Brussels, 11 August 2016 (07.00 a.m. CEST)

KBC Group: Strong first-half profit of 1.1 billion euros. Interim dividend of 1 euro to be paid in November.

Against a background of persisting low interest rates, modest economic growth in Belgium and firmer growth in Central Europe, KBC posted a strong net profit figure of 721 million euros in the second quarter of 2016, up on the 392 million euros recorded in the preceding quarter and above the 666 million euros returned in the second quarter of 2015. As proof of our clients' trust in us, we again increased our lending and deposit volumes in the second quarter. Our result was driven by a good level of total income in our traditional business activities, flat operating expenses (disregarding bank taxes) and what is still a very low level of loan impairment charges. It was also boosted by the one-off positive impact of our sale of Visa Europe shares. Added to the 392 million euros net profit realised in the first quarter, this brings our result for the first six months of the year to 1 113 million euros, compared to 1 176 million euros for the same period in 2015. The results were complemented by strong fundamentals relating to our solvency and liquidity positions. The Board of Directors approved a new dividend policy for KBC Group. Starting this year, and barring exceptional or unforeseen circumstances, KBC will pay each year an interim dividend of 1 euro in November of the accounting year as well as a final dividend after the Annual Shareholders' Meeting. The interim dividend will be an advance payment on the total dividend. The current policy of paying a total dividend (and additional tier-1 coupon) of at least 50% of the annual consolidated profit is confirmed. The interim dividend of 1 euro per share for the accounting year 2016 will be paid on 18 November 2016.

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

- Both our banking and insurance franchises in our core markets and core activities performed well.
- Our lending volume was up in Belgium (+1%), the Czech Republic (+2%), Slovakia (+3%) and Bulgaria (+3%), while clients further increased their deposits in all countries: Belgium (+5%), the Czech Republic (+3%), Slovakia (+4%), Hungary (+4%), Bulgaria (+1%) and Ireland (+2%).

- Our net interest income was more or less unchanged quarter-on-quarter, with the negative impact of low interest rates being offset by positive elements such as growth in both current account and lending volumes, lower funding costs and rate cuts on saving accounts. The group's net interest margin was down slightly quarter-on-quarter, from 1.96% to 1.94% driven by lower reinvestment yields and pressure on commercial margins.
- Premium income earned on our non-life insurance products was up 2%, but claims rose to a greater extent (by 6%), due to the inclement weather and floods in Belgium and the Czech Republic. Our non-life combined ratio ended up at 95% year-to-date.
- Our total assets under management stood at 207 billion euros. This was roughly the same level as in the first quarter, since the small net outflow of assets was offset by a small price increase. Following the decrease in the first quarter, our net fee and commission income went up again (by 4%), due mainly to higher management fees on mutual funds and higher credit fees.
- The sale of our Visa Europe shareholding resulted in one-off additional income of 99 million euros (pre-tax), or 84 million euros (after tax).
- At 904 million euros, costs fell by 24%, since the bulk of bank taxes were booked in the first quarter of the year. Disregarding these taxes, costs remained unchanged quarter-on-quarter. The cost/income ratio stood at 59% year-to-date. After evenly spreading the bank taxes and excluding specific items, the cost/income ratio came to 56%.
- The year-to-date cost of credit amounted to an excellent but unsustainably low 0.07% of our loan portfolio. Lowered guidance for Irish loan impairment charges towards 0-40 million euros for the full year.

- Our liquidity position remained solid, and our capital base – with a common equity ratio of 14.9% (phased-in, Danish compromise) – remained well above the regulators' target of 10.25% for 2016.

Johan Thijs, our group CEO, adds:

'The continuing low level of interest rates, together with volatility on the financial markets, present a challenge for all financial institutions, including our own. In these demanding economic circumstances, we continue to be the bank-insurer that puts its clients centre stage. We see our clients as our partners, with whom we can work together to help build society and create sustainable economic growth. Clients continue to entrust their deposits to us and count on us to help them realise and protect their projects. This quarter, lending and deposit volumes increased again, as did premium income earned in our non-life insurance business. The second quarter was characterised by a good level of total income in our core business, flat operating expenses and a continuing low cost of credit. The one-off gain on the sale of our Visa Europe shareholding added to the result. Our bank-insurance concept ultimately generated a strong result of 721 million euros in the second quarter of this year.

The solvency and liquidity positions of KBC Group remain very solid, as reflected in the actual ratios but also in the July stress test results published by EBA. This is reassuring to clients, employees and stakeholders alike. The Board of Directors approved a new dividend policy for KBC Group. Starting this year, and barring exceptional or unforeseen circumstances, KBC will pay each year an interim dividend of 1 euro in November of the accounting year as well as a final dividend after the Annual Shareholders' Meeting. The interim dividend will be an advance payment on the total dividend. The current policy of paying a total dividend (and additional tier-1 coupon) of at least 50% of the annual consolidated profit is confirmed. The interim dividend of 1 euro per share for the accounting year 2016 will be paid on 18 November 2016.

Ultimately, our goal is to ensure that our clients, shareholders and other stakeholders benefit from our activities, something which all our employees are committed to working towards. The Euromoney Best Bank Awards for Belgium and Hungary which we received in July are not only an encouraging signal for us, they also fill us with pride. We are genuinely grateful for the trust our clients place in us and this yet again illustrates the success of our bank-insurance model.'

Overview KBC Group (consolidated)	2Q2015	1Q2016	2Q2016	1H2015	1H2016
Net result, IFRS (in millions of EUR)	666	392	721	1 176	1 113
Basic earnings per share, IFRS (in EUR)*	1.56	0.91	1.69	2.75	2.60
Breakdown of the net result, IFRS, by business unit (in millions of EUR)					
Belgium	528	209	371	858	579
Czech Republic	127	129	191	271	320
International Markets	68	60	123	92	183
Group Centre	-57	-6	37	-44	31
Parent shareholders' equity per share (in EUR, end of period)	32.5	34.3	35.5	32.5	35.5

* Note: if a coupon were paid on the core-capital securities sold to the Flemish Regional Government (in 2015) and a coupon is paid on the additional tier-1 instruments included in equity, it will be deducted from the numerator (*pro rata*). If a penalty had to be paid on the core-capital securities (in 2015), it will likewise be deducted.

Highlights in the quarter under review

- Our core strategy remains focused on providing bank-insurance products and services to retail, SME and mid-cap clients in Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria.
- On the macroeconomic front, the most significant economic risk to the euro-area economy, the Brexit, materialised after the referendum in the UK on 23 June. This initially increased volatility on the financial markets and weighed on both producer and consumer sentiment. So far, however, the overall real impact has still been limited. Nevertheless, it will have a negative effect on the economic recovery in the euro area. In particular, it will emphasise the main source of fragility, i.e. the relative weakness of investment growth. The Brexit decision occurred against the background of relatively favourable economic data. The strong first-quarter growth of real GDP in the euro area, which accelerated to 0.6%, had supported a somewhat optimistic view. However, this robust performance could not be sustained in the second quarter, when growth came to just 0.3%. This is more in line with the potential growth rate of the euro area. As a result, the euro area unemployment rate continued its slow but steady decline to 10.1% in June. Economic growth in the second quarter was surprisingly weak in the US too (0.3% not annualised), despite the strong increase in private consumption. The weakness was due mainly to disappointing investment growth and a decline in inventories. In the meantime, global inflation remains subdued. In the US, inflation has reached relatively normal levels. In the euro area, on the other hand, the latest core inflation rate is still only half the target rate set by the European Central Bank (2%). The underlying reasons for this include the still high rate of unemployment, subdued nominal wage growth, and the trade-weighted appreciation of the euro, making import price inflation even more negative.
- We remained adequately capitalised under the 2016 EU-wide EBA stress test, as announced by the European Banking Authority (EBA) at the end of July. The impact of the stress test on our fully loaded Common Equity Tier-1 ratio (common equity ratio: 14.9% at year-end 2015) increased this ratio by 1.3 percentage points to 16.2% under the baseline scenario (+1.0 percentage points on a transitional basis). Under the adverse scenario, our fully loaded common equity ratio would fall by 3.6 percentage points to 11.3% (-3.9 percentage points on a transitional basis, likewise falling to 11.3%). So we remain adequately capitalized even in an adverse scenario. Our leverage ratio, which stood at 6.32% at the end of 2015, would increase to 7.4% under the baseline scenario and only decrease to 5.7% under the adverse scenario. The outcome of the exercise provided a reassuring signal to all stakeholders placing their trust in us that our institution is well capitalised. We will continue to ensure that appropriate levels of capital are maintained.
- We are continuing to pro-actively roll out our financial technology plans so we can serve our clients even better going forward. In June 2016, we announced that clients of ČSOB and Era Poštovní spořitelna (Postal Savings Bank) would be able to pay for their shopping by mobile phone, courtesy of a new app called ČSOB NaNákupy (Mobile Wallet). This is the first mobile wallet in the Czech Republic to support both MasterCard and Visa. Another plus point for the app is that it can be used without the need for a new bank card or SIM. By the end of the year, additional features will be provided. The mobile app will allow payments over the Internet, card management and enable the transaction history to be viewed. Users will have the option of downloading their loyalty cards, receipts or using shared shopping lists in their devices.

  In July 2016, we announced the launch of a trial ground-breaking blockchain application for SMEs. Together with IT specialist Cegeka and various other companies, we are the first in the market to successfully test Digital Trade Chain (DTC), a blockchain solution that facilitates secure international trade between SMEs. Large companies use documentary credit as a way of reducing the risks involved in doing business, but this solution is not always suitable for SMEs. We are continuing to develop DTC and are negotiating with additional parties to make the platform more widely available and easier to access.

  In July 2016, we announced that we were cooperating with ING on an integrated payment and loyalty solution in Belgium. In doing so, we are responding to the rapidly changing digital experience of clients. These user-friendly and cost-effective solutions are already being used in the Belgian market by over a million Qustomer, CityLife and Payconiq users at more than 6 500 stores. This network will continue to expand in the months to come.

- In July 2016, KBC in Belgium and K&H in Hungary won the Euromoney Award for 'Best Bank' in their respective countries. Euromoney welcomed 600 senior bankers from around the world to celebrate the 25th anniversary of its Awards for Excellence. The awards are based on year-round monitoring of market share and customer-satisfaction data compiled by Euromoney's industry-leading surveys department. These awards clearly demonstrate that our client-oriented approach is working.

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.

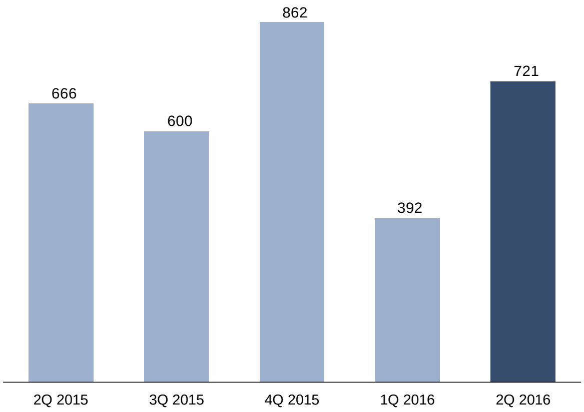
Consolidated income statement, IFRS KBC Group (in millions of EUR)	2Q 2015	3Q 2015	4Q 2015	1Q 2016	2Q2016	1H2015	1H2016
Net interest income	1 092	1 062	1 066	1 067	1 070	2 183	2 137
Interest income	1 804	1 770	1 725	1 720	1 654	3 654	3 375
Interest expense	-712	-708	-659	-653	-585	-1 471	-1 238
Non-life insurance (before reinsurance)	155	142	147	145	141	322	286
Earned premiums	*326*	*335*	*338*	*341*	*349*	*646*	*690*
Technical charges	*-172*	*-193*	*-191*	*-196*	*-208*	*-324*	*-404*
Life insurance (before reinsurance)	-51	-51	-51	-35	-38	-99	-73
Earned premiums	*265*	*289*	*445*	*426*	*402*	*567*	*827*
Technical charges	*-316*	*-340*	*-496*	*-461*	*-440*	*-666*	*-901*
Ceded reinsurance result	-7	0	-10	-8	-13	-18	-21
Dividend income	39	13	12	10	36	51	46
Net result from financial instruments at fair value through P&L	179	47	-68	93	154	236	247
Net realised result from available-for-sale assets	36	44	30	27	128	116	155
Net fee and commission income	465	383	371	346	360	924	706
Fee and commission income	634	547	533	507	517	1 267	1 024
Fee and commission expense	-169	-164	-162	-161	-157	-343	-318
Other net income	105	96	47	51	47	154	98
Total income	2 013	1 736	1 543	1 697	1 885	3 868	3 581
Operating expenses	-941	-862	-962	-1 186	-904	-2 066	-2 090
Impairment	-149	-49	-472	-28	-71	-226	-99
on loans and receivables	-138	-34	-78	-4	-50	-211	-54
on available-for-sale assets	-7	-15	-21	-24	-20	-9	-43
on goodwill	0	0	-344	0	0	0	0
other	-5	0	-29	-1	-1	-6	-2
Share in results of associated companies and joint ventures	8	6	5	7	6	14	13
Result before tax	930	831	114	489	916	1 589	1 405
Income tax expense	-264	-231	749	-97	-194	-413	-292
Net post-tax result from discontinued operations	0	0	0	0	0	0	0
Result after tax	666	600	863	392	721	1 176	1 113
attributable to minority interests	0	0	0	0	0	0	0
attributable to equity holders of the parent	**666**	**600**	**862**	**392**	**721**	**1 176**	**1 113**
Basic earnings per share (EUR)*	1.56	1.41	-0.36	0.91	1.69	2.75	2.60
Diluted earnings per share (EUR)*	1.56	1.41	-0.36	0.91	1.69	2.75	2.60

* Note: if a coupon is paid on the core-capital securities sold to the Flemish Regional Government and a coupon is paid on the additional tier-1 instruments included in equity, it will be deducted from the numerator (*pro rata*). If a penalty has to be paid on the core-capital securities, it will likewise be deducted.

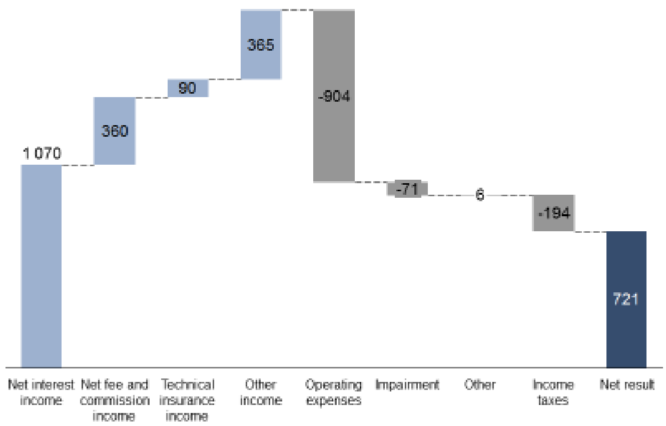
Key consolidated balance sheet figures KBC Group (in millions of EUR)	30-06-2015	30-09-2015	31-12-2015	31-03-2016	30-06-2016
Total assets	256 654	257 632	252 356	261 551	265 681
Loans and advances to customers	126 093	126 971	128 223	129 703	131 383
Securities (equity and debt instruments)	70 755	71 115	72 623	72 860	73 494
Deposits from customers and debt certificates	170 159	171 412	170 109	173 646	175 870
Technical provisions, before reinsurance	19 198	19 365	19 532	19 619	19 724
Liabilities under investment contracts, insurance	12 937	12 422	12 387	12 508	12 427
Parent shareholders' equity	13 576	14 022	14 411	14 335	14 834
Non-voting core-capital securities	2 000	2 000	0	0	0

Analysis of the quarter (2Q2016)

Net result (in millions of EUR)



Breakdown of net result for 2Q2016 (in millions of EUR)



The net result for the quarter under review amounted to 721 million euros, compared to 392 million euros quarter-on-quarter and 666 million euros year-on-year.

Total income up 11% quarter-on-quarter, thanks to one-off gains on the sale of Visa Europe shares. Excluding this gain, total income increased by 5%.

- Our net interest income stood at 1 070 million euros in the second quarter of 2016. Notwithstanding the current environment of low yields, net interest income remained unchanged quarter-on-quarter, and only contracted by 2% year-on-year. The quarter-on-quarter trend was driven by lower funding costs, higher income from an increased bond position, good credit volume growth and reduced rates on savings accounts. This offset the heightened pressure on lending margins and the negative impact from the low yield environment on the investment book. For the sake of completeness, it is worth mentioning that increased hedging losses on refinanced home loans in the second quarter are being offset this year by the prepayment fees received on these loans. As a result, our net interest margin came to 1.94% for the quarter under review, 2 basis points down on the level of the previous quarter, and 12 basis points lower than the level of the year-earlier quarter. In general, interest income continued to be supported by volume growth: our total lending volume went up both quarter-on-quarter (by 1%) and year-on-year (by 4%), while deposit volumes grew by as much as 4% quarter-on-quarter and 6% year-on-year.
- Technical income from our non-life and life insurance activities decreased quarter-on-quarter and year-on-year. In the quarter under review, gross earned premiums less gross technical charges and the ceded

reinsurance result contributed 90 million euros to total income, 12% less than in the previous quarter and 7% less than in the year-earlier quarter.

The earned premiums from our non-life insurance activities continued to increase, going up 2% quarter-on-quarter and 7% year-on-year, thanks to commercial efforts and some pricing increases. Non-life claims during the second quarter were up by 6% on the previous quarter and by 21% on their level in the second quarter of 2015, caused mainly by the impact of storms and floods. As a result, our combined ratio came to 95% for the first six months of the year.

Sales of our guaranteed-rate life insurance products were down slightly (-1%) quarter-on-quarter but well up (+51%) year-on-year. On the other hand, sales of our unit-linked life insurance products (not included in life premium income) declined 16% quarter-on-quarter, but rose 9% year-on-year.

It should be noted that, during the second quarter of 2016, investment income derived from insurance activities was up 24% on its level of the previous quarter, but down 10% on the year-earlier quarter. The quarter-on-quarter improvement was driven primarily by seasonally higher dividend income, as well as by realised gains on shares. The year-on-year drop was due chiefly to higher impairment on available-for-sale shareholdings.

- In the quarter under review – and especially following the turmoil of the Brexit vote – the financial markets continued to experience uncertainty and investment behaviour remained hesitant. Even so, our total assets under management remained at their level of the previous quarter (207 billion euros), with the slight net outflow of assets (-1%) being offset by a comparable positive price performance. Compared to a year ago, our total assets under management were still slightly up (+2%), thanks to the growth in net entries which more than offset the slight negative price performance. Our asset management services are the main contributor to our net fee and commission income which, following the decrease in the previous quarter, rose again by 4% quarter-on-quarter to 360 million, thanks to higher management fees for mutual funds, triggered by a shift in asset allocation from cash positions. In addition, an increase in credit and guarantee-related fees contributed to the quarterly improvement. However, compared to the year-earlier quarter, net fee and commission income was down 23%, due to substantially lower management fees and entry fees for mutual funds, as well as lower securities-related fees.
- The net result from financial instruments at fair value stood at 154 million euros in the second quarter of 2016, compared to 93 million euros in the previous quarter and 179 million euros in the year-earlier quarter. The relatively strong quarter-on-quarter increase is due largely to one-off changes to our valuation adjustment models (CVA/MVA).
- All other income items amounted to an aggregate 211 million euros, 123 million more than in the previous quarter and 31 million more than in the year-earlier quarter. The quarter under review benefited from 99 million euros (pre-tax) in gains resulting from the sale of Visa Europe shares. In addition, the second quarter was characterised by seasonally high dividend income.

Operating expenses distorted by bank taxes being booked upfront in the previous quarter: excluding these taxes, operating expenses in line with the previous quarter and down 1% year-on-year.

- Our operating expenses amounted to 904 million euros for the second quarter of 2016, which is a significant reduction on their level in the previous quarter (-24%). However, it should be noted that the bulk of the special bank taxes is traditionally booked in the first quarter of the year. Disregarding these taxes (335 million euros in the first quarter of 2016 and 51 million euros in the second quarter), our operating expenses stood at roughly the same level as in the previous quarter and were even down 1% year-on-year. The quarter-on-quarter cost trend was impacted by such factors as higher marketing expenses and lower staff expenses. The 1% year-on-year decrease resulted from a number of factors, including lower staff expenses that were somewhat mitigated by higher IT expenses.

  As a result, the cost/income ratio of our banking activities stood at 59% year-to-date, compared to 55% for 2015. Excluding a number of specific items and after evenly spreading the bank taxes, the cost/income ratio would be 56% (likewise compared to 55% for 2015).

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

- Loan loss impairment charges stood at a favourable 50 million euros in the second quarter of 2016, clearly up on the all-time low 4 million euros recorded in the previous quarter, but down on the 138

million recorded a year earlier. The quarter-on-quarter increase was partly caused by model parameter changes in the majority of portfolios, while the number of new impaired loans in all segments was limited. Loan loss impairment came to 28 million euros in Belgium, 9 million euros in the Czech Republic, 6 million euros in Slovakia, 1 million euros in Bulgaria, 7 million euros in the Group Centre and there were net loan loss releases (positive impact) of 1 million euros in both Hungary and Ireland. For the entire group, annualised loan loss impairment in the first half of 2016 accounted for some 0.07% the total loan portfolio.
- Impairment on available-for-sale assets stood at 20 million euros, a slight decrease on the quarter-earlier figure of 24 million euros but up on the year-earlier figure of 7 million euros. Impairment in the quarter under review was primarily on shares in the insurance investment portfolio.

Results per business unit

- Our quarterly profit of 721 million euros breaks down into 371 million euros for the Belgium Business Unit, 191 million euros for the Czech Republic Business Unit, 123 million euros for the International Markets Business Unit and 37 million euros for the Group Centre. A full results table and a short analysis per business unit are provided in the 'Results per business unit' section of the quarterly report, while more information for each business unit is also given in the analyst presentation (both available at www.kbc.com).

Strong fundamentals: equity, solvency and liquidity

- At the end of June 2016, our total equity (including our additional tier-1 issues) stood at 16.2 billion euros, up 0.4 billion euros on its level at the end of 2015. The change in total equity during the first six months of 2016 resulted from the inclusion of half-year profit (+1.1 billion euros), the lower valuation of cash flow hedges (-0.5 billion euros) and remeasurements of defined benefit plans (-0.2 billion euros).
- Our solvency ratios comfortably passed the regulators' joint solvency test for 2016 (a minimum of 10.25%, Basel III, phased-in under the Danish compromise). At 30 June 2016, our common equity ratio at group level (Basel III, under the Danish compromise) stood at a strong 14.9% (phased-in and fully loaded). The group's leverage ratio (Basel III, fully loaded) came to 6.0%. Although impacted by a new cap imposed by the Belgian regulator, the solvency ratio for KBC Insurance at 30 June 2016 was a good 187% under the new Solvency II framework.
- The group's liquidity position remained at an excellent level, as reflected in an LCR ratio of 132% and an NSFR ratio of 123% at the end of June 2016.

Analysis of the year-to-date period (1H2016)

Our aggregate result for the first six months of the year now stands at 1 113 million euros, compared to 1 176 million euros a year earlier.

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

- Slightly lower net interest income (-2% to 2 137 million euros), due primarily to the current low interest rate environment leading to a lower transformation result and a lower level of dealing room income, somewhat offset by lower funding costs and higher interest income from lending activities. The deposit volume increased (+6%), as did the lending volume (+4%).
- A lower contribution of the technical insurance results (gross earned premiums less gross technical charges and the ceded reinsurance result: -6% to 192 million euros), due in part to higher claims. In non-life insurance, the resulting year-to-date combined ratio stood at 95%. In life insurance, sales were up by almost 30%, thanks mainly to interest-guaranteed products in Belgium.
- Lower net fee and commission income (-24% to 706 million euros), due to substantially lower management fees and entry fees for mutual funds. At the end of June 2016, total assets under management stood at 207 billion euros, a year-on-year increase of close to 2% resulting from a 2% net inflow increase and a -1% average price decrease.
- A virtually unchanged level of all other income items (an aggregate 546 million euros). This included a slightly higher net result from financial instruments at fair value (+5% to 247 million euros), significantly

higher net realised gains from available-for-sale assets (+34% to 155 million euros, thanks to a gain on the sale of Visa Europe shares), somewhat lower dividend income (-10% to 46 million euros) and a decrease in other net income (-36% to 98 million euros, since the second quarter of 2015 had benefited from a number of positive one-off items).

- Slightly higher operating expenses (+1% to 2 090 million euros), owing essentially to higher bank taxes (up 11%). Excluding these taxes, operating expenses were down 1% on their level for the first half of 2015. As a result, the year-to-date cost/income ratio came to 59%, or 56% when adjusted for specific items.
- Significantly lower loan loss impairment charges (-75% to 54 million euros). As a result, the annualised credit cost ratio for the whole group stood at an excellent 0.07%.

Selected ratios for the KBC group (consolidated)	FY2015	1H2016
Profitability and efficiency		
Return on equity	22%	17%
Cost/income ratio, banking	55%	59%
Combined ratio, non-life insurance	91%	95%
Solvency		
Common equity ratio according to Basel III Danish Compromise method (phased-in)	15.2%	14.9%
Common equity ratio according to Basel III Danish Compromise method (fully loaded)	14.9%	14.9%
Common equity ratio according to FICOD method (fully loaded)	14.0%	13.5%
Leverage ratio according to Basel III (fully loaded)	6.3%	6.0%
Credit risk		
Credit cost ratio	0.23%	0.07%
Impaired loans ratio	8.6%	7.8%
for loans more than 90 days overdue	4.8%	4.4%
Liquidity		
Net stable funding ratio (NSFR)	121%	123%
Liquidity coverage ratio (LCR)	127%	132%

Statement of risk

- As we are mainly active in banking, insurance and asset management, we are exposed to a number of typical risks for these financial sectors such as – but not limited to – credit default risk, counterparty credit risk, concentration risk, movements in interest rates, currency risk, 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 KBC closely monitors and manages 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 KBC. Increasing capital requirements are a dominant theme for the sector. Major current regulatory initiatives relate to credit risk, operational risk, trading risk, ALM risk and consumer protection. Besides regulation, the low interest rate environment remains a continuing challenge. If low rates were to persist, this would put considerable pressure on the long-term profitability of banks and especially insurers. The financial sector also faces the potential systemic consequences of political and financial developments like Brexit or concerns about the banking sector in some countries. The risk radar screens of financial institutions show that financial technology is an additional challenge for the business model of traditional financial institutions. Finally, cyber risk has become one of the main threats during the past few years, not just for the financial sector, but for the economy as a whole.
- Risk management data are provided in our annual reports, extended quarterly reports and dedicated risk reports, all of which are available at www.kbc.com.
- On the macroeconomic front, given the uncertainty caused by the Brexit vote in the UK referendum on 23 June, we are working on the assumption that the Fed will keep its policy rate on hold for the remainder of 2016 and will only raise it gradually in 2017, probably in three steps of 25 basis points each time. In the meantime, the ECB has announced that it was keeping its negative deposit rate unchanged,

or would even lower it, until well after its Asset Purchase Programme ends, which is currently scheduled for March 2017. The ECB will probably only raise its deposit rate in 2018 at the earliest. As a result of the 'flight to quality' on the financial markets after the Brexit vote, it is expected that the US dollar will strengthen moderately against the euro in 2016 and 2017. The expected further economic expansion in the US, together with the expected Fed rate hikes in 2017, should lead to a modest rise in US bond yields. This will also pull up German rates to a certain extent, given the global integration of the main bond markets.

- Despite the relatively weak second quarter in macroeconomic terms and higher-than-average economic and political uncertainty arising from Brexit, Turkish political tensions, the refugee crisis, upcoming elections in Europe and the US, fragility in emerging markets, and so on, we nevertheless expect the remainder of 2016 to be a year of sustained economic growth in both the euro area and the US. The fundamental reasons for this are the resilience of domestic demand, in particular private consumption, somewhat accommodating fiscal policy, and resuming investment growth, especially in the US. Growth contribution from international trade, on the other hand, is expected to be rather weak. As a result, economic growth in the euro area and the US will be somewhat lower than in 2015 and is expected to accelerate again in 2017. We remain cautiously positive about growth in Belgium, although the figures for 2016 and 2017 are likely to remain below euro area levels, given the continuing fiscal austerity and the relatively higher-than-expected impact of Brexit. In Central Europe, robust GDP growth is expected to ease somewhat in 2016, as the impulse provided by European cohesion funds for government investment dissipates.

For more information, please contact:

Wim Allegaert, General Manager, Investor Relations, KBC Group
Tel +32 2 429 50 51 - E-mail: wim.allegaert@kbc.be

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

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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
Fax +32 2 429 81 60
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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