Press Release

Outside trading hours - Regulated information*

Brussels, 22 February 2018 (07.00 a.m. CET)

KBC Group: Solid fourth-quarter result of 399 million euros brings full-year profit to an excellent 2.6 billion euros.

Against the background of sustained economic expansion, only moderately rising inflation, a stronger euro and continuing low interest rates, KBC posted a net profit of 399 million euros in the fourth quarter of 2017. The quarter under review was impacted by a one-off, upfront negative effect of 211 million euros due to the Belgian corporate tax reform. Excluding this one-off item, the net result amounted to 610 million euros for the fourth quarter of 2017. Our core businesses performed well once again, with costs remaining under control and asset quality remaining strong as demonstrated by a loan loss provisions release. Adding the fourth-quarter result to the results for the first three quarters of the year brought the net result to 2 575 million euros for the full year, up 6% on the 2 427 million euros recorded for full year 2016. Our liquidity position remained robust, while our solid solvency position is reflected in a common equity ratio (fully-loaded) of 16.3% at year-end 2017.

Financial highlights for the fourth quarter of 2017

- Both our banking and insurance franchises in our core markets continued to perform well and the recently acquired Bulgarian companies, UBB and Interlease, also contributed 13 million euros to the net result.
- Lending to our clients went up 1% quarter-on-quarter and 5% year-on-year, with year-on-year increases in all business units. Deposits from our clients rose 2% quarter-on-quarter, and increased 8% year-on-year, with growth in all business units. Of the year-on-year volume growth, 1 percentage point (for lending) and 2 percentage points (for deposits) was attributable to the inclusion of UBB/Interlease in the figures.
- Excluding the dealing room effect, net interest income roughly stabilised quarter-on-quarter and increased by 1.5% year-on-year. The effect of the persistent low reinvestment yields and negative pressure on commercial loan margins was mitigated by good loan volume growth, lower funding costs, the positive impact of rate hikes in the Czech Republic and (year-on-year) the positive effect of the consolidation of UBB/Interlease.

- In our non-life insurance activities, higher premium income was offset by increased technical charges (the third quarter had included significant releases) and a decline in the reinsurance result quarter-on-quarter. For full-year 2017 technical income from our non-life insurance activities ended 12% up on the previous year leading to a very strong non-life combined ratio for full-year 2017 of 88%. Sales of our life insurance products increased 45% quarter-on-quarter, and were up 13% on the last quarter of 2016.
- Our net fee and commission income remained strong, increasing year-on-year by 14%, thanks mainly to our asset management activities, higher securities-related fees and the inclusion of UBB/Interlease in the figures. It was up 5% on the seasonally lower figure for the third quarter.
- All other income items combined were up 13% quarter-on-quarter, but down 20% year-on-year. This was largely accounted for in both cases by variations in the level of trading and fair value income and by an additional provision of 61.5 million euros related to the industry wide review of tracker rate mortgages originated in Ireland before 2009.
- Our cost/income ratio for full year 2017 improved to a very good 54% (from 55% in 2016). In 4Q2017, our operating expenses (excluding bank taxes) were seasonally up 9% quarter-on-quarter and 5% year-on-year.
- The quarter benefited from a 30-million-euro release of loan loss provisions, thanks mainly to a 52 million euro release in Ireland (resulting in a 215 million euros release in full-year 2017). Consequently, our cost of credit for full year 2017 amounted to a very favourable -0.06% (a negative figure indicates a positive impact on the results).
- The net result was adversely impacted by the one-off, upfront negative effect of 211 million euros due to the Belgian corporate income tax reform. Going forward, however, this will have a recurring positive impact on income taxes of the Belgian entities.
- Our liquidity position remained strong, as did our capital base, with a common equity ratio of 16.3% (fully loaded, Danish compromise).

Dividend and share buy-back

- We will propose to the General Meeting of Shareholders in May the total (gross) dividend for 2017 be set at 3 euros per share, meaning that – following payment of the interim dividend of 1 euro per share in November 2017 – the final gross dividend to be paid in May will be 2 euros per share. We will also propose buying back 2.7 million shares to offset shareholder dilution caused by the capital increases for staff. This results in a pay-out ratio of 59%.

Johan Thijs, our group CEO, comments:

'We booked a net profit of 399 million euros in the fourth quarter. This result was impacted by the one-off negative effect of 211 million euros due to the Belgian corporate tax reform (which will have a recurring positive impact on income taxes for the Belgian entities going forward) . Excluding this one-off item, our net result amounted to a good 610 million euros. It was supported by a pick-up in fee and commission income, a strong level of income generated by the dealing room and an impairment release, but also included a typical end-of-year hike in costs.

Combined with the 630 million euros recorded in the first quarter, the exceptionally strong 855 million euros in the second quarter and the 691 million euros in the third quarter, this brings our net result for full year 2017 to an excellent 2 575 million euros, up 6% on the figure for 2016.

On the regulatory front, there was a more benign outcome to the Basel IV discussions. We estimate the impact of Basel IV on KBC to be roughly 8 billion euros in additional risk weighted assets on a fully loaded basis as at year-end 2017, which corresponds to a risk weighted assets inflation of 9% and an impact of -1.3% on the common equity ratio. This figure is based on our current interpretation of Basel IV, a static balance sheet and the current economic environment. It also does not take into account possible management actions. For our capital deployment plan, the 1% Basel IV buffer relative to our peer group is no longer required. Taking into account the updated median common equity ratio of our 12 peers, our 'own capital target' and 'reference capital position' have been lowered to 14% and 16%, respectively. Regarding IFRS9, we expect a negative impact of its first-time application on our fully loaded common equity ratio of approximately 41 basis points.

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Our success is based on the trust that our clients continue to place in our company. I'd like to explicitly thank all our clients for that trust and to assure them that we are more focused than ever in our efforts to become the reference in bank-insurance in all our core countries. In the years ahead, we will build on the momentum of previous years, thanks to our successful client-centric bank-insurance model, underpinned by our very solid liquidity position and strong capital base and supported by our 42 000-strong workforce worldwide.'

Overview KBC Group (consolidated, IFRS)	4Q2017	3Q2017	4Q2016	FY2017	FY2016
Net result (in millions of EUR)	399	691	685	2 575	2 427
Basic earnings per share (in EUR)	0.92	1.62	1.61	6.03	5.68
Breakdown of the net result by business unit (in millions of EUR)					
Belgium	336	455	439	1 575	1 432
Czech Republic	167	170	131	702	596
International Markets	74	78	139	444	428
Group Centre	-179	-12	-24	-146	-29
Parent shareholders' equity per share (in EUR, end of period)	41.6	40.6	38.1	41.6	38.1

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 our core countries of Belgium, Bulgaria, the Czech Republic, Hungary, Ireland and Slovakia.

Our strategy consists of four interacting cornerstones:

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

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)	4Q2017	3Q2017	2Q2017	1Q2017	4Q2016	FY 2017	FY 2016
Net interest income	1 029	1 039	1 028	1 025	1 057	4 121	4 258
Non-life insurance (before reinsurance)	152	188	179	187	178	706	628
Earned premiums	*384*	*378*	*369*	*360*	*363*	*1 491*	*1 410*
Technical charges	*-232*	*-190*	*-190*	*-173*	*-185*	*-785*	*-782*
Life insurance (before reinsurance)	-3	-3	-24	-28	-44	-58	-152
Earned premiums	*410*	*282*	*267*	*312*	*413*	*1 271*	*1 577*
Technical charges	*-414*	*-284*	*-291*	*-341*	*-457*	*-1 330*	*-1 728*
Ceded reinsurance result	-10	16	-10	-4	-15	-8	-38
Dividend income	8	11	30	15	19	63	77
Net result from financial instruments at fair value through P&L	235	182	249	191	224	856	540
Net realised result from available-for-sale assets	51	51	52	45	8	199	189
Net fee and commission income	430	408	430	439	376	1 707	1 450
Other net income	-14	4	47	77	101	114	258
Total income	1 878	1 896	1 980	1 946	1 903	7 700	7 211
Operating expenses	-1 021	-914	-910	-1 229	-963	-4 074	-3 948
Impairment	-2	-31	71	-8	-73	30	-201
on loans and receivables	30	-15	78	-6	-54	87	-126
on available-for-sale assets	-3	-6	-2	-1	-4	-12	-55
on goodwill	0	0	0	0	0	0	0
other	-29	-11	-5	0	-15	-45	-20
Share in results of associated companies and joint ventures	-5	8	3	5	5	11	27
Result before tax	850	959	1 144	715	871	3 667	3 090
Income tax expense	-451	-268	-288	-85	-186	- 1 093	-662
Net post-tax result from discontinued operations	0	0	0	0	0	0	0
Result after tax	398	691	855	630	685	2 575	2 428
attributable to minority interests	0	0	0	0	0	0	0
attributable to equity holders of the parent	**399**	**691**	**855**	**630**	**685**	**2 575**	**2 427**
Basic earnings per share (EUR)	0.92	1.62	2.01	1.47	1.61	6.03	5.68
Diluted earnings per share (EUR)	0.92	1.62	2.01	1.47	1.61	6.03	5.68

Key consolidated balance sheet figures KBC Group (in millions of EUR)	31-12-2017	30-09-2017	30-06-2017	31-03-2017	31-12-2016
Total assets	292 342	296 885	296 479	287 293	275 200
Loans and advances to customers	141 502	140 466	139 350	135 304	133 231
Securities (equity and debt instruments)	67 743	69 273	70 898	72 329	73 262
Deposits from customers and debt certificates	193 968	190 824	189 938	181 722	177 730
Technical provisions, before reinsurance	18 641	18 696	18 905	19 234	19 657
Liabilities under investment contracts, insurance	13 552	13 294	13 339	13 128	12 653
Parent shareholders' equity	17 403	17 003	16 665	16 506	15 957

Selected ratios for the KBC group (consolidated)	FY2017	FY2016
Profitability and efficiency		
Return on equity	17%*	18%
Cost/income ratio, banking (when excluding certain non-operating items)	54% (55%)	55% (57%)
Combined ratio, non-life insurance	88%	93%
Solvency		
Common equity ratio according to Basel III Danish Compromise method (phased-in/fully loaded)	16.5%/16.3%	16.2%/15.8%
Common equity ratio according to FICOD method (fully loaded)	15.1%	14.5%
Leverage ratio according to Basel III (fully loaded)	6.1%	6.1%
Credit risk		
Credit cost ratio**	-0.06%	0.09%
Impaired loans ratio	6.0%	7.2%
for loans more than 90 days overdue	3.4%	3.9%
Liquidity		
Net stable funding ratio (NSFR)	134%	125%
Liquidity coverage ratio (LCR)	139%	139%

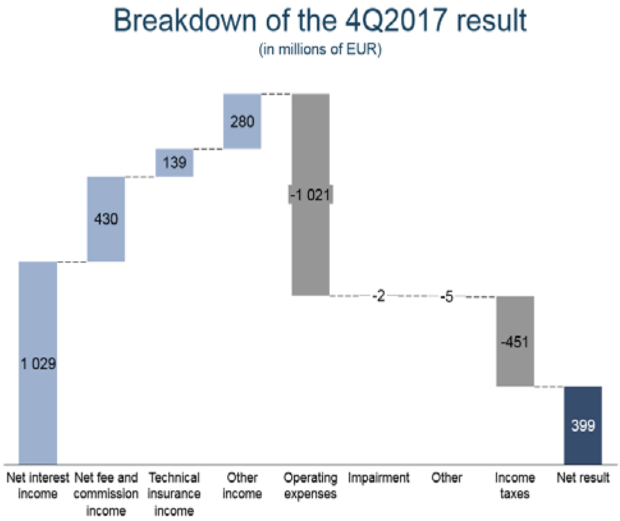
* 18% excluding the one-off, upfront negative effect of 211m euros due to the Belgian corporate income tax reform.
** Negative figure indicates a net impairment release (with positive impact on the results).

Analysis of the quarter (4Q2017)

The net result for the quarter amounted to 399 million euros, compared to 691 million euros in the previous quarter and 685 million euros in the corresponding quarter a year earlier.

Note: the results of the recently acquired UBB and Interlease entities in Bulgaria are included in the group's results for the second half of 2017 (net result of 13 million euros in 4Q2017). UBB and Interlease were included in the balance sheet as of 30 June 2017.

Our total income was in line with the figure for the previous quarter, as higher net fee and commission income and strong trading and fair value income were offset by a lower level of net interest income and a drop in technical insurance income (the third quarter had benefited from provision releases). Other net income was affected by an additional provision of 61.5 million euros being set aside for the tracker mortgage review in Ireland (compared to an additional provision of 54.4 million euros in the third quarter).



Net interest income amounted to 1 029 million euros in the quarter under review. Excluding the dealing room effect, net interest income roughly stabilised quarter-on-quarter and increased by 1.5% year-on-year. The effect of the persistent low reinvestment yields and negative pressure on commercial loan margins was mitigated by good loan volume growth, lower funding costs, the positive impact of rate hikes in the Czech Republic and (year-on-year) the positive effect of the consolidation of UBB/Interlease. Our net interest margin came to 1.83% for the quarter under review, i.e. stable quarter-on-quarter but down 7 basis points on the year-earlier figure. Excluding the dealing room effect, our net interest margin amounted to 1.99% in 4Q2017. As already mentioned, interest income continued to be supported by loan volume growth: our total volume of lending rose by 1% quarter-on-quarter and by 5% year-on-year, with growth in all business units. Deposits went up 2% quarter-on-quarter and 8% year-on-year, with increases in all business units. Excluding UBB/Interlease, the year-on-year organic growth of loans would have been 4% and the year-on-year growth of deposits some 7%.

Technical income from our non-life and life insurance activities (earned premiums less technical charges, plus the ceded reinsurance result) stood at 139 million euros in the quarter under review. Non-life insurance activities contributed 142 million euros to this technical insurance income figure, 31% less than in the previous quarter, since that quarter had included a one-off release of non-life provisions in Belgium totalling 26 million euros. The non-life insurance technical result was down 12% year-on-year, with the increased levels of non-life premium income in almost all core countries being offset by higher technical provisions and a lower reinsurance result. Our combined ratio for full year 2017 came to an exceptionally good 88%, compared to 93% for full year 2016. Technical insurance income from our life insurance activities stood at -3 million euros, unchanged on its level of the previous quarter (which had benefited from a 23 million release of life provisions) and better than the -44 million euros posted in the year-earlier quarter. Sales of life insurance products were 45% higher than in the previous quarter, and were up 13% on the year-earlier quarter, with sales of both guaranteed interest products and unit-linked products increasing. As a result, the share of guaranteed interest products in total sales of life insurance products stood at 54% in the fourth quarter of 2017, with unit-linked products accounting for the remaining 46%.

At 430 million euros, net fee and commission income remained robust. Year-on-year, it was up 14%, thanks mainly to the contribution made by our asset management activities in Belgium, higher securities-related fees and, to a lesser extent, to higher payment service fees in a number of countries and the inclusion of UBB/Interlease in the figures (accounting for 11 million euros in the fourth quarter of 2017). Compared to the previous quarter, there was an increase of 5%, which was primarily attributable to entry fees in the asset management business and securities-related fees. Note that the previous quarter had been adversely impacted by the holiday season. At the end of December 2017, our total assets under management stood at 219 billion euros, up 1% quarter-on-quarter and 3% year-on-year, due in both cases mainly to the positive price performance.

All other income items amounted to an aggregate 280 million euros, compared to 248 million euros in the previous quarter and 352 million euros in the year-earlier quarter. The figure for the fourth quarter of 2017 included a relatively high 51 million euros in gains realised on the sale of available-for-sale securities (predominantly on shares), 8 million euros in dividend income and -14 million euros in other net income. The latter was impacted by the booking of an additional provision of 61.5 million related to the industry wide review of tracker rate mortgages originated in Ireland before 2009 (the previous quarter had also been affected to the amount of 54.4 million euros). It also included the 235-million-euro net result from financial instruments at fair value (trading and fair value income). This figure was up on the 224 million euros recorded in the year-earlier quarter and on the 182 million euros recorded in the previous quarter, in both cases mainly due to robust dealing room income.

Operating expenses up quarter-on-quarter

The cost/income ratio of our banking activities stood at a solid 54% for full year 2017, compared to 55% for full year 2016. When certain non-operating items are excluded (mark-to-market of derivatives used for asset/liability management purposes, the effect of liquidating group companies, etc.), our adjusted cost/income ratio for 2017 amounted to 55%, compared to 57% for 2016.

At 1 021 million euros, operating expenses in the fourth quarter were up 12% quarter-on-quarter and 6% year-on-year (disregarding UBB/Interlease, expenses were up by just 4% year-on-year). The increased level of costs quarter-on-quarter, partly caused by higher bank taxes, was also affected by the traditional year-end cost hike (in ICT costs, marketing expenses and professional fees) and by higher staff expenses. The year-on-year increase was – over and above the impact of UBB/Interlease (20 million euros in expenses in the fourth quarter of 2017) – due to higher bank taxes, higher ICT costs and marketing expenses, and higher depreciation and amortisation charges (due to the capitalisation of some projects).

Net release of loan loss impairments in the quarter under review

In the fourth quarter of 2017, there was a net impairment release of 30 million euros (which had a positive impact on the net result). This compares with a net addition of 15 million euros in the previous quarter and 54 million euros in the year-earlier quarter. The favourable level of impairment in the quarter under review was attributable to a 52-million-euro impairment release in Ireland (which came about mainly because of a IBNR model change, the positive movement in the 9-month average house price index and an improvement in the portfolio of non-performing loans). There were also some small net reversals of loan provisions in the Czech Republic and Hungary and a continuing low level of loan loss impairment charges in the other countries.

Consequently, the credit cost ratio for the entire group fell to a very low -0.06% for full year 2017 (a negative figure indicates a net retrieval and, hence, a positive impact on the results). Excluding KBC Bank Ireland, the credit cost ratio amounted to 0.09% for the full year 2017.

Loan quality improved further. At the end of December 2017, some 6.0% of our loan book was classified as impaired, with 3.4% being ‘impaired and more than 90 days past due’. This compares with 7.2% and 3.9%, respectively, at year-end 2016.

Impairment on assets other than loans stood at 32 million euros, compared to 17 million in the previous quarter and 19 million euros in the fourth quarter of 2016.

Taxes impacted by a negative one-off item related to a change in the Belgian corporate tax system.

Income taxes amounted to 451 million euros in the fourth quarter of 2017, much higher than in both reference quarters. This was due to the one-off, upfront booking of -211 million euros, caused by the reform of the Belgian corporate tax system as of 2018 (which, among other things, reduces the existing amount of deferred tax assets (impact of -243 million euros), though partly offset by the increase in dividend exemption (DBI) from 95% to 100% (impact +32 million euros)). Going forward, however, the one-off negative impact will be fully recuperated in roughly 3 years’ time given a recurring positive impact on income taxes of the Belgian entities.

Results per business unit (quarter-on-quarter)

Our quarterly profit of 399 million euros breaks down as follows:

- 336 million euros for the Belgium Business Unit. The net result was down 26% quarter-on-quarter, due to a decrease in net interest income, a lower level of technical insurance income (following the one-off releases of provisions in the previous quarter), the traditional year-end hike in costs and a one-off negative tax impact related to the reform of the corporate tax system. On the other hand, trading and fair value income went up, as did net fee and commission income. Sales of life insurance products were higher and loan loss impairment charges lower.
- 167 million euros for the Czech Republic Business Unit. The net result was down 2% on its level for the previous quarter. While net interest income and net fee and commission income were both up on their quarter-earlier levels, they were unable to offset seasonally higher costs. Loan loss impairments continued to be very low, though some impairment charges were recorded for ICT and for lease cars.
- 74 million euros for the International Markets Business Unit, 16 million euros of which was accounted for by Slovakia, 39 million euros by Hungary, 18 million euros by Bulgaria (including 13 million euros at UBB/Interlease) and 3 million euros by Ireland. For the business unit as a whole, this represented a quarter-on-quarter decrease of 4 million euros, which was primarily attributable to

Ireland as a result of the additional provision of 61.5 million euros set aside for an industry wide review of tracker rate mortgages originated in Ireland before 2009 (compared to the 54.4 million euros already provisioned in the third quarter of 2017).

- -179 million euros for the Group Centre. This is 166 million euros down on the level recorded in the previous quarter, due mainly to the effect of the reform of the corporate tax system in Belgium.

	Belgium		Czech Republic		International Markets	
Selected ratios per business unit	**FY2017**	**FY2016**	**FY2017**	**FY2016**	**FY2017**	**FY2016**
Cost/income ratio, banking excluding certain non-operating items	53%	55%	43%	46%	72%	66%
Combined ratio, non-life insurance	86%	92%	97%	96%	93%	94%
Credit cost ratio*	0.09%	0.12%	0.02%	0.11%	-0.74%	-0.16%
Impaired loans ratio	2.8%	3.3%	2.4%	2.8%	19.7%	25.4%

* Negative figure indicates a net impairment release (with a positive impact on the results).

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).

Strong fundamentals: equity, solvency and liquidity

At the end of December 2017, our total equity stood at 18.8 billion euros (17.4 billion euros in parent shareholders' equity and 1.4 billion euros in additional tier-1 instruments), up 1.4 billion euros on its level at the beginning of the year. The change during 2017 resulted from the inclusion of the profit for that period (+2.6 billion euros), the payment of the final dividend for 2016 in May and the decision to pay an interim dividend for 2017 in November (an aggregate -1.2 billion euros), changes in defined benefit obligations (+0.1 billion euros) and a number of minor items.

At 31 December 2017, our fully loaded common equity ratio (Basel III, under the Danish compromise) stood at a strong 16.3%. Our leverage ratio (Basel III, fully loaded) came to 6.1%. The solvency ratio for KBC Insurance under the Solvency II framework was a sound 212% at 31 December 2017.

Our liquidity position remained excellent too, as reflected in an LCR ratio of 139% and an NSFR ratio of 134% at the end of December 2017.

Analysis of the year-to-date period (FY2017)

The net result for 2017 amounted to 2 575 million euros, compared to 2 427 million euros for 2016.

Note: the result for the12 months of 2017 includes the net result of 27 million euros generated by the recently acquired UBB and Interlease entities in Bulgaria in the period July through December.

Highlights (compared to FY2016):

- Somewhat lower net interest income (-3% to 4 121 million euros), mainly due to the lower contribution of the dealing room (more than compensated by an increase in trading and fair value income) and insurance. Net interest income excluding dealing room effect and the contribution of UBB/Interlease stabilised. The volume of deposits increased by 8% and lending went up by 5%. Of this volume growth, about 1 percentage point (for lending) and 2 percentage points (for deposits) was attributable to the inclusion of UBB/Interlease in the figures for the second half of the year. The net interest margin came to 1.85% for 2017 as a whole, down on the 1.92% recorded for 2016.

- A higher contribution made by the technical insurance result (+46% to 640 million euros). This was due to the non-life insurance activities, where premium income and the reinsurance result both went up and technical charges remained stable (despite the one-off release of provisions in Belgium in the third quarter), and to the life insurance activities, which – among other things – also benefited from a release of provisions in Belgium. The non-life combined ratio for full year 2017 stood at an excellent 88%. Life insurance sales were down by 11%, due entirely to a decrease in the sale of guaranteed interest products.

- Significantly higher net fee and commission income (+18% to 1 707 million euros) owing primarily to our asset management services. At the end of December 2017, total assets under management stood at 219 billion euros, a year-on-year increase of 3% largely because of a positive price performance.
- A higher level of all other income items combined (1 232 million euros). This included a significantly higher net result from financial instruments at fair value (+58% to 856 million euros), higher net realised gains from available-for-sale assets (+5% to 199 million euros), a slightly lower level of dividend income (-18% to 63 million euros) and lower other net income (-56% to 114 million euros), due in part to the booking of an additional provision relating to an industry wide review of tracker rate mortgages originated in Ireland before 2009 (totalling 116 million euros).
- Our cost/income ratio for full year 2017 improved to a very good 54% (from 55% in 2016). Operating expenses (excluding bank taxes) increased by 125 million euros (3,5%) year-on-year. Taking into account a doubling of investments in digitalisation through operating expenses (from approximately 125 million euros for full year 2016 to approximately 250 million euros for full year 2017) and the 40 million euros arising from the inclusion of UBB/Interlease, this clearly proves that costs are firmly under control.
- Much lower loan loss impairment charges (from a net addition of 126 million euros in 2016 to a net release of 87 million euros in 2017), essentially because of significant impairment releases in Ireland. As a result, the credit cost ratio for the whole group stood at an excellent -0.06% (a negative figure indicates a positive impact on the results).
- The net result for 2017 breaks down as follows: 1 575 million euros for the Belgium Business Unit (+10% on the figure for 2016), 702 million euros for the Czech Republic Business Unit (+18%), 444 million euros for the International Markets Business Unit (+4%) and -146 million euros for the Group Centre (down 118 million euros). The above result for the International Markets Business Unit breaks down into 167 million euros for Ireland (-9%, due essentially to the additional provisions for the tracker rate mortgage review), 146 million euros for Hungary (+13% on the figure for 2016), 79 million euros for Slovakia (-14%) and 50 million euros for Bulgaria (+127%, due to the inclusion in the figures of UBB/Interlease as of the third quarter of 2017).

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. 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 remains a dominant theme for the sector (even though the ‘Basel IV’ agreement in December has brought some clarification as regards future capital requirements), as does enhanced consumer protection. Another ongoing challenge remains the low interest rate environment (despite the recent uptrend), particularly for longer maturities, combined with the increased risk of asset bubbles. The financial sector also faces the potential systemic consequences of political and financial developments like Brexit or protectionist measures in the US, which will have an impact on the European economy. Financial technology is an additional challenge for the business model of traditional financial institutions. Finally, cyber risk has become one of the main threats during the past few years, not just for the financial sector, but for the economy as a whole.

Risk management data is provided in our annual reports, quarterly reports and dedicated risk reports, all of which are available at www.kbc.com.

Our views and guidance

Our view on interest rates and foreign exchange rates: the ECB will continue its QE programme until at least September 2018. Since the beginning of January 2018, the volume of these net monthly purchases has been reduced to 30 billion euros. We forecast the ECB to wait until 2019 to raise its policy rate. In the meantime, we expect the Fed to carry out three rate hikes in 2018 (each time by 25 basis points). Consequently, we believe that the US dollar will appreciate against the euro in the short term, as it will benefit from short-term interest rate support. From mid-2018 on, however, the euro will start appreciating again. Given the low inflation environment and still highly accommodating monetary policies around the world, German and US long-term bond yields are expected to rise only modestly in the period ahead. Unlike the dovish stance of the ECB, the Czech National Bank has already begun to tighten its monetary policy and is expected to continue doing so in 2018. We forecast three rate hikes for this year in the Czech Republic (of which the first one already happened in February), which will bring the repo rate to 1.25% by the end of 2018, given economic and inflationary developments – together with the fiscal stimulus that may be implemented by the new government.

Our view on economic growth: the economic environment in the euro area is favourable and, as a result, the consumer sector remains solid. The unemployment rate is steadily falling, which will further support consumption in the period ahead. Investment growth is also gaining strength. The most significant risks continue to stem from the trend of de-globalisation and from geopolitical concerns, which could create additional uncertainty and hence affect economic sentiment.

Our guidance:

- Solid returns for all business units
- For Ireland, our guidance for loan impairment in 2018 is for a net release of 100 to 150 million euros for full year 2018.
- We estimate the first-time application of IFRS 9 (replacing the relevant requirements of IAS 39 on 1 January 2018) to reduce our fully loaded common equity ratio by around 41 basis points, mainly on account of reclassifications in the banking book.
- The impact of the reform of the Belgian corporate income tax system will have a recurring positive impact on the income statement as of 2018. The one-off negative impact will be fully recuperated in roughly 3 years' time.
- Funding costs will be lower as a result of the contingent capital note (CoCo) being called in January 2018.
- The impact of Basel IV on KBC is an estimated increase in risk weighted assets of approximately 8 billion euros, which corresponds to a risk weighted assets inflation of 9% and an impact of approximately -1.3% on the common equity ratio. This figure is based on our current interpretation of Basel IV, a static balance sheet and the current economic environment. It also does not take into

account possible management actions. Elements that are not included in above mentioned risk weighted assets impact (and which might affect KBC earlier): the ongoing Targeted Review of Internal Models (TRIM) exercise by the ECB, the potential impact of the EBA review of the IRB approach and any impact on the Pillar 2 requirements.

- For our capital deployment plan, it means we can abandon our 1% Basel IV buffer relative to our peer group. Taking into account that the median common equity ratio of our 12 peers has increased to 14%, our 'own capital target' and 'reference capital position' have been lowered to 14% and 16%, respectively.
- For accounting year 2017: a total gross dividend of 3 euros per share will be proposed to the AGM comprising an interim dividend of 1 euro per share (paid in November 2017) and a final dividend of 2 euros per share, which will be paid in May 2018. A proposal to buy back 2.7 million shares will also be made to the AGM. The rationale behind this operation is to offset shareholder dilution caused by annual capital increases for staff. This results in a pay-out ratio of 59%.

Additional information

The statutory auditor, PwC Bedrijfsrevisoren bcvba/Reviseurs d'Entreprises sccrl, represented by Roland Jeanquart and Tom Meuleman, has confirmed that its audit work, which is substantially complete, has not to date revealed any significant matters that require adjustments to be made to the 2017 consolidated income statement, the condensed consolidated statement of comprehensive income for the year, the consolidated balance sheet and the consolidated statement of changes in equity and the explanatory notes, comprising a summary of significant accounting policies and other explanatory notes included in this press release.

Financial calendar for 2018:

- 2017 Annual Report and 2017 Risk Report: 29 March 2018
- Annual General Meeting: 3 May 2018
- Final dividend dates: ex-date: 7 May 2018, record date: 8 May 2018, payment date: 9 May 2018
- Publication of 1Q 2018 results: 17 May 2018
- Publication of 2Q 2018 results: 9 August 2018
- Publication of 3Q 2018 results: 15 November 2018

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