Press Release

Outside trading hours - Regulated information*

Brussels, 11 May 2021 (07.00 a.m. CEST)

KBC Group: First-quarter result of 557million euros

KBC Group – overview (consolidated, IFRS)	1Q2021	4Q2020	1Q2020
Net result (in millions of EUR)	557	538	-5
Basic earnings per share (in EUR)	1.31	1.26	-0.04
Breakdown of the net result by business unit (in millions of EUR)			
Belgium	*380*	*396*	*-86*
Czech Republic	*123*	*94*	*88*
International Markets	*88*	*86*	*35*
Group Centre	*-35*	*-38*	*-43*
Parent shareholders' equity per share (in EUR, end of period)	49.8	48.1	43.4

Light is starting to appear at the end of the tunnel thanks to the large-scale vaccination rollout that started in the first quarter of 2021. However, the coronavirus pandemic is still far from over and continues to cause human suffering and unprecedented economic upheaval all over the world. From the start of the crisis more than a year ago, we have taken responsibility in safeguarding the health of our staff and customers, while ensuring that services continue to be provided. We have also worked closely with government agencies to support all customers impacted by coronavirus, implementing various measures such as loan deferrals. We have, for example, granted payment holidays for 13.1 billion euros' worth of loans under coronavirus-related moratoria (according to the EBA definition). For 91% of that figure, the moratoria have now expired, with 98% of loans resuming normal payments. We have also granted almost 1 billion euros' worth of loans under public guarantee schemes introduced in response to the pandemic.

Meanwhile, we continued to work tirelessly on implementing our strategy, including the further optimisation of our geographic presence. In the first quarter of 2021, we reached an agreement for the acquisition of NN's Bulgarian pension insurance and life insurance businesses. This will allow us to further increase our share of the life insurance market in Bulgaria and to broaden our bank-insurance offering to customers with the addition of high-end pension fund products, while also providing additional cross-selling opportunities for banking and insurance products in a one-stop shop approach. Closure of the deal is subject to regulatory approval and is expected to be finalised in the course of 2021. More recently, in the context of the competitive market conditions in Ireland, we entered into a Memorandum of Understanding with Bank of Ireland that could lead to a transaction where Bank of Ireland commits to acquire substantially all of KBC Bank Ireland's performing loan assets and liabilities. In addition, we are examining our options for divesting KBC Bank Ireland's portfolio of non-performing mortgage loans. Successful completion of both transactions may ultimately result in our withdrawal from the Irish market. While these discussions are ongoing, KBC Bank Ireland remains committed to offering its existing and new customers retail banking and insurance services of the highest standard through its digital channels and hubs. The transaction remains subject to customary due diligence, further negotiation and agreement of final terms and binding documentation, as well as obtaining all appropriate internal and external regulatory approvals.

As regards our financial results, the year got off to a strong start with a net profit of 557 million euros being posted in the quarter under review. This is a very good performance given that the bulk of bank taxes for the full year are recorded – as always – upfront in the first quarter of the year. In the quarter under review, nearly all income items increased, apart from dividend income. Costs – excluding bank taxes – continued to be strictly managed, resulting in a quarter-on-quarter decrease of 5%. We were also able to reverse some of the loan loss impairment charges taken previously, which had a positive impact on our net result. Our solvency position remained very strong with a common equity ratio of 17.6% on a fully loaded basis.

As announced earlier, we will pay out a gross dividend of 0.44 euros per share on 19 May 2021 for financial year 2020. It is also the intention of our Board of Directors to distribute an additional gross dividend of 2 euros per share in the fourth quarter of 2021 for financial year 2020.The final decision of the Board in this regard is subject to restrictions on dividends being lifted by the ECB.

In closing, I would like to take this opportunity to thank all stakeholders who have continued to put their trust in us. I also wish to express my appreciation to all our staff who have not only continued to serve our customers, but have also ensured that our group has been able to operate solidly and efficiently in these challenging times.

Johan Thijs
Chief Executive Officer

Financial highlights in the first quarter of 2021

- Commercial bank-insurance franchises in our core markets performed very well in the quarter under review.

- Net interest income increased by 1% quarter-on-quarter, when the positive 5-million-euro one-off item recorded in the previous quarter is excluded. This increase came about mainly on account of the consolidation of OTP Banka Slovensko, the appreciation of the Czech koruna and lower funding costs. Net interest income was down 11% on its year-earlier level, due in part to the negative impact of past CNB rate cuts in the Czech Republic, low reinvestment yields and the year-on-year depreciation of the Czech koruna and Hungarian forint.

- Deposits, including debt certificates, grew by 8% quarter-on-quarter and 10% year-on-year. Loan volumes were up 1% quarter-on-quarter and 1% year-on-year. These figures were calculated on an organic basis (excluding the recent acquisition of OTP Banka Slovensko and forex effects). The volume of loans that were granted payment holidays under the various relief schemes amounted to 13.1 billion euros according to the EBA definition. As most of the moratoria have now expired, loans still falling under them had decreased by 91% by the end of March 2021. For 98% of loans under meanwhile expired moratoria, payments have resumed.

- Technical income from our non-life insurance activities (premiums less charges, plus the ceded reinsurance result) was up 11% on its level in the previous quarter and 31% on the level recorded in the first quarter of 2020. In both cases, this was due mainly to a significant decrease in technical charges. Overall, the combined ratio for the quarter under review amounted to an excellent 78%. Sales of our life insurance products were down 19% on the high level recorded in the previous quarter and up 10% on their level in the year-earlier quarter.

- Net fee and commission income was 9% and 3% higher than its respective levels in the previous and year-earlier quarters, due to a combination of increased fees for our asset management activities and banking services (the latter thanks primarily to the securities business).

- The trading and fair value result was up 47 million euros on the level recorded in the previous quarter and by as much as 512 million euros compared to the first quarter of 2020. The latter figure had been significantly impacted by the effects of the first outbreak of the coronavirus crisis, which initially led to sharply lower stock markets, widening credit spreads and lower long-term interest rates (causing the trading and fair value result to amount to a negative 385 million euros in that quarter).

- All other income items combined were in line with the figure recorded in the year-earlier quarter, and 32% higher than the figure recorded in the previous quarter, which had included a number of negative one-off items.

- Costs in the first quarter traditionally include the bulk of the full-year bank taxes (424 million euros). Excluding these taxes, costs were down 5% quarter-on-quarter and 4% year-on-year, thanks to strict cost management and notwithstanding the consolidation of OTP Banka Slovensko. The resulting cost/income ratio amounted to 53% in the quarter under review (in the calculation, certain non-operating items have been excluded and bank taxes spread evenly throughout the year) or 46% (when all bank taxes have been fully excluded).

- The quarter under review included a net reversal of loan loss impairment of 76 million euros, compared to net charges of 57 million euros in the previous quarter and 121 million euros in the year-earlier quarter. As a consequence, the credit cost ratio in the quarter under review amounted to -0.17%, compared to 0.60% for full-year 2020 (a negative sign implies a positive impact on the result).

- Our liquidity position remained strong, with an LCR of 157% and NSFR of 148%. Our capital base remained equally as robust, with a fully loaded common equity ratio of 17.6% (under ECB-rules, this does not include the interim profit for the first quarter).

The cornerstones of our strategy

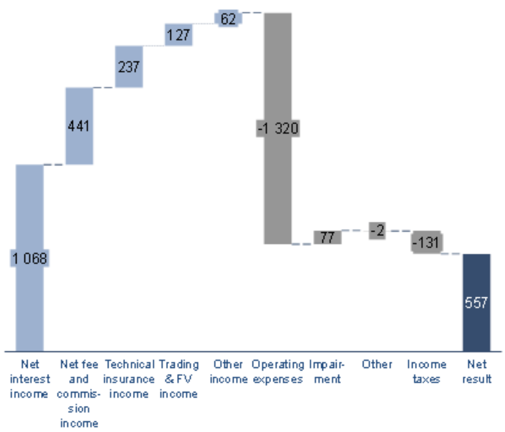
client centricity | bank-insurance + | sustainable profitable growth | role in society | collaboration

Our strategy rests on five 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 focus on the joint development of solutions, initiatives and ideas within the group

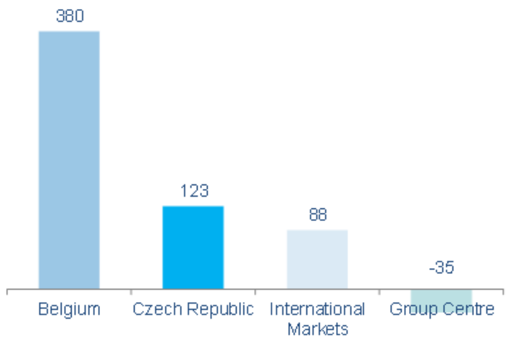
Breakdown of 1Q2021 result

(in millions of EUR)



Contribution of the business units to 1Q2021 group result

(in millions of EUR)



Overview of results and balance sheet

Consolidated income statement, IFRS KBC Group (in millions of EUR)	1Q2021	4Q2020	3Q2020	2Q2020	1Q2020
Net interest income	1 068	1 067	1 122	1 083	1 195
Non-life insurance (before reinsurance)	238	192	233	255	185
Earned premiums	*453*	*450*	*448*	*435*	*443*
Technical charges	*-215*	*-258*	*-215*	*-180*	*-258*
Life insurance (before reinsurance)	12	4	1	6	0
Earned premiums	*292*	*382*	*267*	*276*	*297*
Technical charges	*-280*	*-378*	*-266*	*-271*	*-297*
Ceded reinsurance result	-13	10	-9	-13	-7
Dividend income	7	11	12	17	12
Net result from financial instruments at fair value through P&L[1]	127	80	85	253	-385
Net realised result from debt instruments at fair value through other comprehensive income	2	-1	1	2	0
Net fee and commission income	441	403	390	388	429
Net other income	53	37	37	53	50
Total income	1 933	1 802	1 872	2 043	1 479
Operating expenses	-1 320	-988	-926	-904	-1 338
Impairment	77	-122	-63	-857	-141
Of which: on financial assets at amortised cost and at fair value through other comprehensive income[2]	*76*	*-57*	*-52*	*-845*	*-121*
Share in results of associated companies & joint ventures	-2	-2	-2	-3	-3
Result before tax	688	690	881	279	-3
Income tax expense	-131	-152	-184	-69	-2
Result after tax	557	538	697	210	-5
attributable to minority interests	0	0	0	0	0
attributable to equity holders of the parent	**557**	**538**	**697**	**210**	**-5**
Basic earnings per share (EUR)	1.31	1.26	1.64	0.47	-0.04
Diluted earnings per share (EUR)	1.31	1.26	1.64	0.47	-0.04

Key consolidated balance sheet figures KBC Group (in millions of EUR)	31-03-2021	31-12-2020	30-09-2020	30-06-2020	31-03-2020
Total assets	351 818	320 743	321 053	317 246	301 311
Loans and advances to customers, excl. reverse repos	160 960	159 621	157 773	157 563	158 364
Securities (equity and debt instruments)	71 981	71 784	71 310	72 131	67 176
Deposits from customers & debt certificates, excl. repos	231 838	215 430	211 672	210 811	208 293
Technical provisions, before reinsurance	18 939	18 718	18 613	18 775	18 816
Liabilities under investment contracts, insurance	12 922	12 724	12 482	12 505	11 979
Parent shareholders' equity	20 768	20 030	19 244	18 570	18 080

Selected ratios KBC group (consolidated)	1Q2021	FY2020
Return on equity[3]	11%	8%
Cost/income ratio, group[4]	68%	58%
(when excluding certain non-operating items and spreading bank taxes evenly throughout the year)	(53%)	(57%)
Combined ratio, non-life insurance	78%	85%
Common equity ratio, Basel III Danish Compromise, fully loaded [transitional]	17.6% [18.1%]	17.6% [18.1%]
Common equity ratio, FICOD fully loaded [transitional]	16.7% [17.2%]	16.4% [16.9%]
Leverage ratio, Basel III fully loaded	5.8%	6.4%
Credit cost ratio[5]	-0.17%	0.60%
Impaired loans ratio	3.3%	3.3%
for loans more than 90 days past due	1.8%	1.8%
Net stable funding ratio (NSFR)	148%	146%
Liquidity coverage ratio (LCR)	157%	147%

1 Also referred to as 'Trading and fair value income'.
2 Also referred to as 'Loan loss impairment'.
3 16% when bank taxes are spread evenly throughout the year.
4 Scope changed from bank to group.
5 A negative figure indicates a net impairment release (positively affecting results).

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 (1Q2021)

Total income **1 933** **million euros**	• Total income up 7% quarter-on-quarter. • Dividend income down; all other income items up.

Net interest income amounted to 1 068 million euros in the quarter under review, up 1% when the positive one-off item related to inflation-linked bonds (insurance) in the previous quarter is excluded and down 11% year-on-year. Quarter-on-quarter, net interest income benefited from OTP Banka Slovensko being included in the scope of consolidation since the beginning of this year, the appreciation of the Czech koruna against the euro, lower funding costs, continued organic growth of lending volumes, the margin on the new production of mortgage loans being wider than the margin on the outstanding portfolio in Belgium and Slovakia, more extensive charging of negative interest rates on certain current accounts held by corporate entities and SMEs, and the slightly higher netted positive impact of ALM forex swaps. These effects were largely offset by a number of factors, including the negative impact of lower reinvestment yields and the fewer number of days in the period under review.

Year-on-year, the decrease was mainly related to the negative impact of past CNB rate cuts in the Czech Republic, falling reinvestment yields in general, the year-on-year depreciation of the Czech koruna and Hungarian forint against the euro and a positive, one-off item in the reference quarter, all of which were only partly offset by the positive impact of TLTRO III, the consolidation of OTP Banka Slovensko, more extensive charging of negative interest rates on certain current accounts held by corporate entities and SMEs, and the organic increase in the loan portfolio.

The net interest margin for the quarter under review amounted to 1.78%, up 3 basis points and down 19 basis points, respectively, on the figures recorded in the previous and year-earlier quarters.

Customer deposits including debt certificates (232 billion euros) were up 8% quarter-on-quarter and 10% year-on-year on an organic basis (eliminating the forex impact and the effects of changes in the scope of consolidation, i.e. OTP Banka Slovensko was fully consolidated on the balance sheet at the end of 2020). The total volume of customer lending (161 billion euros) rose 1% quarter-on-quarter and 1% year-on-year on an organic basis. The volume of loans that were granted payment holidays under the various coronavirus-related moratoria amounted to 13.1 billion euros by the end of March 2021, according to the EBA definition. Most of these moratoria have now expired (some 91% of the figure in question at the end of March 2021). For 98% of the loan amount under expired moratoria, payments meanwhile were resumed. In addition, we granted some 0.9 billion euros in loans that fall under the various coronavirus-related government guarantee schemes in our home markets.

Technical income from our **non-life insurance activities** (earned premiums less technical charges, plus the ceded reinsurance result) contributed 226 million euros to total income, up 11% on its performance in the previous quarter and 31% on the year-earlier quarter. In both cases, the increase resulted from a combination of slightly higher earned premium income and much lower technical charges (partly because the previous quarter had included a one-off increase in the ageing reserves, while the year-earlier quarter had included the relatively high impact of storm damage), offset in part by a lower ceded reinsurance result (quarter-on-quarter). Overall, the combined ratio for the first quarter of the year came to an excellent 78%, compared to 85% for full-year 2020.

Technical income from our **life insurance activities** (earned premiums less technical charges, plus the ceded reinsurance result) amounted to 11 million euros, compared to 3 million euros in the previous quarter and 4 million euros in the year-earlier quarter. Sales of life insurance products in the quarter under review (471 million euros) were down 19% on the high level recorded in the previous quarter, with a decline in both unit-linked products and guaranteed-interest products (the last quarter of the year traditionally includes higher volumes in tax-incentivised pension savings products in Belgium). Sales were up 10% on the level recorded in the year-earlier quarter, driven mainly by increased sales of unit-linked products. Overall, the share of guaranteed-interest products in our total life insurance sales amounted to 54% in the quarter under review, with unit-linked products accounting for the remaining 46%.

In the quarter under review, **net fee and commission income** amounted to 441 million euros, up 9% on the level in the previous quarter and 3% on the level in the year-earlier quarter. In both cases, this was due primarily to an increase in fees for our asset management business and slightly increased fees for our banking services (thanks mainly to higher securities-related fees and the OTP Banka Slovensko impact, which more than offset the drop in payment services fees). In addition, distribution fees paid were down quarter-on-quarter (i.e. a positive impact), but up slightly year-on-year (a negative impact). At the end of March 2021, our total assets under management amounted to 220 billion euros, up 4% quarter-on-quarter and 14% year-on-year. The quarter-on-quarter increase was due to a combination of net inflows (+1%) and a further recovery in asset prices (+3%), while the year-on-year increase resulted almost entirely from increasing asset prices.

The **net result from financial instruments at fair value** (trading and fair value income) amounted to 127 million euros, up 47 million euros on the level recorded in the previous quarter, due mainly to a higher dealing room result, a better performance by the insurer's shares portfolio and the less negative value of derivatives used for asset/liability management purposes, though somewhat offset by lower positive market value adjustments. Year-on-year, trading and fair value income was up by as much as 512 million euros, due to the fact that the trading and fair value result of the first quarter of 2020 (-385 million euros) had been significantly impacted by the sharply lower stock markets, widening credit spreads and lower long-term interest rates as a consequence of the initial outbreak of the coronavirus pandemic in that quarter.

The **other remaining income** items included dividend income of 7 million euros (down quarter-on-quarter and year-on-year) and 53 million euros in net other income (more or less in line with the normal run rate for this item).

Operating expenses **1 320 million euros**	• Continued tight cost management. Operating expenses, excluding bank taxes, down 5% quarter-on-quarter and 4% year-on-year. • Group cost/income ratio for first quarter of 2021 at 53% (when certain non-operating items are excluded and bank taxes are spread evenly over the year) or 46% (when bank taxes are fully excluded).

Operating expenses in the first quarter of 2021 amounted to 1 320 million euros. As usual, they included the bulk of the bank taxes for the full year. These taxes amounted to 424 million euros in the quarter under review, compared to 49 million euros in the previous quarter and 407 million euros in the year-earlier quarter.

Excluding these taxes, expenses were down 5% on the level recorded in the previous quarter due to a number of factors, including lower staff expenses, professional fees and marketing costs (partly seasonal). These items more than offset the negative impact of OTP Banka Slovensko being consolidated in the first quarter of 2021 and forex effects.

Year-on-year, expenses excluding bank taxes were down 4% chiefly on account of lower staff expenses (related in part to lower FTEs, despite wage inflation), a decrease in facilities, marketing and professional fees (partly triggered by the impact of the coronavirus crisis), lower software depreciation and forex effects, all of which more than offset the adverse impact of the consolidation of OTP Banka Slovensko.

The cost/income ratio for the group came to 68% for the quarter under review. Evenly spreading the bank taxes over the full year and excluding certain non-operating items, the ratio amounted to 53%, compared to 57% for full-year 2020. When fully excluding all bank taxes, the cost-income ratio for the quarter under review fell to 46%.

Our full-year 2021 guidance for operating expenses excluding bank taxes remains unchanged: we expect them to increase by approximately 2% year-on-year on a like-for-like basis (i.e. excluding the impact of the acquisition of OTP Banka Slovensko).

Loan loss impairment **76-million-euro net reversal**	• Net reversal of loan loss impairment in the quarter under review, compared to net charges in the reference quarters. • Credit cost ratio for the quarter under review at -0.17%.

In the first quarter of 2021, we recorded a 76-million-euro net reversal of loan loss impairment, compared with a net charge of 57 million euros in the previous quarter and 121 million euros in the first quarter of 2020. The net reversal in the quarter under review breaks down into 50 million euros for individual (mainly corporate) loans and 26 million euros in collective coronavirus-related impairment. As a consequence, the collective impairment charges still recognised for the coronavirus crisis amounted to 757 million euros at the end of March 2021 (down from 783 million euros as the end of 2020). Of this amount, 695 million euros was based on a 'management overlay' and 62 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, net reversals of loan loss impairment came to 62 million euros in Belgium, 13 million euros in the Czech Republic, 3 million euros in Hungary, 1 million in Bulgaria and 1 million euros in the Group Centre, while there was a small net increase in impairment of 3 million euros in Slovakia (related primarily to the consolidation of OTP Banka Slovensko).

For the entire group, the credit cost ratio amounted to -0.17% for the first quarter of 2021 (-0.11% excluding the amount recorded for the coronavirus crisis), up from 0.60% for full-year 2020 (0.16% excluding the amount for the coronavirus crisis). A negative figure implies a positive impact on the result. At the end of March 2021, some 3.3% of our total loan book was classified as impaired (Stage 3), the same level as year-end 2020. Impaired loans that are more than 90 days past due amounted to 1.8% of the loan book, also stable compared to year-end 2020.

For an indication of the expected impact of loan loss impairment for full-year 2021, see 'Guidance' on page 9 of this publication.

Impairment on assets other than loans amounted to a net reversal of just 1 million euros, compared to a net charge of 66 million euros in the previous quarter and 20 million euros in the first quarter of 2020. The figure for the previous quarter had been negatively impacted by a one-off software impairment, whereas the figure for the year-earlier quarter had been adversely impacted by the effect of the accounting treatment (modification loss) of the payment moratorium in Hungary.

Net result by business unit	Belgium	Czech Republic	International Markets	Group Centre
	380 million euros	123 million euros	88 million euros	-35 million euros

Belgium: the net result (380 million euros) fell by 4% euros 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 went up 55% due to the combined effect of higher total income (an increase in net fee and commission income and in trading and fair value income, stable net other income and technical insurance income, and a slight decrease in net interest income and dividend income), lower costs excluding bank taxes, and a net reversal of loan loss impairment (compared to a net addition in the previous quarter).

Czech Republic: the net result (123 million euros) was up 31% on its level for the previous quarter, or 74% (excluding bank taxes). The quarter-on-quarter difference was due primarily to the combined effect of higher total income (almost all the income components were up), lower costs (excluding bank taxes), and a net reversal of loan loss impairment (compared to a net addition in the previous quarter).

International Markets: the 88-million-euro net result breaks down as follows: 15 million euros in Slovakia, 43 million euros in Hungary, 22 million euros in Bulgaria and 8 million euros in Ireland. For the business unit as a whole, the net result was up 2% quarter-on-quarter, or 10% when bank taxes are excluded. The latter increase came about mainly on account of lower other impairment charges and higher total income, offset somewhat by increased costs (excluding bank taxes), with both income and costs being impacted by the consolidation of OTP Banka Slovensko.

Group Centre: the net result (-35 million euros) was 4 million euros higher than the figure recorded in the previous quarter, as the decrease in total income (due to lower trading and fair value results) was more than offset by lower costs and a small net reversal of impairment (compared to a relatively large net addition in the previous quarter).

Selected ratios by business unit	Belgium 1Q2021	Belgium FY2020	Czech Republic 1Q2021	Czech Republic FY2020	International Markets 1Q2021	International Markets FY2020
Cost/income ratio, group (excluding certain non-operating items)	48%	54%	53%	52%	63%	64%
Combined ratio, non-life insurance	80%	84%	83%	87%	78%	84%
Credit cost ratio*	-0.21%	0.57%	-0.16%	0.67%	0.00%	0.78%
Impaired loans ratio	2.4%	2.3%	2.2%	2.3%	6.7%	6.9%

* 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
	22.3 billion euros	17.6%	157%	148%

At the end of March 2021, total equity amounted to 22.3 billion euros, comprising 20.8 billion euros in parent shareholders' equity and 1.5 billion euros in additional tier-1 instruments. Total equity was up 0.7 billion euros on its level at the end of 2020. This was accounted for by the combined effect of a number of items, including the profit for the quarter (+0.6 billion euros), an increase in the revaluation reserves (+0.2 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.

In line with the ECB recommendation of 15 December 2020 which limits dividend payments, we will pay out a limited gross dividend of 0.44 euros per share on 19 May 2021 for financial year 2020. Additionally, it is the intention of the Board of Directors to distribute an extra gross dividend of 2 euros per share over the accounting year 2020 in the fourth quarter of 2021. The final decision of the Board of Directors in this regard is subject to restrictions on dividends being lifted by the ECB.

At 31 March 2021, our fully loaded common equity ratio (Basel III, under the Danish compromise) amounted to 17.6%, the same level as three months earlier. Our fully loaded leverage ratio (Basel III) came to 5.8%, compared to 6.4% at the end of 2020. The solvency ratio for KBC Insurance under the Solvency II framework was 235% at the end of March 2021, compared to 222% at the end of 2020. Our liquidity position remained excellent too, as reflected in an LCR ratio of 157% and an NSFR ratio of 148% (compared to 147% and 146%, respectively, at the end of 2020).

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.

These risks come on top of risks relating to macroeconomic and political developments, 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

The coronavirus pandemic remained the single most important driver of global economic dynamics in the first quarter of 2021. As was the case in the fourth quarter of 2020, quarter-on-quarter economic growth in the euro area as a whole was moderately negative in the first quarter of 2021. The quarter-on-quarter growth of the Belgian economy was moderately positive in the first quarter of 2021, whereas it was slightly negative in the Czech Republic.

For the time being, the recent surges in the pandemic continue to hold most of continental Europe firmly in their grip. In particular, the circulation of more infectious and dangerous virus strains is putting pressure on health systems again, necessitating the extension or introduction of strict lockdown measures in many countries. Significant progress on the health front can only be expected as the ongoing vaccination campaigns pick up speed. The impact of the vaccination programmes on economic recovery will therefore probably become increasingly visible in the second half of 2021 as economies gradually start to re-open. Therefore, we expect European growth to accelerate in the second half of 2021 and the level of European economic activity to return to its pre-pandemic level in the course of 2022.

Our view on interest rates and foreign exchange rates

Coordinated monetary and fiscal policy stimuli continue to support the US and euro area economies. We expect both the Federal Reserve and the ECB to keep their policy rates unchanged for an extended period of time.

In the first quarter of 2021, 10-year government bond yields in the US soared, resulting in a significant steepening of the US yield curve. Due to the strong correlation along the global yield cycle, German yields rose too, but to a much lesser extent. The increase in US yields was mainly driven by a rise in inflation-adjusted (real) yields. Despite falling back at the beginning of the second quarter, US bond yields are expected to continue increasing modestly in the second quarter, in line with the recovery of the US economy. This will also lead to further moderate upward pressure on German yields, but again to a lesser extent in view of the ECB's stated intention to maintain favourable financing conditions and to step up its PEPP bond purchases in the second quarter. As a result of the ECB's policy stance, we also expect intra-EMU sovereign spreads broadly to remain at their current compressed levels.

As regards exchange rates, we expect the Hungarian forint to strengthen somewhat on its current levels against the euro in the remainder of the first half of 2021, in line with our expectation that the Hungarian central bank will not ease its policy stance in the course of 2021. The Czech koruna is also likely to appreciate moderately against the euro in the coming quarters. We expect the Czech National Bank to raise its policy rate by 25 basis points in the fourth quarter of 2021, mainly as a result of the inflation outlook. As far as the US dollar exchange rate against the euro is concerned, we expect some short-term support for the dollar, based on interest rate differentials. In the medium term, however, a modest depreciation of the US dollar against the euro is likely, driven by the improving outlook for global growth and inflation, increasing US budget and current account deficits and the projected higher inflation differential between the US and the euro area.

Guidance	**Full-year 2021 guidance** ▪ *Net interest income*: in the region of 4.3 billion euros. ▪ *Operating expenses excluding bank taxes*: increase of approximately 2% year-on-year on a like-for-like basis (i.e. excluding the impact of the acquisition of OTP Banka Slovensko). ▪ *Credit cost ratio:* expected to be in line with the low end of our average through-the-cycle credit cost ratio (of 30-40 basis points). .

Upcoming events	Dividend: ex-date 17 May 2021; record date 18 May 2021; payment date 19 May 2021 2Q2021 results: 5 August 2021
More information on 1Q2021	Quarterly report: www.kbc.com / Investor Relations / Reports Company presentation: www.kbc.com / Investor Relations / Presentations
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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