Press Release

Outside trading hours - Regulated information*

Brussels, 17 November 2016 (07.00 a.m. CET)

KBC Group: Strong third-quarter profit of 629 million euros.

Against a background of persisting low interest rates, modest economic growth in Belgium and firmer growth in Central Europe and Ireland, KBC posted a strong net profit figure of 629 million euros in the third quarter of 2016, compared to the 721 million euros recorded in the preceding quarter (which had been boosted by a one-off positive impact of 84 million euros (after tax) resulting from the sale of Visa Europe shares) and the 600 million euros returned in the third quarter of 2015. Our lending volumes in the third quarter continued to grow, both quarter-on-quarter and year-on-year. Excluding the effect of the sale of Visa Europe shares in the previous quarter, our third-quarter income fell slightly by 3%. Added to the 392 million euros in net profit realised in the first quarter and the 721 million euros in the second, this brings our result for the first nine months of the year to a fine 1 742 million euros, compared to 1 776 million euros for the same period a year ago. Our already solid solvency and liquidity positions strengthened further. As previously announced, we will pay an interim dividend of 1 euro per share on 18 November 2016 for the current financial year, as an advance on the total dividend for 2016

Financial highlights for the third quarter of 2016, compared with the previous quarter:

- Both our banking and insurance franchises in our core markets and core activities continued to perform well.
- Lending to our clients was up by 0.4%, with volumes going up in almost all countries. Deposits from our customers fell by 2%, as increased deposits in the Czech Republic, Slovakia and Bulgaria could not fully offset the decreases in Belgium (maturing term deposits), Ireland and Hungary.
- Net interest income – our main source of income – was only marginally lower (less than 1%), thanks to support from lower funding costs, increased investments and credit volume growth. Our average net interest margin stood at 1.90% in the third quarter, down 4 basis points quarter-on-quarter.
- The premium income we earned on our non-life insurance products increased by 2%, while claims fell by 7%. Consequently, the non-life combined ratio for the first nine months of the year ended up at a good 94%. However, following a strong second quarter, sales of life insurance products declined by 20%.
- Our total assets under management stood at 209 billion euros, slightly up (+1%) on the level of the previous quarter, thanks to a positive price performance. Our net fee and commission income went up again, rising by 2% mainly on account of higher management fees.

- Our operating expenses were down 1% on the previous quarter, due to lower bank taxes in the third quarter. The resulting cost/income ratio for the first nine months of the year stood at 57%.
- The cost of credit in the first nine months of the year amounted to an excellent, but still unsustainably low 0.07% of our loan portfolio.
- Our liquidity position remained solid, and our capital base – with a common equity ratio of 15.1% (phased-in, Danish compromise) – remained well above the regulators' target of 10.25% for 2016.

Johan Thijs, our group CEO, adds:

'The persisting uncertainty on the financial markets together with the continuing low level of interest rates represent an increasingly unusual challenge for all financial institutions. In these uncommon circumstances, we continue to be the bank-insurer that puts its clients centre stage. They are continuing to entrust their deposits to us and count on us to help them realise and protect their projects. This quarter, lending increased again, as did the premium income earned in our non-life insurance business. We are grateful for the confidence our clients place in us and this yet again illustrates the success of our bank-insurance model.

The third quarter was characterised by an attractive level of net interest income and net fee and commission income, stable operating expenses and the continuing low cost of credit. We continue to invest in the future and are pro-actively rolling out our digitisation plans further in order to serve clients even better, while also keeping an eye on our cost/income ratio. Overall, we managed to generate a strong result of 629 million euros in this quarter.

Besides this performance, the already solid solvency and liquidity positions of our group strengthened further during the quarter, and our capital position allows us, as announced earlier, to pay an interim dividend of 1 euro per share on 18 November 2016 for the current financial year. This forms part of our new dividend policy for KBC Group, in which we will – barring exceptional or unforeseen circumstances – pay an interim dividend of 1 euro in November of each accounting year, as well as a final dividend after the Annual Meeting of Shareholders. This a reassuring signal to all the stakeholders that have put their trust in us.'

Overview KBC Group (consolidated)	3Q2015	2Q2016	3Q2016	9M2015	9M2016
Net result, IFRS (in millions of EUR)	600	721	629	1 776	1 742
Basic earnings per share, IFRS (in EUR)*	1.41	1.69	1.47	4.16	4.07
Breakdown of the net result, IFRS, by business unit (in millions of EUR)					
Belgium	358	371	414	1 216	993
Czech Republic	153	191	145	423	465
International Markets	92	123	106	184	289
Group Centre	-2	37	-36	-47	-5
Parent shareholders' equity per share (in EUR, end of period)	33.6	35.5	36.2	33.6	36.2

* Note: If a coupon were paid on the core-capital securities sold to the Flemish Regional Government (in 2015) 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 had to be paid on the core-capital securities (in 2015), it will likewise be deducted.

The core of our strategy

- Our core strategy remains focused on providing bank-insurance products and services to retail, SME and mid-cap clients in Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria.
- Established in a number of different countries, we are a group of some 36 000 talented individuals who work together and share a common culture. Our culture is paramount to building our strategy, which consists of four interacting cornerstones:
  - We strive to offer our clients a unique bank-insurance experience.
  - We develop our group with a long-term perspective in order to achieve sustainable and profitable growth.
  - We put our clients' interests at the heart of what we do and strive to offer them high quality service and relevant solutions at all times.

- We take our responsibility towards society and local economies very seriously and aim to reflect that in our everyday activities.

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

Highlights in the quarter under review

- In September, we revamped our group-wide sustainability framework by setting clear and more refined guiding principles for sustainability themes. In redefining our strategy towards sustainability, we are clearly communicating how we deal with a number of social and sustainability themes. This extended policy is embedded in our business strategy, since we seek at all times to achieve the right balance between business objectives and sustainability targets. We mainly use guiding principles and codes of conduct when it comes to the environment, human rights, company values and other socially sensitive issues: we have renewed the KBC Energy Policy, renewed and tightened our Credit Risk Standards on Sustainable & Responsible Lending Policies and drawn up a new KBC Policy on Controversial Regimes and KBC Human Rights Policy.

- We are continuing to pro-actively roll-out our financial technology plans so we can serve our clients even better going forward.

  In September, we entered into a new digital partnership in Ireland with MyHome.ie to allow house hunters to take a virtual tour of properties that are up for sale. This is the first time a bank has given prospective buyers in the Irish property market the chance to 'view' a house up close from their personal device.

  Also in September, we launched KBC K'Ching in Belgium, a free smartphone app made specifically for young people that lets them carry out financial transactions, while combining a high fun factor and attractive new look. It helps young people aged between 12 and 25 to become more financially literate and confident in managing their banking business. We are the first bank in Belgium and Europe to develop and launch an app especially for teenagers and young adults.
  In the same month, we also enabled clients in Slovakia to log in to their ČSOB SmartBanking app with their fingerprint thanks to the Touch ID function, a modern, very convenient and safe way for users to identify themselves. Biometric signatures and contactless payment options have also been substantially expanded in the Czech Republic through ATMs and stickers.
  Again in September, we launched KBC DriveSafe in Belgium, an app that monitors the driving style of young drivers who have just obtained their driving licence. In doing so, KBC also aims to contribute towards prevention in the broad sense of the word.
  In October, KBC Securities launched KBC Match'it, a digital platform where buyers and companies that are looking to be taken over can meet each other. We are the first financial institution in Europe to offer such a platform, which allows us to provide guidance and solutions in every phase of these companies' life cycle.

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.

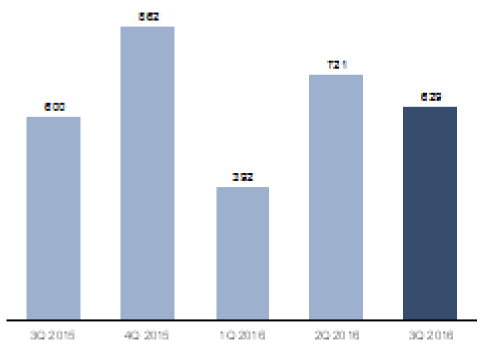
Consolidated income statement, IFRS KBC Group (in millions of EUR)	3Q 2015	4Q 2015	1Q 2016	2Q2016	3Q2016	9M2015	9M2016
Net interest income	1 062	1 066	1 067	1 070	1 064	3 245	3 201
Interest income	1 770	1 725	1 720	1 654	1 673	5 425	5 048
Interest expense	-708	-659	-653	-585	-609	-2 179	-1 847
Non-life insurance (before reinsurance)	142	147	145	141	164	464	450
Earned premiums	*335*	*338*	*341*	*349*	*357*	*951*	*1 047*
Technical charges	*-193*	*-191*	*-196*	*-208*	*-193*	*-517*	*-597*
Life insurance (before reinsurance)	-51	-51	-35	-38	-34	-150	-107
Earned premiums	*289*	*445*	*426*	*402*	*336*	*856*	*1 163*
Technical charges	*-340*	*-496*	*-461*	*-440*	*-370*	*-1 006*	*-1 271*
Ceded reinsurance result	0	-10	-8	-13	-1	-18	-23
Dividend income	13	12	10	36	12	64	58
Net result from financial instruments at fair value through P&L	47	-68	93	154	69	282	317
Net realised result from available-for-sale assets	44	30	27	128	26	160	181
Net fee and commission income	383	371	346	360	368	1 307	1 074
Fee and commission income	547	533	507	517	525	1 814	1 549
Fee and commission expense	-164	-162	-161	-157	-157	-507	-475
Other net income	96	47	51	47	59	250	157
Total income	1 736	1 543	1 697	1 885	1 727	5 604	5 308
Operating expenses	-862	-962	-1 186	-904	-895	-2 928	-2 985
Impairment	-49	-472	-28	-71	-28	-275	-127
on loans and receivables	-34	-78	-4	-50	-18	-245	-71
on available-for-sale assets	-15	-21	-24	-20	-7	-24	-51
on goodwill	0	-344	0	0	0	0	0
other	0	-29	-1	-1	-3	-6	-5
Share in results of associated companies and joint ventures	6	5	7	6	9	20	22
Result before tax	831	114	489	916	814	2 421	2 218
Income tax expense	-231	749	-97	-194	-184	-644	-476
Net post-tax result from discontinued operations	0	0	0	0	0	0	0
Result after tax	600	863	392	721	629	1 776	1 742
attributable to minority interests	0	0	0	0	0	0	0
attributable to equity holders of the parent	**600**	**862**	**392**	**721**	**629**	**1 776**	**1 742**
Basic earnings per share (EUR)*	1.41	-0.36	0.91	1.69	1.47	4.16	4.07
Diluted earnings per share (EUR)*	1.41	-0.36	0.91	1.69	1.47	4.16	4.07

* Note: If a coupon were paid on the core-capital securities sold to the Flemish Regional Government (in 2015) 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 had to be paid on the core-capital securities (in 2015), it will likewise be deducted.

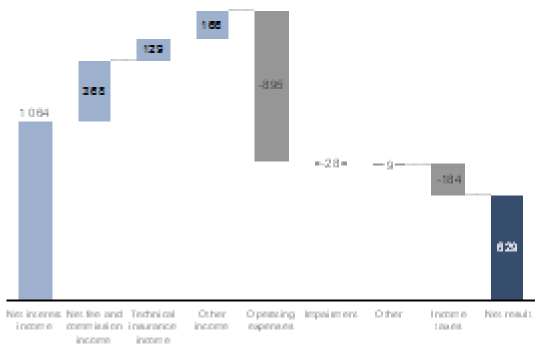
Key consolidated balance sheet figures KBC Group (in millions of EUR)	30-09-2015	31-12-2015	31-03-2016	30-06-2016	30-09-2016
Total assets	257 632	252 356	261 551	265 681	266 016
Loans and advances to customers	126 971	128 223	129 703	131 383	131 973
Securities (equity and debt instruments)	71 115	72 623	72 860	73 494	72 774
Deposits from customers and debt certificates	171 412	170 109	173 646	175 870	170 425
Technical provisions, before reinsurance	19 365	19 532	19 619	19 724	19 745
Liabilities under investment contracts, insurance	12 422	12 387	12 508	12 427	12 506
Parent shareholders' equity	14 022	14 411	14 335	14 834	15 135
Non-voting core-capital securities	2 000	0	0	0	0

Analysis of the quarter (3Q2016)

Net result (in millions of EUR)



Breakdown of net result for 3Q2016 (in millions of EUR)



The net result for the quarter under review amounted to 629 million euros, compared to 721 million euros quarter-on-quarter and 600 million euros year-on-year.

Total income down 8% quarter-on-quarter, as the previous quarter included a one-off gain on the sale of Visa Europe shares. Excluding this gain, total income fell by just 3%.

- Our net interest income in the quarter under review (1 064 million euros) was only marginally down on the level recorded in the previous quarter (less than 1%) and the year-earlier quarter (0%), as the impact of low interest rates is weighing on the reinvestment yields of the investment book. In addition, the increased margin pressure on lending activities, together with the funding losses on previous prepayments on mortgage loans, have exerted pressure on net interest income. The impact of these items was almost entirely offset by lower funding costs, increased volumes in the investment book and credit volume growth (see below). As a result, our net interest margin came to 1.90% for the quarter under review, 4 basis points down on the level of the previous quarter, and 9 basis points lower than the level of the year-earlier quarter. As mentioned, interest income continued to be supported by credit volume growth: our total lending volume went up both quarter-on-quarter (by 0.4%) and year-on-year (by almost 4%). The volume of deposits, on the other hand, fell by 2% quarter-on-quarter (due in part to maturing debt certificates and a further reduction in retail term deposits), but was up 3% year-on-year.
- Technical income from our non-life and life insurance activities (gross earned premiums less gross technical charges and the ceded reinsurance result, which came to 129 million euros) was up 43% on its quarter-earlier level and 42% on its year-earlier level.

  Non-life insurance activities contributed 163 million euros to technical insurance income, up 27% on the previous quarter and 15% on the year-earlier quarter. For the group as a whole, the earned premiums from non-life insurance activities rose by 2% quarter-on-quarter and 7% year-on-year, while non-life insurance claims were lower quarter-on-quarter (-7%) but in line with the year-earlier figure. As a result, our combined ratio amounted to 94% for the first nine months of the year.

  Life insurance activities contributed -34 million euros to technical insurance income, compared to -38 million euros the previous quarter and -51 million euros in the year-earlier quarter. Following a relatively strong second quarter, sales of our life insurance products (both interest-guaranteed and unit-linked) fell by 20%. However, life insurance sales were up year-on-year (+17%), thanks mainly to increased sales of interest-guaranteed products.

  During the third quarter of 2016, investment income derived from insurance activities was down 10% on its level of the previous quarter, and down 4% on the year-earlier quarter. The quarter-on-quarter deterioration was driven primarily by seasonally lower dividend income (the bulk of dividends is received in the second quarter), as well as by lower realised gains on shares. The year-on-year decline was due chiefly to the lower net result from financial instruments at fair value and the lower net realised result from available-for-sale assets.
- In the quarter under review, persisting market uncertainty continues to create hesitancy among investors. Even in such a climate, our total assets under management increased slightly quarter-on-quarter (+1% to 209 billion euros), driven mainly by a positive price performance. Our total assets under management were up 4% year-on-year, again thanks primarily to a positive price performance, coupled with a small volume increase. Asset management services are one of the main contributors to our net fee and commission income, which continued to improve (up 2% quarter-on-quarter to 368 million euros), owing to a pick-up in management fees resulting from the increase in assets under management and to a less risk-averse asset allocation. However, net fee and commission income was still down 4% year-on-year, due to the lower level of management fees.
- The net result from financial instruments at fair value stood at 69 million euros in the third quarter of 2016, compared to 154 million euros in the previous quarter and 47 million euros in the year-earlier quarter. The quarter-on-quarter decrease was due mainly to changes in our valuation adjustment models (CVA/MVA/FVA).
- All other income items amounted to an aggregate 97 million euros, 114 million euros less than in the previous quarter and 56 million euros less than in the year-earlier quarter. It should be noted that the

previous quarter had benefitted from 99 million euros (pre-tax) in gains resulting from the sale of Visa Europe shares and from seasonally high dividend income.

Operating expenses down 1% quarter-on-quarter, but up 4% year-on-year

- Our operating expenses amounted to 895 million euros in the quarter under review, which is marginally lower than the previous quarter. It includes offsetting items such as lower bank taxes, lower ICT expenses, higher professional fees and timing differences. Year-on-year, costs went up 4% as a result of a number of elements, including higher IT expenses, professional fees and general administrative expenses (partly to timing differences), despite lower staff expenses. As a result, the cost/income ratio of our banking activities stood at 57% in the first nine months of the year, compared to 55% for 2015 as a whole.

Loan impairment charges: continuing very low credit cost ratio of 0.07% year-to-date

- Loan loss impairment charges stood at an extremely low 18 million euros in the quarter under review, a further improvement on the 50 million euros recorded in the previous quarter and on the 34 million euros recorded a year earlier. Broken down by country, loan loss impairment in the third quarter of 2016 came to 33 million euros in Belgium (including KBC Bank's limited branch network abroad), 2 million euros in the Czech Republic, 1 million euros in Slovakia, 1 million euros in Bulgaria, 20 million euros in the Group Centre. This was offset by a net release (with a positive impact) in both Hungary (11 million euros) and Ireland (28 million euros). For the entire group, loan loss impairment in the first nine months of 2016 accounted for a very low 0.07% the total loan portfolio. At the end of September 2016, some 7.6% of our loan book was classified as impaired (4.2% was impaired and more than 90 days past due); in both cases, this is a gradual improvement on the situation at the beginning of the year (8.6% and 4.8%, respectively).
- Impairment on assets other than loans stood at 10 million euros, an improvement on the quarter-earlier figure of 21 million euros and the year-earlier figure of 15 million euros. For the third quarter of 2016, it primarily related to shares in the insurance investment portfolio.

Results per business unit

- Our quarterly profit of 629 million euros breaks down into 414 million euros for the Belgium Business Unit, 145 million euros for the Czech Republic Business Unit, 106 million euros for the International Markets Business Unit and -36 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 September 2016, our total equity (including our additional tier-1 issues) stood at 16.5 billion euros, up 0.7 billion euros on its level at the beginning of the year. The change during the first nine months of 2016 resulted from the inclusion of the profit for that period (+1.7 billion euros), changes in the valuation of cash flow and available-for-sale reserves (-0.2 billion euros), the decision to pay an interim dividend (-0.4 billion euros) and remeasurements of defined benefit plans (-0.3 billion euros).
- Our solvency ratios continue to comfortably exceed the regulators' joint solvency targets for 2016 (a minimum of 10.25%, Basel III, phased-in under the Danish compromise). At 30 September 2016, our common equity ratio (Basel III, under the Danish compromise) stood at a strong 15.1% (phased-in) or 15.3% (fully loaded), while our leverage ratio (Basel III, fully loaded) came to 6.2%. Although impacted by a cap imposed by the Belgian regulator, the solvency ratio for KBC Insurance under the new Solvency II framework was a sound 170% at 30 September 2016 (and 198% without this cap).
- Our liquidity position remained at an excellent level, as reflected in an LCR ratio of 137% and an NSFR ratio of 123% at the end of September 2016.

Analysis of the year-to-date period (9M2016)

Our aggregate result for the first nine months of the year now stands at 1 742 million euros, compared to 1 776 million euros a year earlier.

Compared to the first nine months of 2015, the result for the first nine months of 2016 was characterised by:

- Slightly lower net interest income (-1% to 3 201 million euros), due primarily to the current low interest rate environment, the negative impact of losses on prepaid mortgages and lower level of dealing room interest income, but partly offset by lower funding costs and higher interest income from lending activities. The deposit volume increased (+3%), as did the lending volume (+4%). The net interest margin for the first nine months of 2016 amounted to 1.94%, down 11 basis points year-on-year.
- A higher contribution made by technical insurance results (gross earned premiums less gross technical charges and the ceded reinsurance result: +8% to 320 million euros), due to higher earned premiums both in the life and non-life segments though somewhat mitigated by higher claims levels. In non-life insurance, the resulting year-to-date combined ratio stood at 94%. In life insurance, sales were up by almost 27%, thanks to both interest-guaranteed and unit-linked products.
- Lower net fee and commission income (-18% to 1 074 million euros), due to substantially lower entry charges on investment products, lower management fees (driven by the asset mix) and lower securities-related fees. At the end of September 2016, total assets under management stood at 209 billion euros, a 4% year-on-year increase resulting from a 1% net inflow and a 3% average price increase.
- Higher net result from financial instruments at fair value (+12% to 317 million euros), thanks to a substantially higher level of dealing room income, improved value adjustments (CVA, MVA, FVA) and despite a lower valuation of ALM derivative instruments.
- A decrease in all other income items (-16% to an aggregate 396 million euros). This includes higher net realised gains from available-for-sale assets (+13% to 181 million euros, thanks to a gain on the sale of Visa Europe shares in the second quarter), somewhat lower dividend income (-8% to 58 million euros) and lower other net income (-37% to 157 million euros), since the first nine months of 2015 has benefitted from a number of positive one-off items.
- Slightly higher operating expenses (+2% to 2 985 million euros), owing essentially to higher bank taxes (up 11%). Excluding these taxes, operating expenses were up just 1% on their year-earlier level. As a result, the year-to-date cost/income ratio came to 57%
- Significantly lower loan loss impairment charges (-71% to 71 million euros). As a result, the credit cost ratio for the whole group remained at an excellent but unsustainable 0.07%.

Selected ratios for the KBC group (consolidated)	FY2015	9M2016
Profitability and efficiency		
Return on equity	22%	18%
Cost/income ratio, banking	55%	57%
Combined ratio, non-life insurance	91%	94%
Solvency		
Common equity ratio according to Basel III Danish Compromise method (phased-in)	15.2%	15.1%
Common equity ratio according to Basel III Danish Compromise method (fully loaded)	14.9%	15.3%
Common equity ratio according to FICOD method (fully loaded)	14.0%	13.6%
Leverage ratio according to Basel III (fully loaded)	6.3%	6.2%
Credit risk		
Credit cost ratio	0.23%	0.07%
Impaired loans ratio	8.6%	7.6%
for loans more than 90 days overdue	4.8%	4.2%
Liquidity		
Net stable funding ratio (NSFR)	121%	123%
Liquidity coverage ratio (LCR)	127%	137%

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, market risk, liquidity and funding risk, insurance underwriting risk, changes in regulations, operational risk, customer litigation, competition from other and new players, as well as the economy in general. Although we closely monitor and manage each of these risks within a strict risk framework containing governance and limits, they may all have a negative impact on asset values or could generate additional charges beyond anticipated levels.
- At present, a number of items are considered to constitute the main challenges for the financial sector in general and, as a consequence, are also relevant to us. Regulatory uncertainty regarding capital requirements is a dominant theme for the sector. Other major current regulatory initiatives relate to capital charges for credit risk, operational risk, trading risk, ALM risk and enhanced consumer protection. Another continuous challenge remains the low interest rate environment. If low rates were to persist, this would put considerable pressure on the long-term profitability of banks and especially insurers. The financial sector also faces the potential systemic consequences of political and financial developments like Brexit or concerns about the banking sector in some countries. The risk radar screens 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.
- On the macroeconomic front, economic growth in the third quarter was favourable. At 0.3%, growth in the euro area was stable quarter-on quarter. This moderate growth rate, which is broadly in line with the euro area's potential rate, was based on a combination of higher private consumption and slightly improving investment growth. However, the euro area unemployment rate stabilised at 10.1% in the third quarter after falling for several quarters, highlighting again the ongoing need for structural reforms. Somewhat surprisingly given the Brexit decision, third-quarter growth was quite solid in the UK (0.5%). The British export sector has benefitted from the substantial depreciation of the pound, while consumer spending is also growing rapidly. The uncertainty about the upcoming Brexit negotiations has clearly not weighed on economic sentiment so far. In the US, growth was significantly stronger in the third quarter than in Europe. Quarterly growth accelerated to 0.7% (not annualised), driven mainly by higher private consumption and, to a lesser extent, by increased net exports. Consumption growth continued to be supported by the solid increase in net employment and slowly-but-steadily rising wage growth, which more than offset the relatively high US household savings rate. In the third quarter, headline inflation edged up, mainly as a result of rising year-on-year comparison of energy prices. In the euro area, it rose from 0.1% in July to 0.4% in September, while underlying core inflation (excluding energy and food) remained broadly stable at just below 1%. This rate is still only half of the inflation target set by the European Central Bank (2%). The underlying reasons for that include the still high unemployment rate, subdued nominal wage growth and negative import price inflation. In the US, where inflation has already reached more 'normal' levels, headline inflation in the third quarter also picked up, rising from 0.9% in July to 1.5% in September. Underlying core inflation was broadly stable at approximately 2.2%. Unlike the euro area, this is in line with the Fed's inflation target.
- Risk management data is provided in our annual reports, extended quarterly reports and dedicated risk reports, all of which are available at www.kbc.com.

Views and guidance

- Our view on interest rates and foreign exchange rates: In the US, the unemployment rate of 4.9% is close to a level consistent with full employment, while inflation is in line with the Fed's target. Hence, the Fed is close to achieving its dual objective of price stability and maximum sustainable employment. Therefore, we are working on the assumption that the Fed will take another step towards normalising its policy rate by raising its target range by 25 basis points in December 2016. In 2017, we expect two more rate hikes of 25 basis points each. In the meantime, after its December policy meeting, the ECB is likely to give some guidance about the form its QE programme will take after March 2017. The details are still highly uncertain, but given the low level of euro area inflation, we expect the programme to be extended and some form of 'tapering' to occur in the course of 2017, before the programme is ended sometime in 2018. In line with the ECB's communication, its deposit rate will probably only be raised for the first time well after the end of its QE programme, i.e. probably in 2019. The expected further economic expansion, particularly in the US, together with the anticipated rate hikes by the Fed in 2016 and 2017, should lead to a modest rise in US bond yields. This will also pull up German rates to some extent given the global integration of the main bond markets. The expected divergence of policy between the Fed and the ECB will probably cause the euro to weaken moderately against the US dollar in the course of 2017, as well. At present, it is still too early to assess the extent of the macroeconomic impact of the US elections, although there has been a recent increase in interest rates.

- Our view on economic growth: In line with reassuring third-quarter growth, we expect sustained economic growth in both the euro area and the US for the rest of 2016 and in 2017. The fundamental reasons are the resilience of domestic demand, in particular private consumption, somewhat accommodating fiscal policy, and resuming investment growth, especially in the US. In addition, international trade is expected to contribute modestly to economic growth. As a result, we expect the dynamic of economic growth in the euro area and the US to strengthen gradually in the remainder of 2016 and in 2017. However, the robust first-quarter growth in the euro area in 2016 will not be repeated in 2017, implying that the average growth rate in 2017 will be slightly lower than in 2016. We remain cautiously positive about growth in Belgium, although the figures for 2016 and 2017 are likely to remain below euro area levels, given the continuing fiscal austerity. In Central Europe, average real GDP growth is expected to ease for the whole of 2016, as the impulse provided by European cohesion funds for government investment has been dissipating. In 2017, we expect growth to pick up again throughout the region.
- Our guidance on KBC's results: The updated guidance for Irish loan impairment charges is for a release of 10-50 million euros for the full year.

Details of the ratios and terms used are provided at the end of the quarterly report.

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