commission income, which came to 346 million euros (down 25% year-on-year and 7% quarter-on-quarter) were lower entry fees on mutual funds, a lower level of management fees for mutual funds, due to a different asset allocation, lower payment services fees and lower credit related fees offset somewhat by a rebound in entry fees for unit-linked life insurance products.

- The net result from financial instruments at fair value was 93 million euros in the first quarter of 2016, compared to a negative 68 million euros in the previous quarter and 57 million euros in the year-earlier quarter. The last quarter of 2015 had been negatively impacted by the one-off translation difference on the liquidation of KBC Financial Holding Inc. (-156 million euros). Disregarding this effect, fair value income increased by 6% quarter-on-quarter. The quarterly trend was influenced primarily by a marginally higher valuation of derivative instruments used for asset/liability management purposes, a higher level of income generated by the dealing rooms, a one-off benefit from unwinding the hedge of the previous TLTRO from the ECB and the negative impact of valuation adjustments (MVA/CVA/FVA) because of increased exposure and wider credit spreads.

- All other income items combined amounted to 88 million euros. They comprise realised gains on the sale of available-for-sale assets (27 million euros for the quarter under review), dividend income (10 million euros) and other net income (51 million euros).

Operating expenses distorted by bank taxes being booked upfront: excluding special bank taxes, operating expenses down quarter-on-quarter and year-on-year.

- Our operating expenses amounted to 1 186 million euros for the first quarter of 2016, significantly up (23%) on their level of the previous quarter, and up 5% year-on-year. Disregarding bank taxes (335 million euros in this quarter, compared to 49 million in the last quarter of 2015 and 264 million euros in the first quarter of 2015), our operating expenses decreased by 7% quarter-on-quarter and by 1% year-on-year. The quarter-on-quarter decrease was accounted for by traditionally higher marketing expenses and professional fees at year end, as well as by higher pension expenses (lower interest rates) in the previous quarter. The year-on-year decrease resulted from a number of factors, including lower expenses following a decrease in staffing levels in Belgium and the Czech Republic.
  The cost/income ratio of our banking activities stood at 71% year-to-date, given the upfront charging of bank taxes (compared to 55% for 2015). Excluding a number of non-sustainable items, the cost/income ratio stood at 57% (likewise compared to 55% for 2015).

Loan impairment charges: extremely low credit cost ratio of 0.01%

- Loan losses stood at an all-time low 4 million euros, well down on the quarter-earlier level of 78 million euros and 73 million euros in the first quarter of 2015. The quarter-on-quarter decrease is accounted for by the very low number of new impaired loans in all segments (retail, SME and corporate). Impairment came to 6 million euros in Belgium, 1 million euros in the Czech Republic, 1 million euros in Slovakia, 1 million euros in Bulgaria, close to zero in the Group Centre and there were net loan loss releases (positive impact) of 2 million euros in Hungary and 3 million euros in Ireland. For the entire group, loan loss impairment in 1Q2016 accounted for some 0.01% the total loan portfolio.

- Impairments on available-for-sale assets stood at 24 million euros, a slight increase on the quarter-earlier figure of 21 million euros and well up on the year-earlier figure of 3 million euros. Impairment was primarily on shares at KBC Insurance.

Results per business unit

- Our quarterly profit of 392 million euros breaks down into 209 million euros for the Belgium Business Unit, 129 million euros for the Czech Republic Business Unit, 60 million euros for the International Markets Business Unit and -6 million euros for the Group Centre. A full results table and a short analysis per business unit are provided in the 'Results per business unit' section of the quarterly report, while more information for each business unit is also given in the analyst presentation (both available at www.kbc.com).

Strong fundamentals: equity, solvency and liquidity

- At the end of March 2016, our total equity stood at 15.7 billion euros, down 0.1 billion euros on its level at the end of 2015. The change in total equity during the year resulted from the inclusion of profit for 1Q 2016 (+0.4 billion euros), the lower valuation of cash flow hedges (-0.3 billion euros) and remeasurements of defined benefit plans (-0.2 billion euros).

- Our solvency ratios comfortably passed the newly implemented regulators' joint solvency test for 2016 (a minimum of 10.25%, Basel III, phased-in under the Danish compromise). At 31 March 2016, the group's common equity ratio (Basel III, phased-in under the Danish compromise) stood at a strong 14.6%. The fully loaded figure was 14.6%, as well. The leverage ratio for the group (Basel III, fully loaded) came to 5.9%. The solvency ratio for KBC Insurance at 31 March 2016 was an excellent 210% under the new Solvency II framework.

- The group's liquidity position remained at an excellent level, as reflected in an LCR ratio of 130% and an NSFR ratio of 121% at the end of the first quarter of 2016.

Selected ratios for the KBC group (consolidated)	FY2015	1Q2016
Profitability and efficiency		
Return on equity	22%	12%
Cost/income ratio, banking	55%	71%
Combined ratio, non-life insurance	91%	91%
Solvency		
Common equity ratio according to Basel III (phased-in)	15.2%	14.6%
Common equity ratio according to Basel III (fully loaded)	14.9%	14.6%
Common equity ratio according to FICOD method (fully loaded)	14.6%	13.5%
Leverage ratio according to Basel III (fully loaded)	6.3%	5.9%
Credit risk		
Credit cost ratio	0.23%	0.01%
Impaired loans ratio	8.6%	8.2%
for loans more than 90 days overdue	4.8%	4.7%
Liquidity		
Net stable funding ratio (NSFR)	121%	121%
Liquidity coverage ratio (LCR)	127%	130%

Statement of risk

- 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, 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 KBC closely monitors and manages 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 KBC. Increasing capital requirements are a dominant theme for the sector. Major current regulatory initiatives relate to credit risk, operational risk, trading risk, ALM risk and consumer protection. Besides regulation, the low interest rate environment remains a continuing challenge. If low rates were to be sustained, this would put considerable pressure on the long-term profitability of banks and especially insurers. The risk radar screen of financial institutions show that 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.
- Risk management data are provided in our annual reports, extended quarterly reports and dedicated risk reports, all of which are available at www.kbc.com.
- On the macroeconomic front, the persistently low rate of inflation means that the ECB is likely to at least maintain its highly accommodating policy stance, or even loosen it further, for an extended period of time. On the other hand, according to its own guidance, the Fed is likely to continue its rate normalisation path in 2016 in a moderate way. This divergence between Fed and ECB policy will probably weaken the euro against the US dollar somewhat in 2016. Low inflation, accommodating monetary policy and continuing fragile global economic growth mean that bond yields will remain low during 2016. Nevertheless, they will very gradually rise when the Fed effectively carries out its measured policy rate hikes towards normalisation, because the financial markets have not yet priced this in. Moreover, the continuing recovery will further reduce slack in the economy, while the year-on-year impact of low energy prices will gradually

disappear in the second half of 2016. German rates will follow their US counterpart, but to a lesser extent. As a result, we expect the US-German bond yield spread to widen.

- Despite the expected fragility in emerging markets, we expect 2016 to be a year of sustained economic growth in both the euro area and the US. The fundamental reasons are the resilience of domestic demand, in particular private consumption, somewhat accommodating fiscal policy, and strengthening investment growth, especially in the US. Economic growth in the euro area will be in line with its 2015 level, while US growth might be somewhat lower due to the weak start to 2016, which we expect to be temporary. Growth will be driven mainly by domestic demand against the background of the weak contribution expected from international trade. For Belgian growth, we remain cautiously positive, although the growth figure in 2016, and 2017 as well, likely remains below the one in the euro area, given continuing fiscal austerity. In Central Europe, GDP growth is expected to ease somewhat in 2016, as the impulse provided by European cohesion funds for government investment will dissipate. The main short-term risk is the referendum on 23 June on the UK potentially leaving the EU. Although a vote in favour of a 'Brexit' would have little immediate 'tangible' impact, the resulting uncertainty is likely to weigh heavily on European sentiment and hence recovery. In our view, such a vote is a high impact risk scenario.

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