Press Release

Outside trading hours - Regulated information*

Brussels, 11 February 2021 (07.00 a.m. CET)

Fourth-quarter result of 538 million euros

KBC Group – overview (consolidated, IFRS)	4Q2020	3Q2020	4Q2019	FY2020	FY2019
Net result (in millions of EUR)	538	697	702	1 440	2 489
Basic earnings per share (in EUR)	1.26	1.64	1.66	3.34	5.85
Breakdown of the net result by business unit (in millions of EUR)					
Belgium	*396*	*486*	*412*	*1 001*	*1 344*
Czech Republic	*94*	*116*	*205*	*375*	*789*
International Markets	*86*	*123*	*119*	*199*	*379*
Group Centre	*-38*	*-28*	*-33*	*-135*	*-23*
Parent shareholders' equity per share (in EUR, end of period)	48.1	46.2	45.0	48.1	45.0

In 2020, we were confronted with the outbreak and challenges of the pandemic, a situation causing human suffering all over the world and unprecedented economic upheaval. Recently, some countries have started rolling out vaccination programmes, which could bring some degree of relief going forward. We have taken responsibility in safeguarding the health of our staff and customers, while ensuring that services continue to be provided. We have worked closely with government agencies to support all customers impacted by coronavirus, by efficiently implementing various relief measures, including loan deferrals. In our six home countries combined, we had granted a total of 13.4 billion euros in loan payment deferrals by the end of December 2020 (according to the EBA definition), as well as 0.8 billion euros' worth of loans under public guarantee schemes introduced in response to the pandemic. As a result of the lockdowns, which led to a far-reaching digital boost, our digital sales increased significantly. In that respect, the significant investments we made in digital transformation over the past few years are clearly paying off. With our renewed strategy 'Differently, the next level' – in which Kate, our new personal AI-enabled digital assistant, plays an important role – we are now going one step further by making our customer interactions even more proactive and future-proof, through the use of data and artificial intelligence. We plan to invest an additional 1.4 billion euros in digitalisation in the period 2021-2023.

As regards our financial results, we generated a net profit of 538 million euros in the last quarter of 2020. In the quarter under review, our net interest income decreased, whereas our trading and fair value result fared well. In the current lower-for-longer interest rate environment, this quarterly result has also been clearly benefiting from the diversification achieved through KBC's integrated bank-insurance model. This was reflected in higher net fee and commission income and a good non-life result (good premium growth and an excellent combined ratio of 85% for the full year). Costs were tightly managed. On a full-year basis, operating expenses excluding bank taxes fell by 4.2% compared to last year, due chiefly to the announced cost savings triggered by the pandemic. Adding the result for this quarter to the one for the first nine months of the year brings our net profit for full-year 2020 to 1 440 million euros.

Our solvency position remained very strong with a common equity ratio of 17.6%. In line with the ECB recommendation of 15 December 2020 which limits dividend payments, we will propose to the General Meeting of Shareholders in May of this year a (gross) dividend of 0.44 euros per share for the accounting year 2020, payable in May 2021. Additionally, it is the intention of the Board of Directors to distribute an extra gross dividend of 2 euros per share over the accounting year 2020 in the fourth quarter of 2021. For the latter, the final decision of the Board of Directors is subject to restrictions on dividends being lifted by the ECB.

On top of that, our dividend policy as of 2021 entails a payout ratio of at least 50% of the consolidated profit of the accounting year, of which an interim dividend of 1 euro per share, payable in November. On top of the payout ratio of at least 50% of consolidated profit, all capital which exceeds the reference capital position (a pre-Basel IV fully loaded common equity ratio of 14.5%) plus the 1% management buffer will be considered for distribution to the shareholders. Each year, the Board of Directors will take this decision at its discretion when announcing the full-year results.

Lastly, we have also updated our long-term financial guidance. Between 2020 and 2023, we are aiming to achieve a compound annual growth rate of approximately 2% for total income and approximately 1% for operating expenses (excluding bank taxes). Besides that, we also want to achieve a combined ratio below or equal to 92% by 2023.

In closing, I would like to take this opportunity to explicitly thank all stakeholders who have continued to put their trust in us. I also wish to express my utmost appreciation to all our staff, who have continued to serve our customers and support the sound functioning of the group from their homes and other remote locations.

Johan Thijs, Chief Executive Officer

Financial highlights in the fourth quarter of 2020

- Commercial bank-insurance franchises in our core markets performed well.

- Net interest income decreased by 5% quarter-on-quarter and by 10% year-on-year. The quarter-on-quarter decline was due mainly to the negative impact of lower reinvestment yields and a lower positive one-off item related to inflation-linked bonds (insurance). These items more than offset the positive impact of higher margins on the new production of mortgage loans, which exceeded the margins on the outstanding portfolios in Belgium, the Czech Republic and Slovakia. Year-on-year, the decrease was mainly related to the negative impact of past CNB rate cuts in the Czech Republic, the year-on-year depreciation of the Czech koruna and Hungarian forint against the euro and the negative effect of lower reinvestment yields, all of which was only partly offset by the positive impact of TLTRO III and ECB deposit tiering, more extensive charging of negative interest rates on certain current accounts held by corporate entities and SMEs and a larger loan and government bond portfolio.

- Loan volumes stabilised quarter-on-quarter and were up 3% year-on-year, with year-on-year growth recorded in all business units. The volume of granted loans with payment holidays in the various relief schemes amounted to 13.4 billion euros by the end of December 2020 (EBA definition), with schemes covering 8.7 billion euros of that figure expiring by the end of 2020.
Deposits excluding debt certificates grew by 2% quarter-on-quarter and 11% year-on-year, with year-on-year growth in all business units. The figures have been calculated on a 'comparable scope' basis.

- Technical income from our non-life insurance activities (premiums less charges, plus the ceded reinsurance result) was down 10% on its level in the previous quarter, primarily because of higher technical charges (claims gradually returning to more normal levels and the impact of major claims and storm claims in the fourth quarter). It was down 7% year-on-year, due to higher premium income being more than offset by higher technical charges. Overall, the combined ratio for full-year 2020 amounted to an excellent 85%. Sales of our life insurance products were up 39% on the level recorded in the previous quarter and up 23% on their level in the year-earlier quarter.

- Net fee and commission income was higher (3%) than the level recorded in the previous quarter but down 10% year-on-year. Quarter-on-quarter, the positive effect of higher asset management fees and banking service fees was partly offset by the higher level of distribution fees paid. Year-on-year, asset management fees and banking service fees were both down, while distribution fees were stable.

- The trading and fair value result amounted to 80 million euros, down 6% on the level recorded in the previous quarter, and down 39% year-on-year. On the whole, the huge drop in the trading and fair value result in the first quarter of the year has been more than offset by the positive trading and fair value result recorded in the three subsequent quarters.

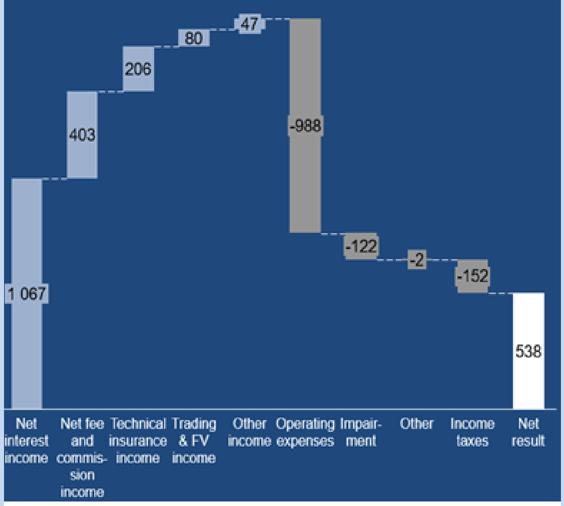
The cornerstones of our strategy

Our strategy rests on five principles:

- We place our customers at the centre of everything we do
- We look to offer our customers a unique bank-insurance experience
- We focus on our group's long-term development and aim to achieve sustainable and profitable growth
- We meet our responsibility to society and local economies
- We focus on the joint development of solutions, initiatives and ideas within the group

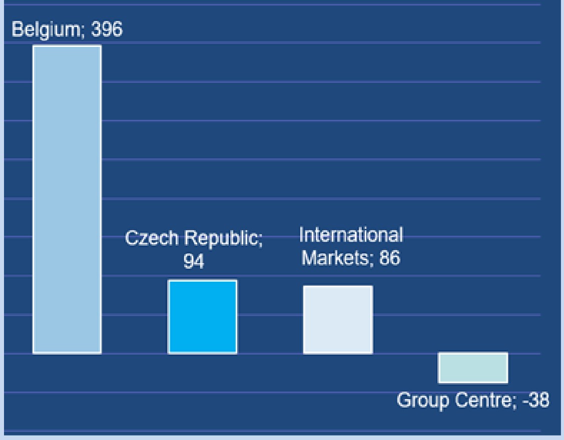
Breakdown of 4Q2020 result

(in millions of EUR)



Contribution of the business units to 4Q2020 group result

(in millions of EUR)



- All other income items combined were 6% and 27% lower than the figures recorded in the previous and year-earlier quarters, respectively, primarily because the quarter under review included a negative one-off item related to a legacy legal file in the Czech Republic and an additional effect relating to tracker mortgage review in Ireland.

- As a result of cost-saving measures, costs (excluding bank taxes), were down 6% compared to the year-earlier quarter. Compared to the previous quarter, however, costs were up 4%. The resulting cost/income ratio amounted to 59% for full-year 2020, compared to 58% for full-year 2019 (when certain non-operating items are excluded).

- Loan loss impairment charges amounted to 57 million euros in the quarter under review compared to 52 million euros in the previous quarter and 75 million euros in the year-earlier quarter. In the fourth quarter, the collective impairment charges for the coronavirus crisis were adjusted slightly (reduced by 1 million euros, following updated macroeconomic forecasts and management overlay). This brought these collective impairment charges for the full-year to 783 million euros. As a consequence, the credit cost ratio for full-year 2020 amounted to 0.60%, up from 0.12% for full-year 2019. Impairment on assets other than loans included a one-off software impairment of 59 million euros in the quarter under review.

- Our liquidity position remained strong with an LCR of 147% and NSFR of 146%. Our capital base remained equally as robust, with a fully loaded common equity ratio of 17.6% (i.e. after deduction of the proposed dividend of 0.44 euros per share).

Overview of results and balance sheet

Consolidated income statement, IFRS KBC Group (in millions of EUR)	4Q2020	3Q2020	2Q2020	1Q2020	4Q2019	FY2020	FY2019
Net interest income	1 067	1 122	1 083	1 195	1 182	4 467	4 618
Non-life insurance (before reinsurance)	192	233	255	185	229	865	756
Earned premiums	*450*	*448*	*435*	*443*	*441*	*1 777*	*1 721*
Technical charges	*-258*	*-215*	*-180*	*-258*	*-212*	*-912*	*-966*
Life insurance (before reinsurance)	4	1	6	0	2	10	-6
Earned premiums	*382*	*267*	*276*	*297*	*364*	*1 223*	*1 323*
Technical charges	*-378*	*-266*	*-271*	*-297*	*-363*	*-1 213*	*-1 329*
Ceded reinsurance result	10	-9	-13	-7	-11	-20	-25
Dividend income	11	12	17	12	17	53	82
Net result from financial instruments at fair value through P&L[1]	80	85	253	-385	130	33	181
Net realised result from debt instruments at fair value through other comprehensive income	-1	1	2	0	0	2	6
Net fee and commission income	403	390	388	429	445	1 609	1 734
Net other income	37	37	53	50	47	176	282
Total income	1 802	1 872	2 043	1 479	2 041	7 195	7 629
Operating expenses	-988	-926	-904	-1 338	-1 045	-4 156	-4 303
Impairment	-122	-63	-857	-141	-82	-1 182	-217
Of which: on financial assets at amortised cost and at fair value through other comprehensive income[2]	*-57*	*-52*	*-845*	*-121*	*-75*	*-1 074*	*-203*
Share in results of associated companies & joint ventures	-2	-2	-3	-3	-1	-11	7
Result before tax	690	881	279	-3	912	1 847	3 116
Income tax expense	-152	-184	-69	-2	-210	-407	-627
Result after tax	538	697	210	-5	702	1 440	2 489
attributable to minority interests	0	0	0	0	0	0	0
attributable to equity holders of the parent	**538**	**697**	**210**	**-5**	**702**	**1 440**	**2 489**
Basic earnings per share (EUR)	1.26	1.64	0.47	-0.04	1.66	3.34	5.85
Diluted earnings per share (EUR)	1.26	1.64	0.47	-0.04	1.66	3.34	5.85

Key consolidated balance sheet figures KBC Group (in millions of EUR)	31-12-2020	30-09-2020	30-06-2020	31-03-2020	31-12-2019
Total assets[3]	320 743	321 053	317 246	301 311	290 591
Loans and advances to customers, excl. reverse repos	159 621	157 773	157 563	158 364	155 816
Securities (equity and debt instruments)	71 784	71 310	72 131	67 176	65 633
Deposits from customers & debt certificates, excl. repos	215 430	211 672	210 811	208 293	203 369
Technical provisions, before reinsurance	18 718	18 613	18 775	18 816	18 560
Liabilities under investment contracts, insurance	12 724	12 482	12 505	11 979	13 610
Parent shareholders' equity[3]	20 030	19 244	18 570	18 080	18 722

Selected ratios KBC group (consolidated)	FY2020	FY2019
Return on equity	8%	14%
Cost/income ratio, banking (when excluding certain non-operating item)	60% (59%)	58% (58%)
Combined ratio, non-life insurance	85%	90%
Common equity ratio, Basel III Danish Compromise, fully loaded [transitional]	17.6% [18.1%]	17.1%
Common equity ratio, FICOD fully loaded [transitional]	16.4% [16.9%]	15.8%
Leverage ratio, Basel III fully loaded	6.4%	6.8%
Credit cost ratio	0.60%	0.12%
Impaired loans ratio	3.3%	3.5%
for loans more than 90 days past due	1.8%	1.9%
Net stable funding ratio (NSFR)	146%	136%
Liquidity coverage ratio (LCR)	147%	138%

1 Also referred to as 'Trading and fair value income'.
2 Also referred to as 'Loan loss impairment'.
3 Note that, as of 2019, total assets and parent shareholders' equity have been restated to take account of the change in software capitalisation policy (see Note 1.1: 'Statement of compliance' of the quarterly report).

We provide a full overview of our IFRS consolidated income statement and balance sheet in the 'Consolidated financial statements' section of the quarterly report. Condensed statements of comprehensive income, changes in shareholders' equity, as well as several notes to the accounts, are also available in the same section. As regards the (changes in) definition of ratios, see 'Details of ratios and terms' in the quarterly report.

Analysis of the quarter (4Q2020)

Total income 1 802 million euros	• Total income down 4% quarter-on-quarter. • Net interest income, technical insurance income, trading and fair value income down. • Net fee and commission income up.

Net interest income amounted to 1 067 million euros in the quarter under review, down 5% on the figure recorded in the previous quarter and down 10% year-on-year. The quarter-on-quarter decline was due mainly to the negative impact of lower reinvestment yields and a lower positive one-off item related to inflation-linked bonds (insurance). These items more than offset the positive impact of higher margins on the new production of mortgage loans, which exceeded the margins on the outstanding portfolios in Belgium, the Czech Republic and Slovakia. Year-on-year, the decrease was mainly related to the negative impact of past CNB rate cuts in the Czech Republic, the year-on-year depreciation of the Czech koruna and Hungarian forint against the euro and the negative effect of lower reinvestment yields, all of which was only partly offset by the positive impact of TLTRO III and ECB deposit tiering, more extensive charging of negative interest rates on certain current accounts held by corporate entities and SMEs and a larger loan and government bond portfolio.

The total volume of customer lending (160 billion euros) rose slightly (0.5%) quarter-on-quarter and was up 3% year-on-year, with year-on-year growth recorded in all business units. On a comparable scope basis (eliminating the effects of changes in scope, including the full consolidation of OTP Slovakia in December 2020), the total volume of customer lending remained fairly stable quarter-on-quarter. The volume of granted loans with payment holidays in the various relief schemes amounted to 13.4 billion euros by the end of December 2020 according to the EBA definition (broken down evenly among home loans, SME loans and loans to corporations). The moratoria had already expired for approximately 8.7 billion euros of that figure by the end of December 2020 (with payments resuming for 96% of that figure). In addition, we granted some 0.8 billion euros in loans that fall under the various coronavirus-related government guarantee schemes in our home markets.

Customer deposits including debt certificates (215 billion euros) were up 1% quarter-on-quarter and 7% year-on-year, with year-on-year growth in all business units. On a comparable scope basis, the year-on-year growth was 6%. Excluding debt certificates, deposits were up by no less than 11% year-on-year. All growth figures stated disregard forex movements.

The net interest margin for the quarter under review amounted to 1.75%, down 6 and 19 basis points, respectively, on the figures recorded in the previous and year-earlier quarters.

Technical income from our **non-life insurance activities** (earned premiums less technical charges, plus the ceded reinsurance result) contributed 203 million euros to total income, down 10% on the performance in the previous quarter and down 7% on the corresponding year-earlier quarter. Notwithstanding higher earned premium income and a higher ceded reinsurance result, both the quarter-on-quarter and year-on-year decrease in non-life technical income was driven entirely by higher technical charges (claims gradually returning to more normal levels following the exceptionally low level in the second quarter as a consequence of the full lockdown, the impact of major claims, storm claims and an increase of the ageing reserves (of 21 million euros) in the fourth quarter). Overall, the combined ratio for full-year 2020 came to an excellent 85%, compared to 90% for full-year 2019.

Technical income from our **life insurance activities** (earned premiums less technical charges, plus the ceded reinsurance result) amounted to 3 million euros, compared to 0 million euros in the previous quarter and 1 million euros in the year-earlier quarter. Sales of life insurance products in the quarter under review (582 million euros) were up 39% on the level recorded in the previous quarter, due to higher sales of guaranteed-interest life products in Belgium (attributable chiefly to traditionally higher volumes in tax-incentivised pension savings products in the fourth quarter of 2020) and higher sales of unit-linked products in Belgium and the Czech Republic. Sales were up 23% on the level recorded in the year-earlier quarter, driven mainly by higher sales of unit-linked products in Belgium (due to commercial campaigns aimed at Retail/SME customers). Overall, the share of guaranteed-interest products in our total life insurance sales amounted to 56% in the quarter under review, with unit-linked products accounting for the remaining 44%.

In the quarter under review, **net fee and commission income** amounted to 403 million euros, up 3% on the level in the previous quarter. Quarter-on-quarter, net fee and commission income benefited from an increase in fees for our asset management business (higher management fees, partly offset by lower entry fees) and in fees for banking services (mainly securities-related fees and fees from credit files and bank guarantees), while distribution fees rose because of higher commissions paid on banking products and increased sales of life insurance products. Compared to the year-earlier quarter, net fee and commission income was down 10%, due to a combination of lower asset management related fees, lower fees for banking services (especially for payment services), stable distribution fees paid and the year-on-year depreciation of the Czech koruna and Hungarian forint against the euro. At the end of December 2020, our total assets under management amounted to 212 billion euros, up 4% quarter-on-quarter and down 2% year-on-year. The quarter-on-quarter increase was due entirely to a further recovery in asset prices (+4%). The year-on-year decrease resulted mainly from limited net outflows in the 'investment advice' segment.

The **net result from financial instruments at fair value** (trading and fair value income) amounted to 80 million euros, down slightly by 5 million euros on the level recorded in the previous quarter (due mainly to a decline in the value of derivatives used for asset/liability management purposes, lower market value adjustments, partly offset by a higher result in the insurance share portfolio and higher dealing room and other income) and down 50 million euros year-on-year (due mainly to a decline in the value of derivatives used for asset/liability management purposes).

The **other remaining income** items included dividend income of 11 million euros, down slightly on the figure recorded in the previous quarter, and also down on the year-earlier figure. The remaining income lines also included 37 million euros in net other income, somewhat below the normal run rate for this item as it included a negative one-off item of 6 million euros for a legacy legal file in the Czech Republic and a negative 3 million euros for the tracker mortgage review in Ireland.

Operating expenses

988 million euros

- Tight cost management. Operating expenses excluding bank taxes up 4% quarter-on-quarter, but down 6% year-on-year.
- Cost/income ratio for full-year 2020 at 59% (when certain non-operating items are excluded).

Operating expenses in the fourth quarter of 2020 amounted to 988 million euros. Excluding bank taxes, this constitutes an increase of 4% on the level recorded in the previous quarter. This was due to a number of factors, including higher staff expenses (due largely to the higher accrual of variable compensation and wage inflation in most countries), higher ICT & marketing costs and higher professional fees. These items were partly offset by a positive one-off impact of 10 million euros resulting from the updated software capitalisation policy and lower facilities expenses.

Year-on-year, expenses excluding bank taxes were down 6%, due chiefly to the announced cost savings triggered by the impact of the coronavirus crisis (lower facilities, marketing and professional fees), a positive one-off impact of 10 million euros resulting from the updated software capitalisation policy and the year-on-year depreciation of the Czech koruna and Hungarian forint against the euro. These items more than offset the negative impact of higher ICT costs.

The cost/income ratio of our banking activities came to 60% for full-year 2020. Excluding certain non-operating items, the ratio amounted to 59%, more or less in line with the 58% recorded for full-year 2019.

KBC's Board of Directors approved a change in accounting policy where software assets developed in-house that are below a certain materiality threshold will no longer be capitalised (see more detailed information in Note 1.1 of the quarterly report). The impact for 2020 was fully incorporated into the operating expenses for the fourth quarter and resulted in a positive one-off impact of 10 million euros before tax.

Loan loss impairment

57-million-euro charge

- Net loan loss impairment charges slightly up on their level in the previous quarter.
- Credit cost ratio for full-year 2020 at 0.60%.

In the fourth quarter of 2020, we recorded a 57-million-euro net loan loss impairment charge, compared with a net charge of 52 million euros in the previous quarter and 75 million euros in the fourth quarter of 2019. Most of the net impairment charge in the quarter under review related to a number of corporate loans in Belgium and the Czech Republic. In the fourth quarter, the collective impairment charges for the coronavirus crisis were adjusted slightly (reduced by 1 million euros, following updated macroeconomic forecasts and management overlay). This brought these collective impairment charges for the full-year to 783 million euros. Of this amount, 672 million euros was based on a 'management overlay' and 111 million euros captured by the ECL models through updated macroeconomic variables. A detailed calculation and background information regarding collective impairment charges for the coronavirus crisis is provided in Note 1.4 of the 'Consolidated financial statements' section of the quarterly report.

Broken down by country, loan loss impairment charges in the fourth quarter of 2020 came to 39 million euros in Belgium, 17 million euros in the Czech Republic and 8 million euros in Hungary, while there were small net reversals of impairment of 5 million euros in Ireland and 1 million euros in Slovakia, Bulgaria and the Group Centre.

For the entire group, the credit cost ratio amounted to 0.60% for full-year 2020 (0.16% excluding the amount recorded for the coronavirus crisis), up from 0.12% for full-year 2019. The impaired loans ratio was down on its level at the start of the year: at the end of December 2020, some 3.3% of our total loan book was classified as impaired (Stage 3), compared to 3.5% at year-end 2019. Impaired loans that are more than 90 days past due amounted to 1.8% of the loan book, compared to 1.9% at year-end 2019.

For an indication of the expected impact of loan loss impairment for full-year 2021, see 'Guidance' on page 11 of this publication.

Impairment on assets other than loans amounted to 66 million euros, compared to 11 million euros in the previous quarter and 7 million euros in the fourth quarter of 2019. The figure for the quarter under review included a one-off software impairment of 59 million euros, as a result of specific impairment triggers related to a few distinct software projects.

Net result by business unit	Belgium	Czech Republic	International Markets	Group Centre
	396 million euros	94 million euros	86 million euros	-38 million euros

Belgium: the net result (396 million euros) fell by 90 million euros quarter-on-quarter. The fourth quarter result included lower net interest income, higher net fee and commission income, lower trading and fair value income, higher net other income, lower technical insurance results, higher operating expenses and higher impairment on assets other than loans (mainly driven by a one-off software impairment).

Czech Republic: the net result (94 million euros) was down 19% on its level for the previous quarter. The fourth quarter result included lower net interest income, lower net fee and commission income, lower net other income (related to a negative one-off item of 6 million euros for a legacy legal file), higher operating expenses and higher impairment charges (mainly driven by a one-off software impairment). This more than offset the quarter-on-quarter increase in trading and fair value income.

International Markets: the 86-million-euro net result breaks down as follows: 25 million euros in Slovakia, 38 million euros in Hungary, 25 million euros in Bulgaria and -3 million euros in Ireland. For the business unit as a whole, the net result was down 37 million euros quarter-on-quarter. This decrease came about mainly on account of higher bank taxes (mainly in Ireland) and higher impairment charges. This more than offset the quarter-on-quarter increase in net interest income, net fee and commission income and net other income.

Group Centre: the net result (-38 million euros) was 10 million euros lower than the figure recorded in the previous quarter, with the increase in impairment (on software), higher operating expenses and lower technical insurance result being partly offset by higher trading and fair value income.

	Belgium		Czech Republic		International Markets	
Selected ratios by business unit	**FY2020**	**FY2019**	**FY2020**	**FY2019**	**FY2020**	**FY2019**
Cost/income ratio, banking (excluding certain non-operating items)	57%	60%	53%	47%	65%	68%
Combined ratio, non-life insurance	84%	89%	87%	94%	84%	88%
Credit cost ratio*	0.57%	0.22%	0.67%	0.04%	0.78%	-0.07%
Impaired loans ratio	2.3%	2.4%	2.3%	2.3%	6.9%	8.5%

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

A full results table is provided in the 'Additional information' section of the quarterly report. A short analysis of the results per business unit is provided in the analyst presentation (available at www.kbc.com)

Equity, solvency and liquidity	Total equity	Common equity ratio (fully loaded)	Liquidity coverage ratio	Net stable funding ratio
	21.5 billion euros	17.6%	147%	146%

At the end of December 2020, total equity amounted to 21.5 billion euros, comprising 20.0 billion euros in parent shareholders' equity and 1.5 billion euros in additional tier-1 instruments. Total equity was up 6% on its level at the end of 2019[1] . This came about due to the combined effect of a number of items, including the profit for the year (+1.4 billion euros), an increase in the revaluation reserve for bonds (+0.1 billion euros), negative translation differences (-0.2 billion euros, due to the depreciation of the Czech koruna and Hungarian forint in the period under review) and a number of minor items. We have provided details of these changes under 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section of the quarterly report.

At 31 December 2020, our fully loaded common equity ratio (Basel III, under the Danish compromise) amounted to 17.6%. In line with the ECB recommendation of 15 December 2020 which limits dividend payments, we will propose to the General Meeting of Shareholders in May of this year a (gross) dividend of 0.44 euros per share for the accounting year 2020, payable in May 2021. Additionally, it is the intention of the Board of Directors to distribute an extra gross dividend of 2 euros per share[2] over the accounting year 2020 in the fourth quarter of 2021. For the latter, the final decision of the Board of Directors is subject to restrictions on dividends being lifted by the ECB.

For an indication of the dividend policy and capital deployment plan as of 2021, see 'Guidance' on page 11 of this publication.

Our fully loaded leverage ratio (Basel III) came to 6.4%, compared to 6.8% at the end of 2019. The solvency ratio for KBC Insurance under the Solvency II framework was 222% at the end of December 2020, compared to 202% at the end of 2019. Our liquidity position remained excellent too, as reflected in an LCR ratio of 147% and an NSFR ratio of 146% at year-end (compared to 138% and 136%, respectively, at the end of 2019).

Analysis of the year-to-date period (FY2020)

Net result	
1 440 million euros	• Net result down by 42% compared to full-year 2019. • Loan loss impairment charges significantly up, as they included 783 million euros in collective impairment charges for the coronavirus crisis. • Net interest income, net fee and commission income, trading and fair value income, dividend income and net other income down. • Tight cost control and excellent non-life result.

Highlights (compared to full-year 2019):

- Slightly lower **net interest income** (down 3% to 4 467 million euros), as the rate cuts made by the CNB in the Czech Republic, the depreciation of the Czech koruna and Hungarian forint against the euro and the negative impact related to lower reinvestment yields, among other factors, failed to be fully offset by the positive impact of TLTRO III and ECB deposit tiering, a positive one-off item related to inflation-linked bonds (insurance), higher margin on new production mortgages than the margin on the outstanding portfolio in Belgium, the Czech Republic and Slovakia and a larger loan and government bond portfolio. On a comparable scope basis, the volume of deposits and debt certificates increased by 6% (or 11% excluding debt certificates) and lending volumes increased by 3%, with growth in all business units. All growth figures stated disregard forex movements. The net interest margin in 2020 came to 1.84%, down 11 basis points year-on-year.

- Increased **technical insurance result** (up 18% to 855 million euros). The non-life insurance technical result was up 15%, due largely to higher earned premiums, the lower level of technical charges (partly related to the lower level of claims in the lockdown period, despite an increase of the ageing reserves in the fourth quarter 2020 (of 21 million euros)) and a slightly higher ceded reinsurance result. The full-year non-life combined ratio amounted to an excellent 85%, compared to 90% for full-year 2019. Life

[1] Note that parent shareholders' equity for 2019 was restated by -143 million euros to take account of the change in software capitalisation policy

[2] This amount is not deducted from the solvency ratios at year-end 2020

insurance sales (1 989 million euros) were up 8%, with the increase in sales of unit-linked products more than offsetting the decrease in sales of guaranteed-interest products.

- Lower **net fee and commission income** (down 7% to 1 609 million euros), attributable primarily to a decline in fees for asset management services, and to a lesser extent, lower fees for banking services, higher distribution fees paid and the year-on-year depreciation of the Czech koruna and Hungarian forint against the euro. At the end of December 2020, total assets under management amounted to 212 billion euros, down 2% on the level recorded a year earlier (due primarily to limited net outflows in the 'investment advice' segment).

- Lower **trading and fair value income** (down 149 million euros to 33 million euros). The figure for the full-year 2020 was the result of a huge drop in the first quarter (as the outbreak of the coronavirus crisis initially caused stock markets to tumble, credit spreads to widen and long-term interest rates to fall), followed by a significant recovery in the second, third and fourth quarters.

- Lower level of all **other income items combined** (down 38% to 231 million euros), mainly attributable to the fact that the reference period had included the ČMSS-related one-off gain of +82 million euros and – to a lesser extent – to the lower level of dividend income.

- Lower **operating expenses** (down 3% to 4 156 million euros). Excluding bank taxes, operating expenses fell by 4.2%, even more than our full-year 2020 guidance of -3.5% year-on-year. This came about due to some direct impact of the coronavirus crisis (lower marketing, facilities and professional fees), lower staff expenses (a decrease in FTEs and lower accrual of variable compensation), a positive one-off impact of 10 million euros as a result of the updated software capitalisation policy and the year-on-year depreciation of the Czech koruna and Hungarian forint against the euro. These items more than offset the negative impact of wage drift and increased ICT costs, among other things. The year-to-date cost/income ratio came to 60%, or an adjusted 59% when certain non-operating items are excluded (compared to 58% for full-year 2019).

- Significant increase in **loan loss impairment charges** (up 871 million euros to 1 074 million euros). Almost three-quarters (783 million euros) of these impairment charges in the period under review was related to collective impairment charges for the coronavirus crisis, with 672 million euros based on a 'management overlay' and 111 million euros captured by the ECL models through updated macroeconomic variables. As a result, the credit cost ratio for the whole group rose to 0.60%, compared to 0.12% for full-year 2019. Impairment on other assets increased by 94 million euros to 108 million euros, due mainly to a one-off software impairment of 59 million euros in the fourth quarter of 2020 and the one-off negative impact of 29 million euros related to the payment moratorium (IFRS modification loss resulting from the time value of payment deferral).

- The 1 440-million-euro **net result** for 2020 breaks down as follows: 1 001 million euros for the Belgium Business Unit (down 343 million euros on the year-earlier level), 375 million euros for the Czech Republic Business Unit (down 414 million euros), 199 million euros for the International Markets Business Unit (down 179 million euros) and -135 million euros for the Group Centre (down 112 million euros). The result for the International Markets Business Unit for 2020 included 56 million euros for Slovakia, 114 million euros for Hungary, 76 million euros for Bulgaria and -48 million euros for Ireland.

Risk statement, economic views and guidance

Risk statement

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

At present, a number of items are considered to constitute the main challenges for the financial sector. These stem primarily from the impact of the coronavirus crisis on the global economy and, in particular, the financial sector (including credit and market risks and the impact of persisting low interest rates on our results). These risks come on top of risks relating to macroeconomic and political developments, which affect global and European economies, including KBC's home markets. Regulatory and compliance risks (including anti-money laundering regulations and GDPR) remain a dominant theme for the sector, as does enhanced consumer protection. Digitalisation (with technology as a catalyst) presents both opportunities and threats to the business model of traditional financial institutions, while climate-related risks are becoming increasingly prevalent. Finally, cyber risk has become one of the main threats during the past few years, not just for the financial sector, but for the economy as a whole.

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

Our view on economic growth

After rebounding strongly in the third quarter, European economic growth was much more moderate in the fourth quarter. Quarter-on-quarter growth in the euro area turned negative again, while economic growth in Belgium and the Czech Republic remained slightly positive. The new pandemic measures following the resurgence of Covid-19 infections played an important role in this situation. The divergence between the weak service sector and the more resilient manufacturing sector was particularly noticeable. The manufacturing sector held up relatively well, helped by its more export-oriented character, meaning it also benefited from the more favourable economic recovery in China and the US.

The second pandemic wave gained some fresh momentum towards the end of 2020. Nevertheless, things appear to have taken a turn for the better in the fourth quarter. In particular, the approval of several vaccines and the start of vaccination campaigns have boosted hopes that the pandemic will ultimately be a temporary phenomenon. The agreement between the EU and the UK at year-end 2020 also reduced uncertainty about future trade relations, although the agreement is still far from complete. The conclusion of the US presidential elections removed another significant political risk. At the start of 2021, the main economic risk would seem to be in the form of a possible third pandemic wave and unexpected obstacles to the vaccination campaign.

2021 is set to be a year of transition. The impact of the vaccination programmes on the economic recovery will probably become increasingly visible in the second half of 2021. We expect an accelerated recovery for the European economy as of the second half of 2022.

Our view on interest rates and foreign exchange rates

Monetary and fiscal policy continue to support both the US and the euro area economies. We expect the Fed and the ECB to keep their policy rates unchanged in the years to come. Moreover, the extension in size and duration of the ECB's Pandemic Emergency Programme in December suggests that the environment of low long-term interest rates will remain in place for quite some time. We also expect intra-EMU sovereign spreads – and Bulgarian sovereign spreads – to broadly remain at their current compressed levels.

The exchange rate of the Hungarian forint against the euro was quite volatile during the fourth quarter and, on balance, ended the quarter virtually unchanged. We expect the Hungarian forint to strengthen somewhat against the euro in the first half of 2021, allowing the Hungarian Central Bank to ease its monetary policy stance again. The Czech koruna strengthened against the euro during the fourth quarter, helped by the support for long-term interest rates. We expect the Czech National Bank to raise its policy rate by 25 basis points in the second half of 2021.

The exchange rate of the US dollar against the euro weakened further in the fourth quarter, mainly as a result of weak real interest rate support. Some slight further depreciation in the short term is possible, but we expect the dollar to broadly stabilise in 2021, mainly on the back of increasing long-term interest rates in the US.

Guidance

- **Full-year 2021 guidance:**
  - *Net interest income*: in the region of 4.3 billion euros
  - *Operating expenses excluding bank taxes*: increase of approximately 2% year-on-year like-for-like (excluding the impact of the acquisition of OTP Slovakia) as some of the cost savings announced in 2020 (measures taken immediately after the first lockdown in March 2020) are not sustainable in 2021 and cost savings from our digital first strategy are more back-end loaded
  - *Credit cost ratio:* expected to be in line with the high end of our average through-the-cycle credit cost ratio (of 30-40 basis points)
- **Basel IV** impact (as of 1 January 2023) for KBC Group estimated at approximately 8 billion euros in higher risk weighted assets on a fully loaded basis at year-end 2020, corresponding with 8% risk weighted asset inflation and an impact of -1.3% points on the common equity ratio
- **Long-term financial guidance**:
  - CAGR total income (2020-2023): approx. 2% by 2023
  - CAGR OPEX excl. bank taxes (2020-2023): approx. 1% by 2023
  - Combined ratio: $\leq$ 92% by 2023
  - Common equity ratio (Fully loaded, Danish Compromise): 14.5% with a management buffer of 1% on top of, as of now
- **Dividend policy and capital deployment plan**:
  - **For 2019-2020**:
    - The ECB recommendation of 15 December 2020 limits dividend payments re. 2019 and 2020 profits to the lower of 15% of cumulated 2019-2020 profits and 20 basis points of RWA
      - As we paid out an interim dividend of 1 euro per share in November 2019, which represented more than 15% of the 2019 profit, the ECB recommendation limits the present dividend payment to 15% of the 2020 profits only. Therefore, for the accounting year 2020, a gross dividend of 0.44 euros per share will be proposed to the AGM and paid out in May 2021
      - As a consequence of the ECB recommendation, the payout for 2019 & 2020 is below the payout ratio of at least 50% in our dividend policy. The amounts not distributed are part of the surplus capital of KBC Group
    - Additionally, it is the intention of the Board of Directors of KBC Group to distribute an extra gross dividend of 2 euros per share over the accounting year 2020 in 4Q21 (this amount is not deducted from the solvency ratios at year-end 2020). The final decision of the Board of Directors is subject to restrictions on dividends being lifted by the ECB
  - **As of 2021**:
    - The dividend policy entails:
      - A payout ratio (i.e. dividend + AT1 coupon) of at least 50% of the consolidated profit of the accounting year
      - An interim dividend of 1 euro per share (payable in November of the accounting year) as an advance of the total dividend for the accounting year
    - We aim to be amongst the better capitalised financial institutions in Europe. Therefore, we are aiming for a (pre-Basel IV) fully loaded CET1 ratio of 14.5% (= reference capital position). A management buffer of 1% will be held on top of the reference capital position. When this buffer is used, the Board of Directors will decide at its discretion upon the replenishment of the buffer on an annual basis
    - On top of the payout ratio of at least 50% of consolidated profit, all capital which exceeds the reference capital position plus the 1% management buffer, will be considered for distribution to the shareholders. Each year, the Board of Directors will take this decision at its discretion when announcing the full year results
    - From the moment Basel IV will apply, the capital deployment plan will be updated (as of 1 January 2023 at the earliest)

Statement of the auditor

The statutory auditor, PwC Bedrijfsrevisoren BV/Reviseurs d'Entreprises srl, 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 requiring adjustments to the 2020 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 explanatory notes, comprising a summary of significant accounting policies and other explanatory notes included in this press release.

Upcoming events	Annual report: 1 April 2021 AGM: 6 May 2021 1Q2021 results: 11 May 2021 Dividend: ex-date 17 May 2021; record date 18 May 2021; payment date 19 May 2021 (provided AGM approves)
More information on 4Q2020	Quarterly report: www.kbc.com / Investor Relations / Reports Company presentation: www.kbc.com / Investor Relations / Presentation
Detailed impact of coronavirus crisis	Quarterly report, Note 1.4 in 'Consolidated financial statements according to IFRS' Company presentation, section 2 on 'Covid-19'
Definitions of ratios	'Details of ratios and terms at KBC Group level' in the last section of the quarterly report.

For more information, please contact:

Kurt De Baenst, General manager Investor Relations, KBC-group
Tel +32 2 429 35 73 - E-mail: IR4U@kbc.be

Viviane Huybrecht, General Manager, Corporate Communication/Spokesperson, KBC Group
Tel +32 2 429 85 45 - E-Mail: pressofficekbc@kbc.be

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

KBC Group NV
Havenlaan 2 – 1080 Brussels
Viviane Huybrecht
General Manager
Corporate Communication /Spokesperson
Tel. +32 2 429 85 45

Press Office
Tel. +32 2 429 65 01 Stef Leunens
Tel. +32 2 429 29 15 Ilse De Muyer
Tel. +32 2 429 32 88 Pieter Kussé
E-mail: pressofficekbc@kbc.be

KBC press releases are available at www.kbc.com or can be obtained by sending an e-mail to pressofficekbc@kbc.be

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