Press Release

Outside trading hours - Regulated information*

Brussels, 14 May 2020 (07.00 a.m. CEST)

KBC Group: First-quarter result of -5 million euros

KBC Group – overview (consolidated, IFRS)	1Q2020	4Q2019	1Q2019
Net result (in millions of EUR)	-5	702	430
Basic earnings per share (in EUR)	-0.04	1.66	0.98
Breakdown of the net result by business unit (in millions of EUR)			
Belgium	*-86*	*412*	*176*
Czech Republic	*88*	*205*	*177*
International Markets	*35*	*119*	*70*
Group Centre	*-43*	*-33*	*7*
Parent shareholders' equity per share (in EUR, end of period)	43.8	45.3	43.1

'In the quarter under review, we were confronted with the outbreak and spread of the coronavirus, the long-term impact of which on the economy remains quite uncertain at this moment in time. As an employer and service provider, we reacted quickly to try to safeguard the health of our staff and clients, while ensuring that services continue to be provided. As many staff as possible are working from home and we are providing our clients with advice through a wide range of phone and digital channels. We have been working hard with government agencies of our core countries to support all customers impacted by coronavirus by processing loan deferral requests promptly, and efficiently instituting other relief measures. We are clearly benefiting from the efforts and investments we have made over the past few years on the digital transformation front. These efforts and investments, along with the expertise and motivation of our employees in all our home countries and the strength of our multichannel distribution network, allow us to provide our customers with a level of service that is very close to pre-coronavirus crisis levels.

As regards our financial results, we incurred a net loss of 5 million euros in the first quarter of 2020, caused mainly by the impact of the worldwide coronavirus outbreak on our trading and fair value result and the upfront booking of bank taxes.

In the quarter under review, our trading and fair value result came to a negative 0.4 billion euros, as a result of a number of market-driven factors, such as sharply lower stock markets, widening credit spreads and lower long-term interest rates.

The impact of the coronavirus crisis on the other profit and loss lines in the quarter under review was less pronounced. Compared to the year-earlier quarter, our core income lines, i.e. net interest income, net fee & commission income and the technical insurance result, performed quite well. Costs were kept well under control, too. They decreased slightly year-on-year after excluding the impact of the consolidation of ČMSS, bank taxes (the bulk of the full-year amount of these taxes is usually recorded in the first quarter) and some one-off items. Loan loss provisions increased in the quarter under review and included an additional 43 million euros specifically related to the coronavirus crisis, based on our exposure to sectors we believe will be affected most by the crisis. For full-year 2020, we estimate impairments to amount to roughly 1.1 billion euros (base scenario).

Generally speaking, volumes held up well year-on-year: on a comparable scope basis, loans and advances increased by 6%, deposits by 5% and earned non-life insurance premiums by 7%. On the other hand, sales of life insurance products fell by 17% year-on-year.

Our solvency position remained very strong, with a common equity ratio of 16.3% on a fully loaded basis, well above the current minimum capital requirement of 8.05%. This minimum requirement takes into account the various announced ECB and National Banks' measures which have provided significant temporary relief on the minimum capital requirements. Our liquidity position remained solid too, with an LCR of 135% and an NSFR of 134% at the end of March 2020. We are especially pleased that the hard work in recent years has paid off in making our group strong and healthy. As a result, our current capital and liquidity buffers allow us to face today's challenges with confidence.

Ultimately, our goal remains the same: to ensure that our customers are at the centre of everything we do, something which our employees are committed to in their day-to-day work. I wish to express my utmost appreciation to all colleagues who have expended huge efforts to serve our customers and support the sound functioning of the group from home offices and other remote locations. In closing, I would also like to take this opportunity to explicitly thank all those stakeholders who have – in these challenging times - continued to put their trust in us.'

Johan Thijs
Chief Executive Officer

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

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Financial highlights in the first quarter of 2020

- Sharply lower stock markets, widening credit spreads and lower long-term interest rates as a consequence of the coronavirus pandemic had a considerable negative impact on our net result from financial instruments at fair value through P&L (trading and fair value income), which fell from 130 million euros and 99 million euros in the previous and year-earlier quarters, respectively, to -385 million in the quarter under review.

- The impact of the coronavirus crisis on the other profit and loss lines (see below) was less pronounced in the quarter under review.

- Net interest income increased by 1% quarter-on-quarter and by 6% year-on-year. The year-on-year increase was – in addition to a number of one-off items – due to factors such as loan volume growth, the positive impact of ECB tiering, the full consolidation of ČMSS since June 2019, and earlier rate hikes in the Czech Republic. On the other hand, it continued to suffer from low reinvestment yields in our euro-area core countries and from ongoing pressure on loan portfolio margins (despite a recovery of the margin on new mortgage and SME loan production in Belgium). Loan volumes were up 3% quarter-on-quarter and 6% year-on-year, with growth recorded in all business units. Deposits including debt certificates grew by 4% quarter-on-quarter and 5% year-on-year. The growth figures were calculated on a comparable scope basis.

- Technical income from our non-life insurance activities (premiums less charges, plus the ceded reinsurance result) was up 12% on its level in the year-earlier quarter, due mainly to an increase in earned premium income (+7%). The combined ratio for the first quarter of 2020 amounted to an excellent 90%. Sales of our life insurance products were down 9% and 17% on their respective levels in the previous and year-earlier quarters.

- Net fee and commission income was 4% lower than the figure recorded in the previous quarter (related in part to the decrease in average assets under management and to lower fees relating to banking services). Net fee and commission income was up 5% on the year-earlier quarter (due to increased asset-management-related fees and higher banking-services-related fees, including the ČMSS impact).

- Costs excluding bank taxes – the bulk of which is paid in the first quarter – were down 6% on the figure recorded in the previous quarter and up 2% year-on-year, with the year-on-year increase largely accounted for by the ČMSS impact. When certain non-operating items are excluded and the bank taxes spread evenly throughout the year, the cost/income ratio amounted to 69%, up on the 58% recorded for full-year 2019, as it was impacted by the drop in total income (in 'trading and fair value income') in the quarter under review.

- The quarter under review included a 121-million-euro loan loss impairment charge, compared to the 75-million-euro charge in the previous quarter and 67 million euros in the year-earlier quarter. The figure for the quarter under review included 43 million euros specifically related to the coronavirus crisis, based on our exposure to sectors we believe will be affected most by the crisis. This caused the credit cost ratio to increase to 0.27% in the first quarter of 2020, compared to 0.12% for full-year 2019. Impaired loans accounted for 3.3% of the loan portfolio at the end of the quarter, compared to 3.5% three months earlier

- Our liquidity position remained strong with an LCR of 135% and NSFR of 134%, as did our capital base, with a fully loaded common equity ratio of 16.3%.

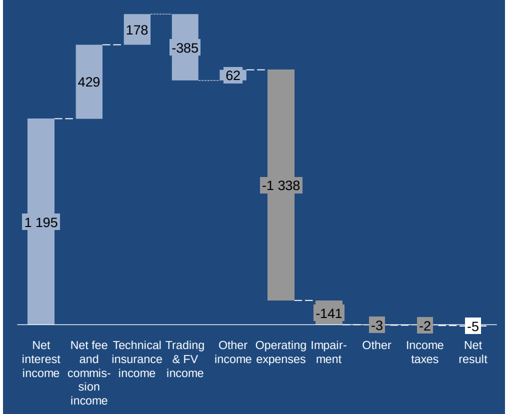
The cornerstones of our strategy

Our strategy rests on four 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

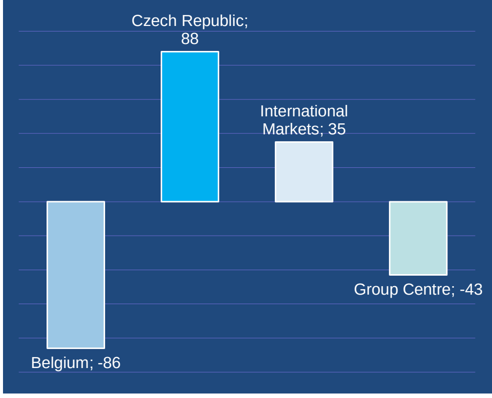
Breakdown of the 1Q2020 result

(in millions of EUR)



Contribution of the business units to the 1Q2020 group result

(in millions of EUR)



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Overview of results and balance sheet

Consolidated income statement, IFRS KBC Group (in millions of EUR)	1Q2020	4Q2019	3Q2019	2Q2019	1Q2019
Net interest income	1 195	1 182	1 174	1 132	1 129
Non-life insurance (before reinsurance)	185	229	192	174	161
Earned premiums	*443*	*441*	*440*	*425*	*415*
Technical charges	*-258*	*-212*	*-248*	*-251*	*-254*
Life insurance (before reinsurance)	0	2	-5	1	-3
Earned premiums	*297*	*364*	*291*	*317*	*351*
Technical charges	*-297*	*-363*	*-297*	*-316*	*-354*
Ceded reinsurance result	-7	-11	-9	1	-7
Dividend income	12	17	14	39	12
Net result from financial instruments at fair value through P&L[1]	-385	130	-46	-2	99
Net realised result from debt instruments at fair value through other comprehensive income	0	0	5	0	2
Net fee and commission income	429	445	444	435	410
Net other income	50	47	43	133	59
Total income	1 479	2 041	1 813	1 913	1 862
Operating expenses	-1 338	-1 045	-975	-988	-1 296
Impairment	-141	-82	-26	-40	-69
Of which: on financial assets at amortised cost and at fair value through other comprehensive income[2]	*-121*	*-75*	*-25*	*-36*	*-67*
Share in results of associated companies & joint ventures	-3	-1	0	4	5
Result before tax	-3	912	812	889	503
Income tax expense	-2	-210	-200	-144	-73
Result after tax	-5	702	612	745	430
attributable to minority interests	0	0	0	0	0
attributable to equity holders of the parent	**-5**	**702**	**612**	**745**	**430**
Basic earnings per share (EUR)	-0.04	1.66	1.44	1.76	0.98
Diluted earnings per share (EUR)	-0.04	1.66	1.44	1.76	0.98
Key consolidated balance sheet figures KBC Group (in millions of EUR)	**31-03-2020**	**31-12-2019**	**30-09-2019**	**30-06-2019**	**31-03-2019**
Total assets	301 451	290 735	294 830	289 548	292 332
Loans and advances to customers, excl. reverse repos	158 364	155 816	154 863	154 169	148 517
Securities (equity and debt instruments)	67 176	65 633	65 122	63 746	63 706
Deposits from customers & debt certificates, excl. repos	208 293	203 369	205 270	199 138	197 987
Technical provisions, before reinsurance	18 816	18 560	18 549	18 652	18 589
Liabilities under investment contracts, insurance	11 979	13 610	13 456	13 381	13 334
Parent shareholders' equity	18 220	18 865	18 086	17 799	17 924
Selected ratios KBC group (consolidated)	**1Q2020**	**FY2019**			
Return on equity	-0.4%[3]	14%			
Cost/income ratio, banking (when excluding certain non-operating items and spreading bank taxes evenly throughout the year)	91% (69%)	58% (58%)			
Combined ratio, non-life insurance	90%	90%			
Common equity ratio, Basel III Danish Compromise (fully loaded)	16.3%	17.1%			
Common equity ratio, FICOD (fully loaded)	15.3%	15.8%			
Leverage ratio, Basel III (fully loaded)	6.5%	6.8%			
Credit cost ratio	0.27%	0.12%			
Impaired loans ratio	3.3%	3.5%			
for loans more than 90 days past due	1.9%	1.9%			
Net stable funding ratio (NSFR)	134%	136%			
Liquidity coverage ratio (LCR)	135%	138%			

1 Also referred to as 'Trading and fair value income'.
2 Also referred to as 'Loan loss impairment'.
3 4% when bank taxes are spread evenly throughout the year.

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 (1Q2020)

Total income 1 479 million euros	Total income decreased by 28% quarter-on-quarter, due almost entirely to a very steep decline in trading and fair value income caused by the coronavirus-induced financial market turmoil. All other income items combined fell slightly quarter-on-quarter, with the decrease in technical insurance income and in net fee and commission income being partly offset by higher net interest income.

The drop in total income in the quarter under review was mostly accounted for by a significant decline in the **net result from financial instruments at fair value** (trading and fair value income), which went from a positive 130 million euros and 99 million euros in the previous and year-earlier quarters, respectively, to a negative 385 million euros in the first quarter of 2020, due essentially to the impact of the coronavirus (Covid-19) crisis. As this crisis impacted markets worldwide (anticipating a severe recession in 2020), it caused stock markets to tumble, credit spreads to widen and long-term interest rates to fall, among other effects. Consequently, impairments on shares at the insurance company increased notably, significant negative (mainly counterparty and funding) value adjustments were recorded, the value of derivatives used for asset/liability management purposes became negative and our dealing room result fell. The combined effect of these factors led to the negative 385 million euros in this income line.

In the quarter under review, the impact of the coronavirus crisis on **other income items** (see below) was less pronounced.

Net interest income amounted to 1 195 million euros in the quarter under review, up 1% on the figure recorded in the previous quarter and by as much as 6% year-on-year. Net interest income continued to benefit from the positive effect of loan volume growth, lower funding costs (quarter-on-quarter), the positive impact of ECB tiering, the full consolidation of ČMSS since June 2019 (therefore, not included in the first quarter of 2019 – referred to as the 'ČMSS impact'), the higher netted positive impact of ALM FX swaps, the effect of earlier rate hikes in the Czech Republic, as well as a few one-off items. These items were partly offset by a number of factors, including pressure on loan portfolio margins (despite a recovery of the margin on a large part of the new loan production in Belgium), the lower number of days in the period under review (quarter-on-quarter) and the negative effect of lower reinvestment yields in our core countries in the euro area.

The total volume of customer lending (158 billion euros) increased by 3% quarter-on-quarter and by as much as 8% year-on-year (excluding the forex impact). On a comparable scope basis, i.e. excluding the ČMSS impact and some smaller changes in the scope of consolidation, the year-on-year increase amounted to 6%, with growth recorded in all business units. Customer deposits including debt certificates (208 billion euros) were up 4% quarter-on-quarter and 7% year-on-year (excluding the forex impact). On a comparable basis, the year-on-year increase was 5%, again with growth in all business units. The net interest margin amounted to 1.97% for the quarter under review, 3 basis points up on the figures recorded in the previous quarter and 1 basis point down on the level recorded in the year-earlier quarter.

Technical income from our **non-life insurance activities** (earned premiums less technical charges, plus the ceded reinsurance result) contributed 173 million euros to total income, down 21% quarter-on-quarter, but up 12% on the corresponding year-earlier quarter. The quarter-on-quarter decrease was caused primarily by the storm impact in Belgium in the quarter under review. The year-on-year increase was due mainly to higher earned premiums (+7%), while technical charges rose only slightly (by 2%; note that the first quarter of 2019 had been impacted by storms too). Overall, the combined ratio for the first quarter of 2020 came to an excellent 90%, in line with the figure recorded for full-year 2019 and an improvement on the 93% recorded in the first quarter of 2019.

Technical income from our **life insurance activities** amounted to 4 million euros, compared to 1 million euros in the previous quarter and -3 million euros in the year-earlier quarter. Sales of life insurance products in the quarter under review (427 million euros) were down 9% on the level recorded in the previous quarter (which had benefited from traditionally high volumes of tax-incentivised pension savings products in the last quarter of the year). They were down 17% on the year-earlier quarter, due to lower sales of guaranteed-interest products (due to the suspension of the sale of universal single life insurance products in Belgium) and lower sales of unit-linked products in Belgium and the Czech Republic. Overall, the share of guaranteed-interest products in our total life insurance sales amounted to 58% in the quarter under review, with unit-linked products accounting for the remaining 42%.

In the quarter under review, **net fee and commission income** amounted to 429 million euros. Compared to the previous quarter, this represented a drop of 4% caused by a combination of lower fees from our asset management services (due in part to the decrease in assets under management – see below) and lower fees from our banking services (the decrease in payment-services fees and loan-related fees not fully compensated by the increase in fees from securities transactions), partly offset by the lower level of paid distribution fees. Compared to the first quarter of 2019, net fee and commission income rose by 5%, thanks to both higher asset management-related fees and banking-services-related fees, with the latter being helped by the ČMSS impact. At the end of March 2020, our total assets under management amounted to 193 billion euros, down 11% quarter-on-quarter and 8% year-on-year. In both cases, this was accounted for primarily by the negative impact of falling asset prices triggered by the financial market turmoil in March following the outbreak of the coronavirus pandemic (-10% quarter-on-quarter and -5% year-on-year) and – to a lesser extent – by net outflows (-1% quarter-on-quarter and -3% year-on-year). It should be noted that the mutual fund business witnessed net inflows in the quarter under review (+0.6 billion euros), but these were offset by net outflows in investment advice and group assets.

The **other remaining income** items included dividend income of 12 million euros, as well as 50 million euros in net other income (in line with the normal run rate for this item).

Operating expenses 1 338 million euros	Excluding bank taxes, operating expenses in the first quarter were down 6% compared to the previous quarter. The cost/income ratio amounted to 91%, or 69% excluding certain non-operating items and when bank taxes are spread evenly through the year.

Operating expenses in the first quarter of 2020 amounted to 1 338 million euros and, as usual, included the bulk of the bank taxes for the full year (407 million euros in the quarter under review, compared to 51 million euros in the previous quarter and 382 million euros in the year-earlier quarter). Excluding these taxes, expenses decreased by 6% quarter-on-quarter, thanks in part to seasonally lower marketing costs & professional fees and lower staff expenses. Year-on-year, expenses excluding bank taxes increased by 2%, due mainly to the ČMSS impact and a number of other factors such as wage drift (partly offset by a decrease in FTEs), higher depreciation, as well as a number of one-off items. Excluding the ČMSS impact and some one-off items, expenses excluding bank taxes were slightly down year-on-year.

The cost/income ratio of our banking activities came to 91%, but was distorted by most of the bank taxes being recorded in the first quarter. Excluding certain non-operating items and spreading bank taxes evenly throughout the year, the ratio was 69%, compared to 58% for full year 2019. The worsening of the ratio is clearly related to the fall in total income due to the hit taken by trading and fair value income.

Loan loss impairment 121-million-euro charge	We recorded a net loan loss impairment charge of 121 million euros, up on the 75 million euros recorded in the previous quarter. The annualised credit cost ratio amounted to 0.27% for the first quarter of the year. The current quarter included 43 million euros related to the impact of the coronavirus pandemic in the quarter under review (as a *management overlay,* in accordance with IFRS 9).

In the first quarter of 2020, we recorded a 121-million-euro net loan loss impairment charge, compared with a net charge of 75 million euros in the previous quarter and 67 million euros in the first quarter of 2019. A large part of the loan loss provisions for the quarter under review was related to a number of corporate loans in Belgium, as was the case in previous quarters. The quarter's figure also included 43 million euros specifically related to the coronavirus crisis (based on our exposure to a number of economic sectors which we believe will be affected most by the crisis; a detailed calculation and background information can be found in Note 1.4 of the 'Consolidated financial statements' section of the quarterly report).

Broken down by country, loan loss impairment charges in the first quarter of 2020 came to 116 million euros in Belgium, 8 million euros in the Czech Republic, 6 million euros in Slovakia and 3 million euros in Bulgaria, while there were net impairment releases of 2 million euros in Hungary, 1 million euros in Ireland and 9 million euros in the Group Centre. For the entire group, the annualised credit cost ratio increased to 0.27% for the quarter under review (0.17% excluding the amount recorded for the coronavirus pandemic), up from 0.12% for full year 2019.

The impaired loans ratio has improved slightly since the start of the year. At the end of March 2020, some 3.3% of our total loan book was classified as impaired, compared to 3.5% at year-end 2019. Impaired loans that are more than 90 days past due amounted to 1.9% of the loan book, comparable to the figure recorded at year-end 2019.

Impairment on assets other than loans amounted to 20 million euros, compared to 7 million euros in the previous quarter and 1 million euros in the first quarter of 2019. The figure for the quarter under review includes an 18-million-euro one-off item related to the payment moratorium in Hungary.

For an indication of the expected full-year 2020 impairment impact, see 'Guidance' on page 9 of this publication.

Net result by business unit	Belgium	Czech Republic	International Markets	Group Centre
	-86 million euros	88 million euros	35 million euros	-43 million euros

Belgium: the net result (-86 million euros) fell by 497 million euros quarter-on-quarter. Excluding bank taxes (the bulk of which are recorded in the first quarter and hence distort the quarter-on-quarter comparison), the net result fell by 282 million euros (-68%), due almost entirely to the significant drop in trading and fair value income caused by the coronavirus-induced economic turmoil. That aside, net interest income and net fee and commission income rose slightly quarter-on-quarter, while the technical non-life insurance result (storm impact), dividend income and net other income all fell. Costs excluding bank taxes were down somewhat on the previous quarter and loan loss impairment charges were slightly higher quarter-on-quarter (including an amount recorded in relation to the coronavirus crisis).

Czech Republic: the net result (88 million euros) was down 57% on its level for the previous quarter, or 41% excluding bank taxes. As in Belgium, this is almost entirely due to the significant drop in trading and fair value income in the quarter under review. That aside, total income benefited from increased net interest income, technical insurance income and net other income, which more than offset the decrease in net fee and commission income. Costs excluding bank taxes fell and loan loss impairment charges went up (including an amount recorded in relation to the coronavirus crisis).

International Markets: the 35-million-euro net result breaks down as follows: 4 million euros in Slovakia, 10 million euros in Hungary, 10 million euros in Bulgaria and 12 million euros in Ireland. For the business unit as a whole, the net result was down 71% quarter-on-quarter, or 38% excluding bank taxes. The latter decrease came about mainly on account of a combination of the drop in trading and fair value income, lower net fee and commission income (mainly in Hungary and partly seasonal) and higher impairment charges in all countries (including a one-off item in Hungary, as well as an amount recorded in Hungary and Slovakia in relation to the coronavirus crisis).

Group Centre: the net result (-43 million euros) was down 10 million euros quarter-on-quarter, caused in part by lower trading and fair value income and – to a lesser extent – lower net interest income, which more than offset the decrease in costs in the quarter under review.

Selected ratios by business unit	Belgium 1Q2020	Belgium FY2019	Czech Republic 1Q2020	Czech Republic FY2019	International Markets 1Q2020	International Markets FY2019
Cost/income ratio, banking (excluding certain non-operating items and spreading bank taxes evenly throughout the year)	67%	60%	59%	47%	74%	68%
Combined ratio, non-life insurance	95%	89%	90%	94%	82%	88%
Credit cost ratio*	0.40%	0.22%	0.10%	0.04%	0.08%	-0.07%
Impaired loans ratio	2.2%	2.4%	2.2%	2.3%	8.2%	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
19.7 billion euros	16.3%	135%	134%

At the end of March 2020, total equity amounted to 19.7 billion euros, comprising 18.2 billion euros in parent shareholders' equity and 1.5 billion euros in additional tier-1 instruments. Total equity was down 0.6 billion euros on its level at the end of 2019, owing to the combined effect of a number of items, including the decrease in the revaluation reserves for FVOCI debt instruments (-0.2 billion euros, due to higher credit spreads) and for equity instruments of the insurance company (the so-called 'insurance overlay approach'; -0.2 billion euros, related to falling stock markets), net translation differences (-0.3 billion euros, due largely to the depreciation of the Czech koruna and Hungarian forint in the quarter under review) and a number of other minor items. We have provided details of these changes in the 'Consolidated financial statements' section of the quarterly report (under 'Consolidated statement of changes in equity').

Please note that (as mentioned earlier), in line with ECB recommendations, our Board of Directors withdrew the proposal to the Annual General Meeting of 7 May 2020 to pay a final total (gross) dividend of 2.5 euros per share for 2019 (after an interim dividend of 1 euro per share had been paid in November 2019). Therefore, no final dividend will be paid in May. The Board also decided to evaluate in October 2020 whether all or part of this withdrawn final dividend should be paid out later this year in the form of an interim dividend, and to cancel the proposed share buy-back programme of 5.5 million shares.

At 31 March 2020, our fully loaded common equity ratio (Basel III, under the Danish compromise) amounted to 16.3%, compared to 17.1% at the end of 2019. The 0.8 percentage point decrease was mainly coronavirus-related (0.5 percentage points, mainly due to FX and a volume growth related risk-weighted assets increase). Our leverage ratio (Basel III, fully loaded) came to 6.5%, compared to 6.8% at the end of 2019. The solvency ratio for KBC Insurance under the Solvency II framework was a sound 212% at the end of March 2020, compared to 202% at the end of 2019. Our liquidity position remained excellent too, as reflected in an LCR ratio of 135% and an NSFR ratio of 134% at the end of the quarter under review (compared to 138% and 136%, respectively, at the end of 2019).

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, market and liquidity 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, such as Brexit and trade conflicts, all of 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 interest rates and foreign exchange rates

The coronavirus crisis is a major shock to the global economy. In this context, fiscal and monetary policy initiatives aim to mitigate the economic impact of the pandemic and to boost recovery. Wherever possible, interest rates were quickly lowered and massive amounts of liquidity injected into the financial markets, where the demand for cash surged due to uncertainty. Moreover, additional unconventional policy tools have been used by central banks seeking to ensure that additional debt can be created at reasonable interest rates. Monetary policy is expected to stay extremely accommodative in the future.

Long-term bond yields are expected to remain low in the US and the euro area throughout 2020 due to exceptionally expansionary monetary policy and safe-haven effects. Some normalisation will gradually occur, but that will depend on further developments in various areas, such as the coronavirus crisis, Brexit, the US-China trade war and the US presidential elections. Intra-EMU sovereign spreads are likely to remain low as the ECB is expected to be able to limit interest-rate differentials.

After raising its policy rate earlier this year, the Czech National Bank (CNB) again lowered its two-week repo rate in several steps from 2.25% to 0.25% in response to the coronavirus crisis. Some continued weakness in the CZK can be expected due to these changes in monetary policy and the general market turmoil surrounding emerging market currencies. The CNB has been legally enabled to rely on quantitative easing tools in case the economic situation necessitates such market interventions. Finally, the CNB is continuing to take a flexible approach to how financial institutions are to comply with their regulatory duties in order to reduce the regulatory burden and to create room for more flexible reactions to the challenging economic environment.

Our view on economic growth

Economic growth in 2020 will move into negative territory in the euro area and the US as a consequence of demand- and supply-side disruptions triggered by the coronavirus crisis. However, we envisage a strong recovery in 2021, due to the fact that, rather than being a normal recession, the current economic situation is a temporary standstill brought about by virus containment measures. Once these measures are gradually lifted, economic activity is expected to gradually pick up again. Moreover, the recovery will be boosted by various policy initiatives to mitigate the economic damage. However, this scenario is subject to considerable uncertainty as risks remain tilted to the downside.

Guidance

- The full-year 2020 *Net Interest Income* guidance has been lowered from 4.65 billion euros to approximately 4.3 billion euros, mainly due to the CNB rate cuts (roughly -0.2 billion euros) and the depreciation of the CZK and HUF versus the EUR (roughly -0.1 billion euros);
- The full-year 2020 guidance for *Operating Expenses Excluding Bank Taxes* has been changed from maximum +1.6% year-on-year towards approximately -3.5% year-on-year due to extra cost savings;
- As a result of the coronavirus pandemic, we estimate the full-year 2020 *Impairments* at roughly 1.1 billion euros (base scenario). Depending on a number of events such as the length and depth of the economic downturn, the significant number of government measures in each of our core countries, some of which still need to be worked out in detail, and the unknown amount of customers who will call upon these mitigating actions, we estimate the full-year 2020 impairment to range between roughly 0.8 billion euros (optimistic scenario) and roughly 1.6 billion euros (pessimistic scenario);
- The impact of the coronavirus-lockdown on digital sales, services and digital signing so far has been very positive. KBC is clearly benefitting from the digital transformation efforts made so far;
- Basel 4 has been postponed by 1 year (as of 1 January 2023 instead of 2022).

Upcoming events	2Q2020 results: 6 August 2020 3Q2020 results: 12 November 2020
More information on 1Q2020	Quarterly report: www.kbc.com / Investor Relations / Reports Company presentation: www.kbc.com / Investor Relations / Presentations
Definitions of ratios	'Details of ratios and terms at KBC Group level' in the last section of the quarterly report.

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