Press Release

Outside trading hours - Regulated information*

Brussels, 12 May 2022 (07.00 a.m. CEST)

KBC Group: First-quarter result of 458 million euros

KBC Group – overview (consolidated, IFRS)	1Q2022	4Q2021	1Q2021
Net result (in millions of EUR)	458	663	557
Basic earnings per share (in EUR)	1.07	1.56	1.31
Breakdown of the net result by business unit (in millions of EUR)*			
Belgium	*227*	*486*	*380*
Czech Republic	*207*	*198*	*123*
International Markets	*74*	*56*	*88*
Group Centre	*-49*	*-77*	*-35*
Parent shareholders' equity per share (in EUR, end of period)	51.8	51.8	49.8

* At the start of 2022, Ireland was moved from the International Markets Business Unit to the Group Centre in view of the pending sale. Past figures have not been restated.

'Just when the pandemic-related concerns had started to ease in some countries thanks to the gradual abolishment of precautionary measures, Russia invaded Ukraine in February. The tragedy unfolding in Ukraine has caused immense human suffering and we express our heartfelt solidarity with all the victims of the conflict, both those in the region itself and the large number of refugees in various guest countries in Europe.

The brutal invasion is sending shockwaves throughout the global economy. Our direct exposure to Ukraine, Belarus and Russia (a mainly commercial exposure of some 55 million euros) is quite limited, but we are keeping a very close eye on the indirect macroeconomic impact, such as the effect of high gas and oil prices on inflation and economic growth, and on spillover effects for us, our counterparties and our customers, both financially and operationally, including a heightened focus on information security threats. In that respect, we decided to set aside a dedicated impairment amount to cover geopolitical and emerging risks (see below).

While the ongoing war in Ukraine still clearly commands our full attention, we have continued to manage our day-to-day business and also take further steps towards realising various strategic goals. At the beginning of February, for instance, we were able to finalise the sale of substantially all of KBC Bank Ireland's non-performing mortgage loan portfolio. As regards sustainability, we again made further progress, including realising our goal of systematically rolling out responsible investing funds in all our core countries when we recently launched these solutions in Bulgaria. We would also invite you to read about our sustainability approach, our achievements and our commitments in our 2021 Sustainability Report, which we published in early April and is available at www.kbc.com. As far as new initiatives in the field of digitalisation are concerned, it is worthwhile mentioning that we took a first step in commercialising our in-house portfolio of Artificial Intelligence applications, with the launch via our fintech subsidiary DISCAI of an AI application designed to combat money laundering. DISCAI will pursue a gradual go-to-market approach and will work with partners for the distribution and integration of these applications.

As regards our financial results, the year got off to a strong start, with a net profit of 458 million euros being posted in the quarter under review. This is an excellent performance given that the bulk of bank taxes for the full year are recorded – as always – upfront in the first quarter of the year. All the main income items performed well. Our costs were kept under control and included a one-off extraordinary bonus for our staff to reward them for the very good 2021 results despite the difficult conditions caused by corona. We were also able to record a small net reversal of loan loss impairment in the quarter under review, as the amount we set aside to cover geopolitical and emerging risks was more than offset by the combination of a reversal of a large portion of the impairment recorded previously for the coronavirus crisis and by net reversals for other individual files. As a result, our combined reserves for the coronavirus crisis and for geopolitical and emerging risks now amount to 273 million euros. Our solvency position remained very solid with a common equity ratio of 15.3% on a fully loaded basis and our liquidity position was excellent, as illustrated by an NSFR of 149% and an LCR of 162%. As announced earlier, we will today pay out a gross final dividend of 7.6 euros per share, bringing the total gross dividend to 10.6 euros per share.

The last few years have also demonstrated that, even in continuously challenging circumstances, we can build on our solid foundations and policy decisions of the past and, perhaps even more importantly, build on the trust that our customers, employees, shareholders and other stakeholders place in us. That is something I would sincerely like to thank you for.'

Johan Thijs
Chief Executive Officer

Financial highlights in the first quarter of 2022

- **Net interest income** increased by 2% quarter-on-quarter and by 12% year-on-year. The net interest margin for the quarter under review amounted to 1.91%, up by 6 basis points on the previous quarter and by 13 basis points on the year-earlier quarter. Volumes continued to increase, with loans up by 2% quarter-on-quarter and by 7% year-on-year, and deposits excluding debt certificates growing by 3% quarter-on-quarter and by 5% year-on-year. These volume growth figures were calculated on an organic basis (excluding the changes in the scope of consolidation and forex effects).

- Technical income from our **non-life insurance** activities (premiums less charges, plus the ceded reinsurance result) was up by 13% on the level recorded in the previous quarter and only slightly below the year-earlier quarter's result. The quarter-on-quarter increase was due essentially to lower technical charges (despite the impact of the storms in the quarter) and a better reinsurance result. Year-on-year, the higher earned premium income and reinsurance result was fully offset by higher technical charges (caused by the above-mentioned storm impact, and relatively low charges in the reference quarter related to the coronavirus situation). The combined ratio for the first three months of 2022 amounted to an excellent 83%. Sales of our **life insurance** products were more or less in line with the level recorded in the previous quarter, and up by 16% on their level in the year-earlier quarter.

- **Net fee and commission income** was up slightly (by 1%) on its level in the previous quarter, and by as much as 9% on its year-earlier level. The latter increase was due mainly to higher fees for our asset management activities and higher fee income related to our banking services.

- The **trading & fair value result** amounted to 143 million euros, as opposed to -39 million euros in the previous quarter and 127 million euros in the year-earlier quarter. The large quarter-on-quarter increase was mainly the result of significantly higher dealing room income and the less negative market value adjustments of derivatives used for asset/liability management purposes.

- **Costs** in the first quarter traditionally include the bulk of bank taxes (514 million euros) for the full year. Excluding these taxes, costs were down 2% on their level in the previous quarter and up 12% on their year-earlier level. The quarter under review included the booking of an extraordinary staff bonus. The resulting cost/income ratio for the first three months of 2022 amounted to 53%. In that calculation, certain non-operating items have been excluded and bank taxes spread evenly throughout the year. Excluding all bank taxes, the cost/income ratio amounted to 48%.

- The quarter under review included a 15-million-euro net release of **loan loss impairment**, compared to a net release of 62 million euros in the previous quarter, and a net release of 76 million euros in the year-earlier quarter. The net release in the quarter under review resulted mainly from the reversal of a large portion of the remaining impairment for the coronavirus crisis (-205 million euros) and of impairment for certain individual loans (-33 million euros), offset to a large extent by provisioning for geopolitical and emerging risks following the outbreak of the Ukraine crisis (+223 million euros). As a consequence, the credit cost ratio for the first three months of 2022 amounted to -0.03%, compared to -0.18% for full-year 2021 (a negative sign implies a positive impact on the results).

- Our **liquidity position** remained strong, with an LCR of 162% and NSFR of 149%. Our **capital base** remained equally as robust, with a fully loaded common equity ratio of 15.3%.

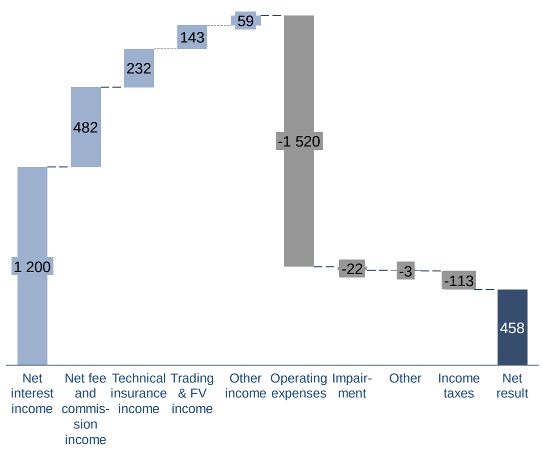
The cornerstones of our strategy

Our strategy rests on the following 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
- We build upon the PEARL + values, also focussing on the joint development of solutions, initiatives and ideas within the group

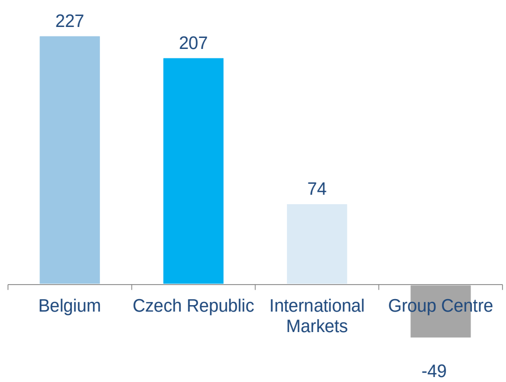
Breakdown of 1Q2022 result

(in millions of EUR)



Contribution of the business units to 1Q2022 group result

(in millions of EUR)



Overview of results and balance sheet

Consolidated income statement, IFRS KBC Group (in millions of EUR)	1Q2022	4Q2021	3Q2021	2Q2021	1Q2021
Net interest income	1 200	1 177	1 112	1 094	1 068
Non-life insurance (before reinsurance)	197	181	150	213	238
Earned premiums	*487*	*486*	*484*	*463*	*453*
Technical charges	*-291*	*-305*	*-334*	*-250*	*-215*
Life insurance (before reinsurance)	11	10	12	10	12
Earned premiums	*290*	*375*	*256*	*272*	*292*
Technical charges	*-279*	*-365*	*-244*	*-262*	*-280*
Ceded reinsurance result	24	15	23	1	-13
Dividend income	7	9	11	18	7
Net result from financial instruments at fair value through P&L[1]	143	-39	28	29	127
Net realised result from debt instruments at fair value through other comprehensive income	-2	1	4	-1	2
Net fee and commission income	482	479	467	450	441
Net other income	54	56	77	38	53
Total income	2 116	1 887	1 884	1 853	1 933
Operating expenses	-1 520	-1 078	-1 025	-972	-1 320
Impairment	-22	16	45	123	77
Of which: on financial assets at amortised cost and at fair value through other comprehensive income[2]	*15*	*62*	*66*	*130*	*76*
Share in results of associated companies & joint ventures	-3	-2	-2	1	-2
Result before tax	571	823	903	1 005	688
Income tax expense	-113	-160	-302	-211	-131
Result after tax	458	663	601	793	557
attributable to minority interests	0	0	0	0	0
attributable to equity holders of the parent	**458**	**663**	**601**	**793**	**557**
Basic earnings per share (EUR)	1.07	1.56	1.41	1.87	1.31
Diluted earnings per share (EUR)	1.07	1.56	1.41	1.87	1.31

Key consolidated balance sheet figures KBC Group (in millions of EUR)	31-03-2022	31-12-2021	30-09-2021	30-06-2021	31-03-2021
Total assets	369 903	340 346	354 336	368 596	351 818
Loans & advances to customers, excl. reverse repos	164 639	159 728	156 712	164 344	160 960
Securities (equity and debt instruments)	66 789	67 794	66 269	71 098	71 981
Deposits from customers excl. debt certificates & repos	205 896	199 476	198 021	201 420	197 268
Technical provisions, before reinsurance	19 092	18 967	18 971	18 976	18 939
Liabilities under investment contracts, insurance	13 131	13 603	13 213	13 128	12 922
Parent shareholders' equity	21 608	21 577	22 096	21 600	20 768

Selected ratios KBC Group (consolidated)	1Q2022	FY2021
Return on equity[3]	9%	13%
Cost/income ratio, group [when excluding certain non-operating items and evenly spreading bank taxes throughout the year]	72% [53%]	58% [55%]
Combined ratio, non-life insurance	83%	89%
Common equity ratio, Basel III Danish Compromise, fully loaded [transitional]	15.3% [15.2%]	15.5% [16.8%]
Common equity ratio, FICOD fully loaded [transitional]	14.9% [14.8%]	14.8% [16.1%]
Credit cost ratio[4]	-0.03%	-0.18%
Impaired loans ratio	2.3%	2.9%
for loans more than 90 days past due	1.2%	1.5%
Net stable funding ratio (NSFR)	149%	148%
Liquidity coverage ratio (LCR)	162%	167%

1 Also referred to as 'Trading and fair value income'.
2 Also referred to as 'Loan loss impairment'.
3 14% for the first quarter of 2022 when bank taxes are spread evenly throughout the year.
4. A negative figure indicates a net impairment release (positively affecting results).

Impact of the still partly pending sales transactions for KBC Bank Ireland's loan and deposit portfolios on the balance sheet: starting in the third quarter of 2021, all assets and liabilities included in disposal groups were moved to 'Non-current assets held for sale and disposal groups' on the assets side of the balance sheet and to 'Liabilities associated with disposal groups' on the liabilities side of the balance sheet (derecognition upon closure of the deals). Impact on the income statement: the results of the disposal groups continue to be included in the relevant P&L lines until derecognition (closure of the deals). Impact on credit cost ratio and impaired loans ratio: Irish loan portfolio included until closure of the deals. KBC Bank Ireland belonged to the International Markets Business Unit up to and including the fourth quarter of 2021 and was moved to the Group Centre at the start of the first quarter of 2022.

Analysis of the quarter (1Q2022)

Total income 2 116 million euros	• Total income was up 12% quarter-on-quarter. • Net interest income, technical insurance income, trading and fair value income and net fee and commission income were all up; dividend income and net other income were down slightly quarter-on-quarter.

Net interest income amounted to 1 200 million euros in the quarter under review, up 2% and 12% on its level in the previous and year-earlier quarters, respectively. In both cases, net interest income benefitted from factors such as rate hikes in the Czech Republic (and to a lesser extent also in Hungary), lending growth (see below), negative interest rates being charged on certain current accounts held by corporate entities and SMEs and a positive forex effect (appreciation of the Czech koruna against the euro). These factors more than offset the negative effect of a number of other factors, including lower loan margins in most markets, decreasing reinvestment yields in euro-denominated countries and the fewer number of days in the period under review (the latter for the quarter-on-quarter analysis only). The net interest margin for the quarter under review amounted to 1.91%, up 6 and 13 basis points on the previous and year-earlier quarter's figures, respectively.

Customer deposits excluding debt certificates were up 3% quarter-on-quarter and 5% year-on-year on an organic basis. The total volume of customer lending rose by 2% quarter-on-quarter and by 7% year-on-year on an organic basis. In the organic growth figures, the forex-related impact and the effects of changes in the scope of consolidation were eliminated.

Technical income from our **non-life insurance activities** (earned premiums less technical charges, plus the ceded reinsurance result) contributed 222 million euros to total income, up 13% on its performance in the previous quarter and only slightly down (less than 2%) on the result for the year-earlier quarter. Compared to the previous quarter, earned premiums were more or less stable, technical charges fell by 5% (the greater impact of storm damage in the quarter under review was more than offset by significantly lower normal and major claims) and the reinsurance result increased (partly related to the aforementioned storms). Compared to the year-earlier quarter, the increase in earned premiums (+8%) and better reinsurance result were entirely offset by a significant rise in technical charges (+35%, caused in part by the impact of the storm damage referred to above and relatively low charges in the reference quarter related to the coronavirus situation). Overall, the combined ratio for the first three months of 2022 amounted to an excellent 83%, compared to 89% for full-year 2021.

Technical income from our **life insurance activities** (earned premiums less technical charges, plus the ceded reinsurance result) amounted to 10 million euros, in line with the 10 million euros registered in the previous quarter and the 11 million euros in the year-earlier quarter. Sales of life insurance products in the quarter under review (544 million euros) were more or less the same as the level recorded in the previous quarter, with increased sales of unit-linked life insurance products offsetting lower sales of guaranteed-interest life products (attributable chiefly to traditionally higher volumes in tax-incentivised pension savings products in Belgium in the last quarter of the year). Sales were up 16% on their level in the year-earlier quarter, driven entirely by higher sales of unit-linked products. Overall, the share of unit-linked products in our total life insurance sales amounted to 54% in the quarter under review, with guaranteed-interest products accounting for the remaining 46%.

In the quarter under review, **net fee and commission income** amounted to 482 million euros, up slightly (i.e. by 1%) on its level in the previous quarter, due to a combination of lower fees for our asset management business (lower management fees as a consequence of the lower level of assets under management – see below – and partly offset by higher entry fees related to strong sales in the quarter) and slightly lower fees related to banking services (mainly seasonally lower payment fees), more than compensated by lower paid distribution costs. Net fee and commission income was up by as much as 9% on its level in the year-earlier quarter, benefiting from higher fees for both our asset management services (attributable to higher management fees) and our banking services (higher fees for payment services and higher credit-related fees), and only being slightly offset by higher distribution fees paid. At the end of March 2022, our total assets under management amounted to 228 billion euros, down 3% quarter-on-quarter (strong net inflows, but more than offset by a decrease in asset prices) and up 3% year-on-year (thanks to strong net inflows and a small positive asset price effect).

The **net result from financial instruments at fair value** (trading & fair value income) amounted to 143 million euros, compared to -39 million euros in the previous quarter and 127 million euros in the year-earlier quarter. The quarter-on-quarter increase was due mainly to higher dealing room income and less negative market value adjustments of derivatives used for asset/liability management purposes. Year-on-year, the slightly better result was attributable to a combination of higher dealing room and other income, partly offset by the lower market value adjustments of derivatives used for asset/liability management purposes and lower results related to the insurer's equity portfolio.

The **other remaining income items** included dividend income of 7 million euros, a net realised result from debt instruments at fair value through other comprehensive income of -2 million euros and net other income of 54 million euros. The latter was slightly above the normal run rate for this item, due in part to a positive one-off item related to a legal case in the Czech Republic.

Operating expenses 1 520 million euros	• Operating expenses excluding bank taxes were down by 2% quarter-on-quarter, but up 12% year-on-year, due in part to the booking of an extraordinary staff bonus. • Group cost/income ratio for the first three months of 2022 amounted to 53% (when certain non-operating items are excluded and bank taxes spread evenly throughout the year).

Operating expenses in the first quarter of 2022 amounted to 1 520 million euros. As usual, they included the bulk of the bank taxes for the full year. These taxes amounted to 514 million euros in the quarter under review, compared to 47 million euros in the previous quarter and 424 million euros in the year-earlier quarter. The figure for the quarter under review includes an extraordinary contribution of 24 million euros to the deposit guarantee fund (related to the Sberbank Hungary wind down).

Operating expenses excluding bank taxes were down 2% on their level in the previous quarter. The quarter under review included lower one-off charges related to the Irish sale transactions, lower ICT, facilities and marketing expenses (partly seasonal effect), as well as lower professional fee expenses, offset in part by the booking of an extraordinary staff bonus (41 million euros), the impact of inflation/wage indexation, and a negative forex effect. Disregarding the one-off items, operating expenses excluding bank taxes were 6% lower than in the previous quarter.

Operating expenses excluding bank taxes were up 12% on their level in the year-earlier quarter. This resulted from a number of factors, including the above-mentioned extraordinary staff bonus, one-off charges related to the Irish sale transactions, higher ICT expenses, wage drift and inflation/indexation, and a negative forex effect. Disregarding the one-off items, operating expenses excluding bank taxes were 7% higher than in the year-earlier quarter.

The cost/income ratio for the group came to 72% for the first three months of 2022. When bank taxes are spread evenly throughout the year and certain non-operating items excluded, the ratio amounted to 53%, compared to 55% for full-year 2021. When excluding all bank taxes, the cost-income ratio falls to 48%.

Loan loss impairment 15-million-euro net release	• Net release of loan loss impairment in the quarter under review, driven by the partial reversal of the collective impairment previously recorded for the coronavirus crisis, and largely offset by the recording of an impairment for geopolitical and emerging risks. • Credit cost ratio for the first three months of 2022 at -0.03%.

In the first quarter of 2022, we recorded a 15-million-euro net release of loan loss impairment, compared with a net release of 62 million euros and 76 million euros in the previous and year-earlier quarters, respectively. The net impairment release in the quarter under review included the positive impact of a 205-million-euro release of collective impairment previously recorded for the coronavirus crisis, the positive effect of a net release of 33 million euros for other individual loans, and the negative effect of recording 223 million euros for geopolitical and emerging risks (to cover credit risks related to the Russia-Ukraine conflict and the related macroeconomic issues and supply chain disruptions, etc.).

As a consequence, the combined impairment amount at the end of March 2022 for the coronavirus crisis and for geopolitical and emerging risks stood at 273 million euros (see calculation and background information in Note 1.4 of the 'Consolidated financial statements' section of the quarterly report).

Broken down by country, there were net reversals of loan loss impairment in the Czech Republic (10 million euros) and Ireland (14 million euros), while there was a slight increase in loan loss impairment in Belgium (1 million euros), Slovakia (1 million euros), Hungary (4 million euros) and Bulgaria (3 million euros).

For the entire group, the credit cost ratio amounted to -0.03% in the first three months of 2022 (-0.07% excluding the amount set aside for the coronavirus crisis and for geopolitical and emerging risks), compared to -0.18% for full-year 2021 (0.09% excluding the amount set aside for the coronavirus crisis). A negative figure implies a positive impact on the result. At the end of March 2022, some 2.3% of our total loan book was classified as impaired (Stage 3), compared to 2.9% at year-end 2021. Impaired loans that are more than 90 days past due amounted to 1.2% of the loan book, compared to 1.5% at year-end 2021. The improvement in the impaired loans ratios is clearly related to the sale of the bulk of the non-performing Irish mortgage loan book in February 2022.

Impairment on assets other than loans amounted to 37 million euros, compared to 46 million euros in the previous quarter and a release of 1 million euros in year-earlier quarter. The figure for the quarter under review included some 24 million euros of one-off impairment on fixed assets in Ireland in view of the pending sale, as well impairments on real estate in the Belgium Business Unit. The figure for the fourth quarter of 2021 included a one-off, 17-million-euro impairment related to the pending sale transactions in Ireland, as well as a 17-million-euro impairment on tangible and intangible assets in other countries (besides Ireland) and a 7-million-euro impairment on goodwill in the Czech Republic.

Net result by business unit	Belgium	Czech Republic	International Markets	Group Centre
	227 million euros	207 million euros	74 million euros	-49 million euros

Belgium: at first sight, the net result (227 million euros) was 53% lower quarter-on-quarter. However, excluding bank taxes (the bulk of which are recorded in the first quarter and hence distort the quarter-on-quarter comparison), the result was in line with the previous quarter. This was due primarily to the combined effect of higher total income (benefiting from higher technical non-life result, trading & fair value income and net fee and commission income, among other factors), slightly lower costs (despite the booking of an extraordinary staff bonus) and a small net loan loss impairment charge (compared to a net reversal in the previous quarter).

Czech Republic: the net result (207 million euros) was up by 5% on its level for the previous quarter, and by as much as 26% when the bank taxes and forex effects are excluded. This was attributable to a combination of higher total income (including higher net interest income following rate hikes) and a more or less stable level of costs (despite the booking of an extraordinary staff bonus), partly offset by a lower net reversal of loan loss impairment.

International Markets: the 74-million-euro net result breaks down as follows: 22 million euros in Slovakia, 35 million euros in Hungary and 17 million euros in Bulgaria. For the business unit as a whole, and disregarding bank taxes and Ireland (which belonged to the business unit in the previous quarter, but was moved to the Group Centre at the start of 2022 in view of the pending sale), the net result was up almost 40% quarter-on-quarter. This came about mainly because of increased total income, slightly lower costs (despite the booking of an extraordinary staff bonus) and lower loan loss impairment charges.

Group Centre: the net result (-49 million euros) was 28 million euros higher than the figure recorded in the previous quarter. Note that, as of 2022, the Group Centre includes the result for Ireland given the pending sale. The net result for Ireland in the quarter under review amounted to -15 million euros and included -32 million euros in various one-off effects related to the ongoing sale transactions.

	Belgium		Czech Republic		International Markets[1]	
Selected ratios by business unit	**1Q2022**	**FY2021**	**1Q2022**	**FY2021**	**1Q2022**	**FY2021**
Cost/income ratio, group (excluding certain non-operating items and evenly spreading the banking tax throughout the year)	51%	51%	42%	53%	56%	63%
Combined ratio, non-life insurance	82%	90%	83%	87%	83%	86%
Credit cost ratio[2]	0.00%	-0.26%	-0.11%	-0.42%	0.16%	0.36%
Impaired loans ratio	2.1%	2.2%	1.9%	1.8%	2.4%	5.7%

1 At the start of 2022, Ireland was moved from the International Markets Business Unit to the Group Centre, in view of the pending sale. Figures are therefore not comparable.

2 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
	23.1 billion euros	15.3%	162%	149%

At the end of March 2022, total equity came to 23.1 billion euros, comprising 21.6 billion euros in parent shareholders' equity and 1.5 billion euros in additional tier-1 instruments. Total equity was more or less stable compared to its level at the end of 2021. This was accounted for by the combined effect of a number of items, including the profit for the quarter (+0.5 billion euros), a decrease in the revaluation reserves (-0.5 billion euros) 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. Note that the closing dividend of 7.6 euros per share will be subtracted from equity in the second quarter of 2022.

On 31 March 2022, our fully loaded common equity ratio (Basel III, under the Danish compromise) amounted to 15.3%, compared to 15.5% at the end of 2021. The solvency ratio for KBC Insurance under the Solvency II framework was 217% at the end of March 2022, compared to 201% at the end of 2021. We have provided more details and additional information on solvency under 'Solvency' in the 'Additional information' section of the quarterly report.

Our liquidity position remained excellent too, as reflected in an LCR ratio of 162% and an NSFR ratio of 149%, compared to 167% and 148%, respectively, at the end of 2021.

Recent ESG developments

We recently published our 2021 Sustainability Report in which we clearly show that we continue to take our role in society, and more particularly our role in financing the transition to a greener and more sustainable economy, very seriously. The report also includes first-time reporting of our GHG emissions for our entire loan and lease portfolios, as well as our climate analysis by sector.

In line with our strategy and our commitments, we are continuing our efforts to actively support our customers in their transition and strongly support investments in green energy infrastructure. In February, for example, 'Warmtenetwerk Antwerpen Noord' chose KBC as its sole financier. The company's shareholders, Indaver and the Port of Antwerp, will set up an open source heat network which initially will provide residual heat to malt producer Boortmalt and 3 200 homes in certain districts of Antwerp. The project aims to make savings on natural gas that would be comparable to the annual consumption of 10 000 families. And in early March, we granted a 75-million-euro green loan to Virya Energy (the renewable energy holding company of the Colruyt Group), in line with the main requirements of the EU Taxonomy. The investment relates to the development of on-shore wind farms in France and in Poland near the Baltic coast. A small portion of the funds has been allocated to the development of a 25MWe Green Hydrogen Electrolyser in Zeebrugge (Belgium). Such new transactions clearly support our target of expanding our share of renewables to at least 65% of our total energy portfolio by 2030.

We have continued to witness an increased interest in sustainability in all our core markets and across all our customer segments. This also covers payment-related services. At ČSOB in the Slovak Republic, for instance, we started offering a new solution for non-profit organisations in the form of a mobile POS terminal with push-button capability. It now enables these organisations to embark on cashless fundraising via credit cards, smartphones or smart watches instead of having to use money boxes to collect cash from the public. Furthermore, ČSOB in Slovakia became the sole banking partner in a new deposit return system addressing an important social and environmental issue, namely recycling disposable beverage packaging.

In our asset management business, we have realised our goal of systematically rolling out Responsible Investing in all our core markets, when we recently launched these solutions in Bulgaria. Besides extending our offering, we are focusing on raising ESG awareness among our customers and on training our employees in Responsible Investing advice tailored to our local markets. Assets under management in Responsible Investing amounted to 32 billion euros at the end of March 2022.

We also continue to train our employees on relevant sustainability topics so that they can appropriately assist all our customers on their sustainability journey. The group-wide digital training programme that was rolled-out has so far been followed by approximately 50% of our employees worldwide.

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 factors are considered to constitute the main challenges for the financial sector. These stem primarily from the impact of the war in Ukraine, not just directly, but even more so indirectly due to the resulting increase in energy and commodity prices and supply-side shortages, which were already stressed following the coronavirus pandemic. This has led to a surge in inflation, resulting in upward pressure on interest rates, volatility on financial markets, lower growth prospects and some concerns on the creditworthiness of counterparties in the economic sectors most exposed. These risks affect global, but especially, European economies, including KBC's home markets. Regulatory and compliance risks (including capital requirements, anti-money laundering regulations and GDPR) also 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. The war in Ukraine has again increased vigilance in this area.

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

After recording exceptionally strong, quarter-on-quarter real GDP growth of 1.7% in the fourth quarter of 2021, the US economy unexpectedly contracted (by -0.4% quarter-on-quarter) in the first quarter of 2022. In particular, disappointing figures for (gross) exports weighed on the US economy. Meanwhile, the euro area's quarter-on-quarter growth rate slowed slightly to 0.2%. First-quarter economic growth also slowed marginally to 0.3% in Belgium and to 0.7% in the Czech Republic. For the second quarter of 2022, we expect the war in Ukraine to impact the European economy more severely than its US counterpart. Therefore, in the second quarter, an economic stagnation in the euro area cannot be excluded.

The most important risk to our short-term growth outlook relates to the economic repercussions of the Russian invasion of Ukraine. Persistently higher prices of energy and commodities in general can lead to an even stronger price shock and weigh even more on private consumption and business activity than currently anticipated. This risk also includes near-term tightening of new and already existing bottlenecks and disruptions in production and supply chains. Moreover, pandemic-related risks to economic activity have, for now, not permanently disappeared and may reappear in the course of 2022, as is currently the case in the Chinese economy. Lastly, the global built-up of debt creates vulnerabilities, especially now that financing conditions are being supported less by accommodative monetary policy.

Our view on interest rates and foreign exchange rates

In March 2022, the Fed ended its net asset purchases and raised its policy rate by 25 basis points, and another 50 basis points early May, against the background of mounting inflationary pressure. We expect the Fed to continue to raise its policy rate in the coming quarters. In addition, the run-down of the Fed's balance sheet is about to start, possibly as soon as in the second quarter. Meanwhile, the ECB suspended its net purchases under its Pandemic Emergency Purchase Programme (PEPP) in March 2022. Net purchases under its general Asset Purchase Programme (APP) are likely to end in the third quarter, followed by a first increase of 25 basis points in the ECB's deposit rate in September and by further rate hikes at subsequent meetings.

Both US and German 10-year yields rose during the first quarter, driven primarily by market expectations of monetary policy normalisation. The euro depreciated markedly against the US dollar during the first quarter. The weakening of the euro is partly the result of widening interest rate differentials between the euro area and the US, as well as the fact that the European economy is more severely affected by the war in Ukraine. We expect the euro to bottom out and gradually recover against the US dollar.

The Czech koruna (CZK) appreciated during the first quarter and continued to appreciate at the beginning of the second quarter. However, there was a temporary depreciation at the start of March as a result of the Russian invasion of Ukraine. Temporary FX interventions on the part of the Czech National Bank (CNB) stabilised the CZK, and the subsequent recovery was underpinned by the CNB's policy rate tightening. The CNB raised its two-week repo rate in two steps from 3.75% to 5% during the first quarter, followed by another increase by 75 basis points to 5.75% in the beginning of May. We expect one more rate hike in June, which is likely to mark the peak of the current tightening cycle. In line with the positive interest rate differential, we expect the CZK to continue appreciating against the euro in the coming quarters.

On balance, the Hungarian forint (HUF) depreciated slightly against the euro during the first quarter. During this period, however, the HUF exchange rate has been quite volatile. The HUF depreciated sharply on the eve of the Russian invasion of Ukraine at the beginning of March. Its subsequent recovery was due mainly to increased interest rate differentials with the euro area, which we expect to persist for the remainder of 2022. The National Bank of Hungary raised its base rate from 2.40% at the start of the first quarter to 4.4% at the end of March. At the end of April, it raised its base rate further to 5.4% and more tightening is expected in the second quarter.

Guidance

Last quarter, we provided the market with a clear full year 2022 guidance based upon a set of macroeconomic and business assumptions. Subsequently, the invasion of Russia in Ukraine is causing major macroeconomic and financial shocks, and very volatile markets. This is clearly going to have an impact on our financial performance. Starting from a base scenario whereby the war in Ukraine will continue for at least several months but will not escalate, we see our cost growth this year somewhat higher than previously guided, driven by the strong increase in inflation and the one-off extraordinary staff bonus for our employees. On the other hand, however, we expect our total income (including net interest income) to be increasingly supported by a further improving interest rate climate and an already excellent first quarter result. Combined - under the base scenario - the 'jaws' (income growth versus costs growth) for this year should be at least at the same level we envisaged in our earlier full year 2022 guidance.

Due to the creation of a provision for geopolitical and emerging risks (223 million euros), the credit cost ratio for 2022 is also likely to be higher than 10 bps, but below 25 bps (25-30 bps = through-the-cycle credit cost ratio guidance).

We continue to monitor and analyse the situation and will provide further guidance for 2022 and long-term guidance for 2024 with the second quarter results publication.

Upcoming events	• 2Q2022 results: 11 August 2022 • 3Q2022 results: 9 November 2022 • Other events: www.kbc.com / Investor Relations / Financial calendar
More information on 1Q2022	• Quarterly report: www.kbc.com / Investor Relations / Reports • Company presentation: www.kbc.com / Investor Relations / Presentations
Detailed information on coronavirus & Ukraine crisis	• Quarterly report, Note 1.4 in 'Consolidated financial statements according to IFRS' • Company presentation
Definitions of ratios	• 'Details of ratios and terms at KBC Group level' in the last section of the quarterly report.

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

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