

Brussels, 16 May 2024 (07.00 a.m. CEST)

KBC Group: First-quarter result of 506 million euros

KBC Group – overview (consolidated, IFRS)	1Q2024	4Q2023	1Q2023
Net result (in millions of EUR)	506	677	882
Basic earnings per share (in EUR)	1.18	1.59	2.08
Breakdown of the net result by business unit (in millions of EUR)			
<i>Belgium</i>	243	474	299
<i>Czech Republic</i>	197	102	184
<i>International Markets</i>	146	178	108
<i>Group Centre</i>	-80	-77	291
Parent shareholders' equity per share (in EUR, end of period)	54.9	53.9	51.9

'We recorded a net profit of 506 million euros in the first quarter of 2024. Compared to the result of the previous quarter, our total income benefited from several factors, including higher net interest income, net fee and commission income and insurance revenues, though these items were partly offset by lower levels of dividend income and trading & fair value income. Costs were up, since the bulk of the bank and insurance taxes for the full year are recorded – as usual – in the first quarter of the year. Disregarding bank and insurance taxes, costs fell by as much as 9% quarter-on-quarter and 1% year-on-year. Impairment charges too were down significantly, as the previous quarter had included a sizeable one-off impairment on goodwill.

Our loan portfolio continued to increase by 1% quarter-on-quarter and 4% year-on-year, with growth being recorded in each of the group's core countries. Customer deposits were up 1% quarter-on-quarter and 1% year-on-year, despite the outflow of deposits triggered by the issue of the retail State Note ('Staatsbon') in Belgium at the start of September 2023.

We have always been at the forefront of new digital developments, the most visible example of which being our personal digital assistant Kate, which we continuously develop further with the aim of ensuring maximum convenience for our customers. To date, around 4.5 million customers have already used Kate, up more than 40% on the year-earlier figure. Moreover, the proportion of cases resolved fully autonomously by Kate continues to improve and now stands at 65% in both Belgium and the Czech Republic, up from 57% and 54% respectively a year ago.

As regards our ongoing share buyback programme of 1.3 billion euros, we had already bought back approximately 15.3 million shares for a total consideration of approximately 0.9 billion euros by the end of April 2024. The programme is planned to run until 31 July 2024.

On 15 May 2024, we paid a final dividend of 3.15 euros per share, bringing the total dividend for full-year 2023 to 4.15 euros per share. In line with our announced capital deployment plan for full-year 2023, the Board of Directors has also decided to distribute the surplus capital above a fully loaded common equity ratio of 15% (approximately 280 million euros) in the form of an extraordinary interim dividend of 0.70 euros per share on 29 May 2024.

Our solvency position remained strong, with a fully loaded common equity ratio of 14.9% at the end of March 2024 (which already fully incorporates the effect of the ongoing share buyback programme of 1.3 billion euros and the extraordinary interim dividend of 0.70 euros per share). Not taking into account the extraordinary interim dividend, our common equity ratio would have been 15.2%. Our liquidity position remained very solid too, with an LCR of 162% and NSFR of 139%.

In closing, I would like to sincerely thank all our customers, employees, shareholders and other stakeholders for their trust and support. More than anything else, that trust and support is and remains fundamental to the success of our group, now and in the future.'



Johan Thijs
Chief Executive Office

Financial highlights in the first quarter of 2024

- ▶ **Net interest income** increased by 1% quarter-on-quarter and by 3% year-on-year. The net interest margin for the quarter under review amounted to 2.08%, up 9 basis points on the previous quarter and 4 basis points on the year-earlier quarter. Loan volumes were up 1% quarter-on-quarter and 4% year-on-year. Deposits excluding debt certificates were up 1% quarter-on-quarter and 1% year-on-year. Volume growth figures were calculated on an organic basis (excluding changes in the scope of consolidation and forex effects).
- ▶ **The insurance service result** (insurance revenues before reinsurance - insurance service expenses before reinsurance + net result from reinsurance contracts held) amounted to 134 million euros (compared to 100 million euros and 110 million euros in the previous and year-earlier quarters, respectively) and breaks down into 94 million euros for non-life insurance and 41 million euros for life insurance. The non-life combined ratio for the first quarter of 2024 amounted to an excellent 85%, compared to 87% for full-year 2023. Non-life insurance sales increased by 9% year-on-year, while life insurance sales were up 12% on the level recorded in the previous quarter and by as much as 60% on the level recorded in the year-earlier quarter.
- ▶ **Net fee and commission income** was up 2% and 7% on its level in the previous and year-earlier quarters, respectively. Fees for our asset management activities were up 5% quarter-on-quarter, while banking services-related fees were down 2% mainly due to seasonal effects. Year-on-year, fees for our asset management activities increased by 11% and fees for our banking activities decreased by 1%.
- ▶ **Trading & fair value income and insurance finance income and expense** was down 15 million euros on the figure for the previous quarter and 79 million euros on the level recorded in the year-earlier quarter. **Net other income** was slightly above its normal run rate.
- ▶ **Operating expenses excluding bank and insurance taxes** were down 9% on their level in the previous quarter and 1% on their year-earlier level. The first quarter of the year traditionally includes the bulk of the bank and insurance taxes for the full year (518 million euros in the first quarter of 2024). The cost/income ratio for the first quarter of 2024 came to 46%, compared to 49% for full-year 2023. In that calculation, certain non-operating items have been excluded and bank and insurance taxes evenly spread throughout the year. Excluding all bank and insurance taxes, the cost/income ratio for the first quarter of 2024 amounted to 43%, the same level as for full-year 2023.
- ▶ The quarter under review included a 16-million-euro net **loan loss impairment charge**, as opposed to a net release of 5 million euros in the previous quarter and 24 million euros in the year-earlier quarter. The credit cost ratio for the first quarter of 2024 amounted to 0.04%, compared to 0.00% for full-year 2023. Impairment on assets other than loans amounted to 0 million euros in the quarter under review, compared to 175 million euros in the previous quarter (including a 109-million-euro impairment on goodwill in the Czech Republic) and 1 million euros in the year-earlier quarter.
- ▶ Our **liquidity position** remained strong, with an LCR of 162% and NSFR of 139%. Our **capital base** remained robust, with a fully loaded common equity ratio of 14.9% (not taking into account the extraordinary interim dividend of 0.70 euros per share, the ratio would have been 15.2%).

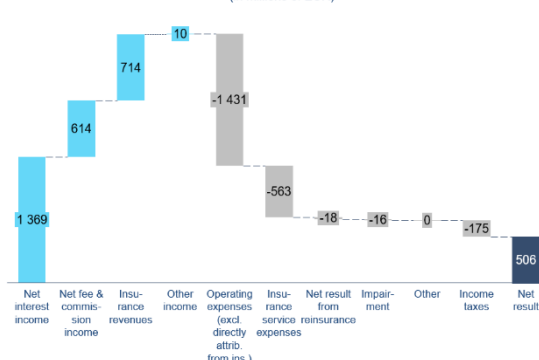
The cornerstones of our strategy



- 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 assume our role in society and local economies
- We build upon the PEARL + values, while focussing on the joint development of solutions, initiatives and ideas within the group

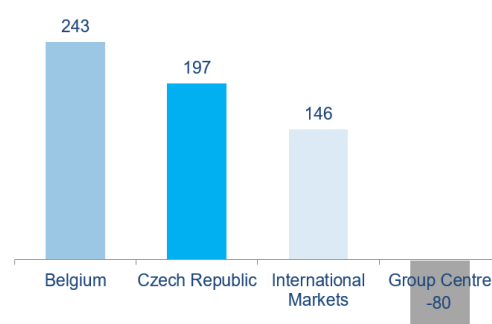
Breakdown of 1Q2024 result

(in millions of EUR)



Contribution of the business units to 1Q2024 group result

(in millions of EUR)



Overview of results and balance sheet

Consolidated income statement, IFRS, KBC Group (simplified; in millions of EUR)

	1Q2024	4Q2023	3Q2023	2Q2023	1Q2023
Net interest income	1 369	1 360	1 382	1 407	1 324
Insurance revenues before reinsurance	714	683	699	666	631
<i>Non-life</i>	598	584	587	567	543
<i>Life</i>	116	99	113	100	88
Dividend income	7	12	10	30	8
Net result from financial instruments at fair value through P&L and Insurance finance income and expense ¹	-55	-40	-8	33	24
Net fee and commission income	614	600	588	584	576
Net other income	58	60	44	54	498
Total income	2 708	2 674	2 715	2 775	3 060
Operating expenses (excl. directly attributable from insurance)	-1 431	-1 085	-1 011	-1 019	-1 501
<i>Total operating expenses without bank and insurance taxes</i>	<i>-1 063</i>	<i>-1 169</i>	<i>-1 101</i>	<i>-1 090</i>	<i>-1 077</i>
<i>Total bank and insurance taxes</i>	<i>-518</i>	<i>-36</i>	<i>-29</i>	<i>-51</i>	<i>-571</i>
<i>Minus: operating expenses allocated to insurance service expenses</i>	<i>150</i>	<i>120</i>	<i>119</i>	<i>123</i>	<i>147</i>
Insurance service expenses before reinsurance	-563	-567	-540	-523	-490
<i>Of which Insurance commission paid</i>	<i>-89</i>	<i>-94</i>	<i>-87</i>	<i>-82</i>	<i>-77</i>
<i>Non-Life</i>	<i>-489</i>	<i>-509</i>	<i>-485</i>	<i>-457</i>	<i>-418</i>
<i>Life</i>	<i>-73</i>	<i>-58</i>	<i>-55</i>	<i>-66</i>	<i>-72</i>
Net result from reinsurance contracts held	-18	-16	-22	-22	-30
Impairment	-16	-170	-63	-8	26
<i>Of which: on financial assets at amortised cost and at fair value through other comprehensive income²</i>	<i>-16</i>	<i>5</i>	<i>-36</i>	<i>23</i>	<i>24</i>
Share in results of associated companies & joint ventures	0	0	0	-1	-3
Result before tax	680	836	1 079	1 202	1 062
Income tax expense	-175	-159	-203	-236	-180
Result after tax	506	677	877	966	882
attributable to minority interests	0	0	0	0	0
attributable to equity holders of the parent	506	677	877	966	882
Basic earnings per share (EUR)	1.18	1.59	2.07	2.29	2.08
Diluted earnings per share (EUR)	1.18	1.59	2.07	2.29	2.08

Key consolidated balance sheet figures, IFRS, KBC Group (in millions of EUR)

	31-03-2024	31-12-2023	30-09-2023	30-06-2023	31-03-2023
Total assets	359 477	346 921	358 453	368 077	347 355
Loans & advances to customers	183 722	183 613	181 821	182 005	179 520
Securities (equity and debt instruments)	73 561	73 696	72 765	71 839	70 291
Deposits from customers (excl. debt certificates)	216 271	216 423	214 203	224 710	219 342
Insurance contract liabilities	16 602	16 784	15 920	16 295	16 282
Liabilities under investment contracts, insurance	14 319	13 461	12 655	12 751	12 164
Total equity	23 917	24 260	23 865	22 853	23 141

Selected ratios KBC Group (consolidated)

	1Q2024	FY2023
Return on equity ³	9%	16%
Cost/income ratio, group		
- excl. non-operating items and evenly spreading bank and insurance taxes throughout the year	46%	49%
- excl. all bank and insurance taxes	43%	43%
Combined ratio, non-life insurance	85%	87%
Common equity ratio (CET1), Basel III, Danish Compromise		
- fully loaded	14.9%	15.2%
- transitional	15.1%	13.8%
Credit cost ratio ⁴	0.04%	0.00%
Impaired loans ratio	2.1%	2.1%
for loans more than 90 days past due	1.0%	1.0%
Net stable funding ratio (NSFR)	139%	136%
Liquidity coverage ratio (LCR)	162%	159%

¹ As of 2024, we have combined 'Net result from financial instruments at fair value through P&L' (also referred to as 'Trading & fair value income') and 'Insurance finance income and expense' in one P&L line for the sake of simplification. The figures for past periods have been retroactively restated.

² Also referred to as 'Loan loss impairment'.

³ 14% in the first quarter of 2024 (and 15% for full-year 2023) when non-operating items are excluded and bank and insurance taxes evenly spread throughout the year.

⁴ A negative figure indicates a net impairment release (positively affecting results).

Analysis of the quarter (1Q2024)

Total income: 2 708 million euros

+1% quarter-on-quarter and -12% year-on-year

Net interest income amounted to 1 369 million euros in the quarter under review, up 1% quarter-on-quarter and 3% year-on-year. The quarter-on-quarter increase was due mainly to increasing reinvestment yields (which has a positive impact on the commercial transformation result), loan volume growth and slightly lower costs related to the minimum required reserves held with central banks. These items were partly offset by further shifts from current and savings accounts to customer term deposits at lower margins, continued pressure on loan margins in some core markets, lower interest income from inflation-linked bonds, lower dealing room interest income, a negative forex effect (depreciation of the Czech koruna and Hungarian forint) and fewer days in the quarter under review. The year-on-year increase was attributable primarily to the increase in the commercial transformation result, a higher ALM result, loan volume growth in all core countries and increased interest income from customer term deposits. These items were partly offset by pressure on lending margins in most core markets, lower interest income in Ireland (as a result of the sale of the portfolios there), lower dealing room interest income, lower interest income from inflation-linked bonds, the higher funding cost of participations, higher wholesale funding costs, a negative forex effect and higher costs related to the minimum required reserves held with central banks. Consequently, the net interest margin for the quarter under review amounted to 2.08%, up 9 basis points quarter-on-quarter and 4 basis points year-on-year. For guidance regarding the expected net interest income in 2024 and the years to come, please refer to the section entitled 'Our guidance'.

Customer loan volume was up 1% quarter-on-quarter and 4% year-on-year. Customer deposits excluding debt certificates were up 1% quarter-on-quarter and 1% year-on-year. When excluding volatile, low-margin short-term deposits at KBC Bank's foreign branches (driven by short-term cash management opportunities), customer deposits were more or less stable quarter-on-quarter but down 2% year-on-year (still a consequence of the outflow of deposits caused by the issue of a 1-year State Note in Belgium in September 2023). In the growth figures above, the forex-related impact and the effects of changes in the scope of consolidation have been eliminated.

The **insurance service result** (insurance revenues before reinsurance – insurance service expenses before reinsurance + net result from reinsurance contracts held; the two latter items are not part of total income) amounted to 134 million euros and breaks down into 94 million euros for non-life insurance and 41 million euros for life insurance. The **non-life** insurance service result increased by 56% quarter-on-quarter, owing to a combination of higher insurance revenues and lower insurance service expenses. It was down 2% year-on-year, as higher insurance service expenses (due to the very low level of claims in the year-earlier quarter) more than offset the increased insurance revenues and better reinsurance result. The **life** insurance service result went up by 2% quarter-on-quarter, as higher revenues were partly offset by increased insurance service expenses and a lower reinsurance result. It was 168% higher than the result for the year-earlier quarter, thanks almost entirely to higher insurance revenues.

The combined ratio of the non-life insurance activities amounted to an excellent 85% for the first quarter of 2024, compared to 87% for full-year 2023. Non-life insurance sales came to 730 million euros, up 9% year-on-year, with growth in all countries and classes, thanks to a combination of volume and tariff increases. Sales of life insurance products amounted to 765 million euros and were up 12% on the level recorded in the previous quarter, due to higher sales of unit-linked life insurance products (attributable to the launch of a new structured product and commercial campaigns in Belgium) which more than offset the lower sales of guaranteed-interest products (as the last quarter of the year traditionally includes higher volumes in tax-incentivised pension savings products in Belgium). Life insurance sales were up 60% on the (relatively low level in the) year-earlier quarter, due almost entirely to sales of unit-linked products more than doubling. Overall, the share of guaranteed-interest products and unit-linked products in our life insurance sales in the quarter under review amounted to 34% and 62%, respectively, with hybrid products (mainly in the Czech Republic) accounting for the remainder.

For guidance regarding the expected insurance revenues and combined ratio in 2024 and the years to come, please refer to the section entitled 'Our guidance'.

Net fee and commission income amounted to 614 million euros, up 2% and 7% on its level in the previous and year-earlier quarters, respectively. The quarter-on-quarter increase was attributable to 5% growth in fee income related to our asset management activities (due to higher management and entry fees) and seasonally higher distribution fees linked to non-life insurance, while fees related to banking activities fell by 2% mainly due to seasonal effects (lower level of payments fees, among other things). Year-on-year, fees for our asset management services increased by 11% (due entirely to higher management fees) and distribution fees linked to non-life insurance were up, while banking fees fell slightly by 1%. At the end of March 2024, our total assets under management amounted to 258 billion euros, up 5% quarter-on-quarter (+1 percentage point related to net inflows and +4 percentage points related to the quarter-on-quarter market performance). Assets under management were up 19% year-on-year, with net inflows accounting for +8 percentage points and market performance for +11 percentage points.

Trading & fair value income and insurance finance income and expense amounted to -55 million euros, down 15 million euros quarter-on-quarter and 79 million euros year-on-year. The quarter-on-quarter decrease was attributable mainly to the increased negative result from derivatives used for asset/liability management purposes, only partly offset by better dealing room results and the positive changes in market value adjustments (xVA). Year-on-year, the decrease was mostly related to the increased negative result from derivatives used for asset/liability management purposes.

The **other remaining income items** included dividend income of 7 million euros and net other income of 58 million euros. The latter was slightly above its 50-million-euro normal run rate (note that the significant decrease on the year-earlier figure was due to the fact that net other income in that quarter had included a positive, one-off impact of 405 million euros related to the sale of the Irish loan and deposit portfolios).

Total operating expenses excluding bank and insurance taxes:

1 063 million euros

-9% quarter-on-quarter and -1% year-on-year

The quarter-on-quarter comparison of operating expenses is distorted by the fact that the bulk of the bank and insurance taxes for the full year is traditionally recorded in the first quarter of the year. In the first quarter of 2024, these taxes amounted to 518 million euros, compared to 36 million euros in the previous quarter and 571 million euros in the year-earlier quarter (the year-on-year decrease was due mainly to lower resolution fund contributions in the quarter under review, partly offset by additional national bank taxes in Belgium and Slovakia and an increased contribution to the deposit guarantee schemes).

Total operating expenses excluding bank and insurance taxes amounted to 1 063 million euros in the first quarter of 2024, down by 9% on their level in the previous quarter, owing mainly to lower ICT expenses, seasonally lower marketing and professional fee costs, decreased facility expenses, lower depreciation and a forex effect.

Operating expenses excluding bank and insurance taxes were down 1% on their year-earlier level, due to reduced costs for Ireland (given the sale of the Irish portfolios), lower depreciation and a forex effect, though this was largely offset by the negative impact of indexation, wage drift and higher ICT expenses, marketing costs and professional fees.

When certain non-operating items are excluded and bank and insurance taxes evenly spread throughout the year, the cost/income ratio for the first quarter of 2024 amounted to 46%, compared to 49% for full-year 2023. When excluding all bank and insurance taxes, the cost-income ratio improved to 43%, the same level as for full-year 2023.

For guidance regarding expected operating expenses and the cost/income ratio in 2024 and the years to come, please refer to the section entitled 'Our guidance'.

Loan loss impairment: 16-million-euro net charge

versus a 5-million-euro net release in the previous quarter and a 24-million-euro net release in the year-earlier quarter

In the quarter under review, we recorded a 16-million-euro net loan loss impairment charge, as opposed to a net release of 5 million euros in the previous quarter and a net release 24 million euros in the year-earlier quarter. The net impairment charge in the quarter under review included a charge of 43 million euros in respect of our loan book and a 27-million-euro release following the update of the reserve for geopolitical and macroeconomic uncertainties (on account of improving macroeconomic and microeconomic indicators). As a consequence, the outstanding reserve for geopolitical and macroeconomic uncertainties amounted to 223 million euros at the end of March 2024.

For the entire group, the credit cost ratio amounted to 0.04% for the first quarter of 2024 (0.10% excluding the changes in the reserve for geopolitical and macroeconomic uncertainties), compared to 0.00% for full-year 2023 (0.07% excluding the changes in the reserve for geopolitical and macroeconomic uncertainties). At the end of March 2024, 2.1% of our total loan book was classified as impaired ('Stage 3'), the same level as at year-end 2023. Impaired loans that are more than 90 days past due amounted to 1.0% of the loan book, again the same level as at year-end 2023.

For guidance regarding the expected credit cost ratio in 2024 and the years to come, please refer to the section entitled 'Our guidance'.

There were virtually no impairment charges on assets other than loans, as opposed to 175 million euros in the previous quarter and 1 million euros in the year-earlier quarter. The previous quarter had been impacted by a number of factors, including a 109-million-euro impairment on goodwill on building savings company ČSOBS (a subsidiary of ČSOB Bank) following the reduction in the building savings state subsidy in the Czech Republic and a 56 million euros in impairment charges on tangible and intangible assets (mainly software).

Net result by business unit

Belgium 243 million euros; Czech Rep. 197 million euros; International Markets 146 million euros, Group Centre -80 million euros

Belgium: at first sight, the net result (243 million euros) was down 49% quarter-on-quarter. However, the first quarter of the year traditionally includes the bulk of the bank and insurance taxes for the full year, hence distorting the quarter-on-quarter comparison. Excluding bank and insurance taxes, the net result was up 11% quarter-on-quarter, due primarily to the combined effect of slightly higher total income (thanks to higher insurance revenues and net fee and commission income), lower costs (excluding bank and insurance taxes), stable insurance service expenses and higher net impairment charges.

Czech Republic: at first sight, the net result (197 million euros) was up 93% quarter-on-quarter. Excluding bank and insurance taxes, forex effects (depreciation of the Czech koruna) and the one-off 109-million-euro impairment on goodwill on building savings company ČSOBS in the previous quarter, the net result was up 19% quarter-on-quarter. This was essentially attributable to a combination of higher total income (thanks mainly to higher net fee and commission income and trading & fair value income), lower costs (excluding bank and insurance taxes), lower insurance service expenses, and a net loan loss impairment charge (as opposed to a release in the previous quarter).

International Markets: the 146-million-euro net result breaks down as follows: 34 million euros in Slovakia, 50 million euros in Hungary and 63 million euros in Bulgaria. For the business unit as a whole, the net result was, at first sight, down 18% on the previous quarter's result. When excluding bank and insurance taxes, the result was up 45% quarter-on-quarter, due mainly to a combination of higher total income (thanks in part to higher net interest income, insurance revenues and trading & fair value income), lower costs (excluding bank and insurance taxes), higher insurance service expenses and a net impairment release (as opposed to a net charge in the previous quarter).

Group Centre: the net result (-80 million euros) was 2 million euros lower than the figure recorded in the previous quarter owing mainly to a combination of lower total income (due primarily to a decrease in trading & fair value income), lower costs and a net impairment release as opposed to a net charge in the previous quarter.

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).

Selected ratios by business unit	Belgium		Czech Republic		International Markets	
	1Q2024	FY2023	1Q2024	FY2023	1Q2024	FY2023
Cost/income ratio, group						
- excl. non-operational items and spreading bank and insurance taxes evenly throughout the year	43%	46%	44%	47%	43%	45%
- excl. all bank and insurance taxes	41%	41%	42%	44%	35%	39%
Combined ratio, non-life insurance	86%	85%	79%	84%	102% ²	97% ²
Credit cost ratio ¹	0.11%	0.06%	0.04%	-0.18%	-0.25%	-0.06%
Impaired loans ratio	2.1%	2.0%	1.4%	1.4%	1.7%	1.8%

¹ A negative figure indicates a net impairment release (positively affecting results). See 'Details of ratios and terms' in the quarterly report.

² Excluding windfall bank and insurance taxes in Hungary, the combined ratio amounted to 88% in the first quarter of 2024 and 94% for full-year 2023%.

Solvency and liquidity

Common equity ratio of 14.9%, NSFR of 139%, LCR of 162%

At the end of March 2024, total equity came to 23.9 billion euros and comprised 22.2 billion euros in parent shareholders' equity and 1.75 billion euros in additional tier-1 instruments. Total equity was down 0.3 billion euros on its level at the end of 2023. This was accounted for by the combined effect of the inclusion of the profit for the first quarter of 2024 (+0.5 billion euros), the repurchase of own shares (-0.3 billion euros), more or less stable revaluation reserves, the repayment of additional tier-1 instruments (-0.5 billion euros) and a number of smaller 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.

The Annual General Meeting of Shareholders of 2 May 2024 approved a total gross dividend of 4.15 euros per share for financial year 2023, with an interim dividend of 1.0 euro per share already being paid in November 2023 and the remaining 3.15 euros per share being paid on 15 May 2024. In line with our announced capital deployment plan for full-year 2023, the Board of Directors has also decided to distribute the surplus capital above the fully loaded common equity ratio of 15% (approximately 280 million euros) in the form of an extraordinary interim dividend of 0.70 euros per share on 29 May 2024.

Our solvency position remained strong, as illustrated by a fully loaded common equity ratio (CET1) of 14.9% at 31 March 2024, compared to 15.2% at the end of 2023. Note that the ratio already includes the full impact of the ongoing 1.3-billion-euro share buyback programme and the extraordinary interim dividend of 0.70 euros per share. Not taking into account the extraordinary interim dividend, our common equity ratio would have been 15.2%. The solvency ratio for KBC Insurance under the Solvency II framework was 202% at the end of March 2024, compared to 206% at the end of 2023. We have provided more details and additional information on solvency under 'Solvency' in the 'Additional information' section of the quarterly report.

Our liquidity position remained excellent too, as reflected in an LCR ratio of 162% and an NSFR ratio of 139%, compared to 159% and 136%, respectively, at the end of 2023.

ESG developments, risk statement and economic views

ESG developments

We have taken further important steps in our sustainability journey at KBC. We report on this journey and our sustainability performance transparently and consistently in our annual Sustainability Report. In this regard, we would refer the reader to the recently published Sustainability Report for 2023 on www.kbc.com, which provides a detailed overview of our ESG achievements.

We are particularly proud of some first-time achievements, such as reporting on the climate-related impact of part of our insurance underwriting portfolio for the first time, our first climate target for KBC Insurance's own portfolio of corporate investments and the first extensive mandatory and voluntary reporting on our contribution to sustainable business aligned to the EU Taxonomy criteria.

KBC also successfully issued a new 8-year Green Bond in the amount of 750 million euros, the first issuance under our recently updated Green Bond Framework. The proceeds will be used for energy efficient buildings, renewable energy transactions and clean transportation. More than 100 different investors participated in this issuance which enables KBC to continue actively supporting the financing of environmentally sustainable economic activities.

Risk statement

As we are mainly active in banking, insurance and asset management, we are exposed to a number of typical risks for these financial sectors such as – but not limited to – credit default risk, counterparty credit risk, concentration risk, movements in interest rates, currency risk, market risk, liquidity and funding risk, insurance underwriting risk, changes in regulations, operational risk, customer litigation, competition from other and new players, as well as the economy in general. KBC closely monitors and manages each of these risks within a strict risk framework, but they may all have a negative impact on asset values or could generate additional charges beyond anticipated levels.

At present, a number of factors are considered to constitute the main challenges for the financial sector. These stem primarily from the mostly indirect, but lingering, impact of the war in Ukraine, including the delayed effects of the increase in energy and commodity prices and the supply-side shortages it triggered. This led to a surge in inflation, resulting in upward pressure on interest rates, lower growth prospects (or even fears of a recession) and some concerns about the creditworthiness of counterparties in the economic sectors most exposed. Geopolitical risks remain elevated, as evidenced by the escalating conflict in Gaza/Israel and the Middle East. A significant number of elections in 2024 across the world, including in the US, are adding to the geopolitical uncertainty. All these risks affect global, but especially, European economies, including KBC's home markets. Regulatory and compliance risks (including in relation to capital requirements, anti-money laundering regulations, GDPR and ESG/sustainability) also remain a dominant theme for the sector, as does enhanced consumer protection. Digitalisation (with technology, including AI, as a catalyst) presents both opportunities and threats to the business model of traditional financial institutions, while climate and environmental-related risks are becoming increasingly prevalent. Cyber risk has become one of the main threats during the past few years, not just for the financial sector, but for the economy as a whole. The war in Ukraine has triggered an increase in attacks worldwide. Finally, we have seen governments across Europe taking additional measures to support their budgets (via increased tax contributions from the financial sector) and their citizens and corporate sector (by, for instance, implementing interest rate caps on loans or by pushing for higher rates on savings accounts).

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

Our view on economic growth

After strong quarter-on-quarter growth of 0.8% in the fourth quarter (non-annualised), US growth slowed in the first quarter of 2024 to 0.4%. This still solid growth rate was mainly attributable to robust domestic demand, in particular private consumption growth, which was supported by persistently robust job creation and a remarkably low unemployment rate. Quarter-on-quarter growth is expected to slow further in the second quarter of 2024.

After the mild contraction in the fourth quarter of 2023 (-0.1%), euro area growth in the first quarter became positive again (0.3%). The manufacturing sector exhibited persistent weakness, while the service sector displayed tentative signs of recovery. From the second half of 2024 onwards, quarterly growth is expected to gradually increase, driven mainly by domestic consumption that benefits from falling inflation and the related increase in real wages.

Quarter-on-quarter growth in the first quarter in Belgium amounted to 0.3%, the same as in the previous quarter. Relatively strong domestic demand outweighed the negative contribution to growth of net exports. For the remainder of 2024, we expect growth to remain broadly in line with that of the euro area. Meanwhile, the Czech economy continued its recovery in the first quarter of 2024 (+0.5% quarter-on-quarter), a slightly faster rate than in the previous quarter. The stabilising manufacturing sector and private consumption growth supported by real wage growth thanks to lower inflation contributed to this performance. Based on our latest estimates, growth rates for the first quarter in our other Central European home markets also point to the recovery gaining traction (Bulgaria 0.5%, Slovakia 0.6% and Hungary 0.8%) with growth expected to gradually pick up more speed in the course of 2024.

The main risks to our short-term outlook for European growth include the global weakness of the manufacturing sector, particularly its effect on the German economy. Moreover, current geopolitical tensions pose risks in the form of more protectionism, supply chain disruptions and higher energy and commodity prices. In addition, political instability risks (various upcoming elections) and the impact of the government budget discussions for 2025 in the run-up to the re-activation of the EU Stability and Growth Pact might impact growth and risk premiums on sovereign debt in a number of European economies.

Our view on interest rates and foreign exchange rates

In the first quarter, the disinflationary trend in the euro area continued, while the latest US inflation data pointed rather more to a pause in this process. Consequently, the ECB is still expected to go ahead with the start of its rate-cutting cycle in mid-2024. The timing of the Fed's first rate cut and the overall number of cuts remains more uncertain and will crucially hinge on how sustainable the central bank assesses the further course of the disinflationary process towards the inflation target. In the background, the run-down of the Fed's and ECB's balance sheet (Quantitative Tightening) continues. Moreover, the ECB will end reinvesting maturing assets in its PEPP portfolio from 2025 on, after a transition period in the second half of 2024.

As the end of the Fed's and ECB's monetary tightening cycle became apparent in the fourth quarter of 2023, benchmark US and German bond yields fell sharply. Since early 2024, however, US and German bond yields have been steadily rising again as markets became increasingly aware that the easing cycle of short-term interest rates in 2024 would start later – and be more limited – than initially expected (especially in the US). This pushed up US and German 10-year bond yields to about 4.7% and 2.6% respectively in the second half of April 2024, with the US-German yield spread sharply widening to levels not seen since the start of the pandemic.

The sizeable growth differential, as well as the increased short-term and long-term interest rate differentials between the US and the euro area, led to a substantial strengthening of the US dollar against the euro. However, based on long-term fundamentals, we expect the US dollar to gradually weaken again in the course of 2024.

In early May, the Czech National Bank (CNB) lowered its policy rate by a further 50 basis points to 5.25%. Since the beginning of the year, the Czech koruna has depreciated against the euro. Nevertheless, it is likely to regain some ground against the euro in the remainder of 2024, thanks in part to the expected start of the ECB rate-cutting cycle in mid-2024.

Since the beginning of 2024, the National Bank of Hungary has cut its policy rate (base rate) four times, bringing it to 7.75%. Additional modest rate cuts are likely to follow. The exchange rate of the Hungarian forint against the euro depreciated during the first quarter of 2024. Driven by the structural inflation differential with the euro area, the forint is expected to continue depreciating in the course of 2024.

Our guidance

Guidance for full-year 2024 (unchanged)

- Net interest income: in the range of 5.3-5.5 billion euros, supported by organic loan volume growth of approximately 3%.
- Insurance revenues (before reinsurance): at least +6% year-on-year
- Operating expenses and insurance commissions paid (excluding bank and insurance taxes): below +1.7% year-on-year, which is substantially below inflation.
- Cost/income ratio (excluding bank and insurance taxes): below 45%.
- Combined ratio: below 91%.
- Credit cost ratio (excluding any changes in the ECL buffer for geopolitical and macroeconomic uncertainties that was still in place at year-end 2023): well below the through-the-cycle credit cost ratio of 25-30 basis points.

Medium to long-term guidance (unchanged)

- CAGR net interest income (2023-2026): at least 1.8%.
- CAGR insurance revenues (before reinsurance) (2023-2026): at least 6%.
- CAGR operating expenses and insurance commissions paid (excluding bank and insurance taxes) (2023-2026): below 1.7%, which is substantially below inflation.
- Cost/income ratio (excluding bank and insurance taxes): below 42% by the end of 2026.
- Combined ratio: below 91%.
- Credit cost ratio (excluding any changes in the ECL buffer for geopolitical and macro-economic uncertainties that was still in place at year-end 2023): well below the through-the-cycle credit cost ratio of 25-30 basis points.
- Indicative view on transitional risk-weighted assets (RWA) evolution under Basel IV (based on current EU consensus, a static balance sheet and all other parameters ceteris paribus, without any mitigating actions): we expect a fully loaded impact of approximately +8 billion euros by 1 January 2033 (no first-time application impact on 1 January 2025).

Capital distribution policy

- In line with our announced capital deployment plan for full-year 2023, the Board of Directors has decided to distribute the surplus capital above the fully loaded common equity ratio of 15% (approximately 280 million euros) in the form of an extraordinary interim dividend of 0.70 euros per share on 29 May 2024.
- We aim to be amongst the better capitalised financial institutions in Europe. As a consequence, the Board of Directors decided:
 - The dividend policy for 2024 to remain unchanged, i.e.:
 - Payout ratio (i.e. dividend + AT1 coupon) of at least 50% of consolidated profit for the financial year;
 - Interim dividend of 1 euro per share in November of each financial year as an advance on the total dividend.
 - The capital deployment policy for 2024 to remain unchanged, i.e.:
 - On top of the payout ratio of at least 50% of consolidated profit, each year (when announcing the full year results), the Board of Directors will take a decision, at its discretion, on the distribution of the capital above 15.0% fully loaded common equity ratio (the so-called surplus capital). The distribution of this surplus capital can be in the form of a cash dividend, a share buy-back or a combination of both.
- Given the introduction of Basel IV on 1 January 2025, the dividend policy and the surplus capital threshold will be reviewed in the first half of 2025.

Upcoming events and references

Agenda

Extraordinary interim dividend: ex-coupon - 27 May 2024; record date - 28 May 2024;
payment - 29 May 2024
2Q2024 results: 8 August 2024
3Q2024 results: 7 November 2024
Other events: www.kbc.com / Investor Relations / Financial calendar

More information on 1Q2024

Quarterly report: www.kbc.com / Investor Relations / Reports
Company presentation: www.kbc.com / Investor Relations / Presentations

Information on IFRS 17 implementation

Press release of 18 April 2023: www.kbc.com / Newsroom / Press release archive

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

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