Press Release

Outside trading hours - Regulated information*

Brussels, 16 May 2023 (07.00 a.m. CEST)

KBC Group: First-quarter result of 882 million euros

KBC Group – overview (consolidated, IFRS)	1Q2023	4Q2022	1Q2022
Net result (in millions of EUR)	882	727	452
Basic earnings per share (in EUR)	2.08	1.71	1.06
Breakdown of the net result by business unit (in millions of EUR)			
Belgium	*299*	*545*	*231*
Czech Republic	*184*	*41*	*199*
International Markets	*108*	*160*	*77*
Group Centre	*291*	*-19*	*-55*
Parent shareholders' equity per share (in EUR, end of period)	51.9	48.7	51.8

"More than a year has now passed since Russia invaded Ukraine and, unfortunately, there is still no sign of an end to the war and the immense human suffering it is causing. The war in Ukraine, alongside other geopolitical uncertainties, is continuing to dampen economic growth for the global economy. On top of this, the collapse of Silicon Valley Bank and Credit Suisse triggered turbulence on the financial markets.

The challenging environment is not distracting us from taking important steps towards achieving our strategic goals. In the quarter under review we finalised the sale of substantially all of the remaining assets and liabilities of KBC Bank Ireland. At the same time, the integration of the recently acquired ex-Raiffeisenbank Bulgaria into our existing Bulgarian banking subsidiary UBB is proceeding at full speed, with the legal merger of the entities being registered on 10 April 2023.

Our financial results took into account, for the first time, the new IFRS 17 accounting standard for insurance contracts. We generated an excellent net profit of 882 million euros in the first quarter of 2023. In the quarter under review, our total income benefited from, among other things, strong interest income from the transformation result, increased net fee and commission income resulting from the sale of investment products and a significant positive one-off gain related to the sale of our Irish portfolio in February. Operational costs were up, due to inflation and the fact that the bulk of the bank and insurance taxes for the full year were booked in this first quarter. Excluding bank and insurance taxes, costs decreased quarter-on-quarter. Last but not least, we were able to record a net loan loss impairment release in the quarter under review, as opposed to a net charge in the previous quarter. At the end of the quarter under review, the provisions we have set aside for geopolitical and emerging risks amounted to 0.4 billion euros. Our solvency position remained strong with a fully loaded common equity ratio of 16.1%. Our liquidity remained excellent, as illustrated by an NSFR of 139% and LCR of 152%, both well above the minimum legal target of 100%.

In line with the capital deployment plan we announced for full-year 2022, we envisage – over and above the 4 euros already paid as the dividend for 2022 – distributing the surplus capital. This means the surplus capital above a fully loaded common equity ratio of 15%, as well as the capital released from the completed sale transaction in Ireland. We expect to do this in the form of a share buyback (subject to ECB approval) and/or an exceptional interim dividend. The final decision on this matter will be taken by the Board of Directors in the next few months.

Progress on the digitalisation front remains a top priority too. We are pleased to report that the popularity of our digital assistant Kate has grown beyond our expectations. Customers throughout the group make active use of Kate. Kate has also outperformed our own targets last year in terms of the ability to autonomously handle customers' questions. Also on the sustainability front, we are continuing our gradual but steadfast journey in a number of areas, including the climate domain. We are very proud that our efforts are also being recognised externally by, for instance, Terra Carta and CDP.

In closing, I'd like to sincerely thank all our customers, our employees, our shareholders and all other stakeholders for their continuing trust and support.''

Johan Thijs
Chief Executive Officer

Financial highlights in the first quarter of 2023

- **Net interest income** decreased by 7% quarter-on-quarter, but increased by 10% year-on-year. The net interest margin for the quarter under review amounted to 2.04%, down 6 basis points quarter-on-quarter, but up 13 basis points on the year-earlier quarter. Loan volumes were more or less stable quarter-on-quarter and increased 6% year-on-year. Deposits excluding debt certificates, and excluding the volatile low-margin short-term deposits at KBC Bank's foreign branches as they are driven by short-term cash management opportunities, were also roughly stable quarter-on-quarter and increased 3% year-on-year. We also noticed a shift from deposits towards our mutual fund business, which led to net inflows in higher-margin direct client money of 1.8 billion euros in the quarter under review. Volume growth figures were calculated on an organic basis (excluding the changes in the scope of consolidation and forex effects).

- **Insurance revenues before reinsurance** were up 2% and 9% on the previous and year-earlier quarters, respectively. The insurance service result (insurance revenues before reinsurance - insurance service expenses before reinsurance + net result from reinsurance contracts held) amounted to 110 million euros (compared to 139 million euros and 74 million euros in the previous and year-earlier quarters, respectively) and break down into 15 million euros for life insurance and 96 million euros for non-life insurance. The non-life combined ratio for the first quarter of 2023 amounted to an excellent 83%, compared to 86% in the year-earlier quarter and 87% for full-year 2022. Non-life insurance sales increased by 11% year-on-year, with growth in all countries and all classes, due a combination of volume and tariff increases. Sales of our life insurance products were down 34% and 11% on the level recorded in the previous and year-earlier quarters, respectively.

- **Net fee and commission income** was up 5% and 1% on its level in the previous and year-earlier quarters, respectively. The quarter-on-quarter increase was accounted for by a combination of increased fees for both our asset management and banking activities.

- The **trading & fair value result** was in line with its level of the previous and year-earlier quarters and **net other income** was up significantly both quarter-on-quarter and year-on-year, due primarily to the one-off 405-million-euro gain related to the finalisation of the sale in Ireland.

- **Costs** in the quarter under review include the bulk of the bank and insurance taxes for the full year. Excluding those taxes, total costs were down 6% on their level in the previous quarter and up 7% on their year-earlier level. The cost/income ratio for the first quarter of 2023 came to 50%, compared to 49% for full-year 2022. In that calculation, certain non-operating items have been excluded and bank and insurance taxes spread evenly throughout the year. Excluding all bank and insurance taxes, the cost/income ratio amounted to 38%, compared to 45% for full-year 2022.

- The quarter under review included a 24-million-euro net **loan loss impairment** release, compared to a net charge of 82 million euros in the previous quarter and a net release of 15 million euros in the year-earlier quarter. The release in the quarter under review related mainly to an update of the reserve for geopolitical and emerging risks. The credit cost ratio for the first quarter of 2023 amounted -0.04%, compared to 0.08% for full-year 2022. A negative figure implies a positive impact on the result.

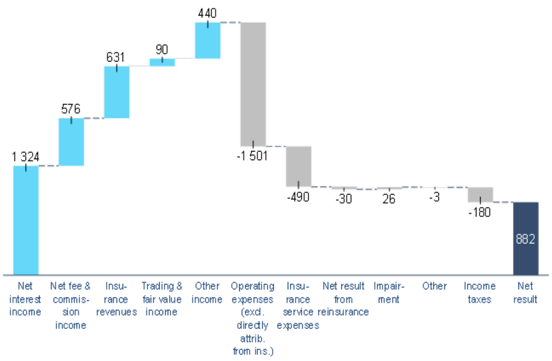
- Our **liquidity position** remained strong, with an LCR of 152% and NSFR of 139%. Our **capital base** remained robust, with a fully loaded common equity ratio of 16.1%.

The cornerstones of our strategy

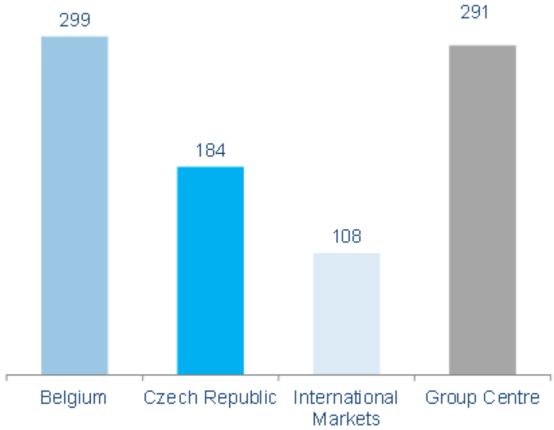
Our strategy rests on the following principles:

- 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 build upon the PEARL + values, while focussing on the joint development of solutions, initiatives and ideas within the group

Breakdown of 1Q2023 result
(in millions of EUR)



Contribution of the business units to 1Q2023 group result
(in millions of EUR)



Overview of results and balance sheet

Consolidated income statement, IFRS, KBC Group (simplified; in millions of EUR)	1Q2023	4Q2022	3Q2022	2Q2022	1Q2022
Net interest income	1 324	1 417	1 297	1 248	1 201
Insurance revenues before reinsurance	631	621	621	603	578
Non-life	*543*	*526*	*527*	*506*	*492*
Life	*88*	*94*	*94*	*98*	*86*
Dividend income	8	10	22	21	7
Net result from financial instruments at fair value through P&L[1]	90	90	35	38	89
Net fee and commission income	576	549	557	542	570
Insurance finance income and expense	-66	-63	-39	2	4
Net other income	498	-103	3	69	47
Total income	3 060	2 520	2 496	2 522	2 497
Operating expenses (excl. directly attributable from insurance)	-1 501	-1 036	-952	-944	-1 395
Total operating expenses without bank and insurance taxes	*-1 077*	*-1 143*	*-1 041*	*-973*	*-1 002*
Total bank and insurance taxes	*-571*	*-15*	*-23*	*-94*	*-514*
Minus: operating expenses allocated to insurance service expenses	*147*	*121*	*112*	*123*	*121*
Insurance service expenses before reinsurance	-490	-467	-504	-421	-516
Non-Life	*-418*	*-416*	*-445*	*-442*	*-430*
Life	*-72*	*-51*	*-59*	*21*	*-86*
Net result from reinsurance contracts held	-30	-15	-15	-2	12
Impairment	26	-132	-102	-28	-20
Of which: on financial assets at amortised cost and at fair value through other comprehensive income[2]	*24*	*-82*	*-79*	*-9*	*15*
Share in results of associated companies & joint ventures	-3	-2	-3	-2	-3
Result before tax	1 062	867	920	1 126	575
Income tax expense	-180	-139	-168	-240	-123
Result after tax	882	727	752	887	452
attributable to minority interests	0	0	0	0	0
attributable to equity holders of the parent	**882**	**727**	**752**	**887**	**452**
Basic earnings per share (EUR)	2.08	1.71	1.77	2.10	1.06
Diluted earnings per share (EUR)	2.08	1.71	1.77	2.10	1.06
Key consolidated balance sheet figures, IFRS, KBC Group (in millions of EUR)	**31-03-2023**	**31-12-2022**	**30-09-2022**	**30-06-2022**	**31-03-2022**
Total assets	347 355	354 545	362 204	368 691	369 180
Loans & advances to customers, excl. reverse repos	179 520	178 053	177 098	168 982	164 638
Securities (equity and debt instruments)	70 291	67 160	65 730	66 568	67 039
Deposits from customers excl. debt certificates & repos	219 342	224 407	217 538	217 293	205 896
Insurance contract liabilities	16 282	16 158	16 298	17 087	18 627
Liabilities under investment contracts, insurance	12 164	12 026	12 004	12 193	13 180
Total equity	23 141	21 819	21 027	20 898	23 082
Selected ratios KBC Group (consolidated)	**1Q2023**	**FY2022**			
Return on equity	17%	13%			
evenly spreading bank and insurance taxes through the year[3]	22%	13%			
Cost/income ratio, group					
excl. non-operating items & evenly spreading bank & ins. taxes through the year	50%	49%			
excl. all bank and insurance taxes	38%	45%			
Combined ratio, non-life insurance	83%	87%			
Common equity ratio, Basel III Danish Compromise, fully loaded [transitional]	16.1% [15.8%]	15.3% [14.1%]			
Common equity ratio, FICOD fully loaded [transitional]	16.4% [16.2%]	14.4% [14.0%]			
Credit cost ratio[4]	-0.04%	0.08%			
Impaired loans ratio	2.0%	2.1%			
for loans more than 90 days past due	1.0%	1.1%			
Net stable funding ratio (NSFR)	139%	136%			
Liquidity coverage ratio (LCR)	152%	152%			

1 Also referred to as 'Trading and fair value income'.
2 Also referred to as 'Loan loss impairment'.
3 15% in 1Q2023, when also excluding non-operating items.
4. A negative figure indicates a net impairment release (positively affecting results).

Note that due to the adoption of IFRS 17 in 2023, the income statement, balance sheet and certain ratios were restated and/or redefined. All changes have been applied retroactively for 2022, as required by IFRS 17. For more detailed information, see the press release of 18 April 2023 on www.kbc.com.

Analysis of the quarter (1Q2023)

Total income: 3 060 million euros

up 21% quarter-on-quarter and 23% year-on-year

Net interest income amounted to 1 324 million euros in the quarter under review, down 7% on its level in the previous quarter, but up 10% on its level in the year-earlier quarter. The quarter-on-quarter decrease was due mainly to the sale of the remaining Irish portfolio in February 2023, the abolition of TLTRO-related interest income, higher pass-through on saving accounts in Belgium, pressure on lending margins in most core countries, the higher funding cost of participations, lower net interest income on inflation-linked bonds and the fewer number of days in the quarter. These factors more than offset the positive impact of such things as the improved reinvestment yield environment in euro countries and increased term deposits at better margins. The year-on-year increase was attributable primarily to the sharp improvement in reinvestment yields in most core countries, the organic growth of loan and deposit volumes and the impact of the consolidation of Raiffeisenbank Bulgaria (as of the third quarter of 2022), partly offset by the pressure exerted on lending margins in most core countries, the abolishment of TLTRO-related interest income, the sale of the remaining Irish portfolio in February 2023 and the higher funding cost of participations.

The net interest margin for the quarter under review amounted to 2.04% (Ireland being fully excluded as of 2023), down 6 basis points quarter-on-quarter and up 13 basis points year-on-year.

The total volume of customer lending was stable quarter-on-quarter and increased by 6% year-on-year on an organic basis. Customer deposits excluding debt certificates were down 3% quarter-on-quarter and up 3% year-on-year on an organic basis. When excluding the volatile low-margin short-term deposits at KBC Bank's foreign branches as they are driven by short-term cash management opportunities, customer deposits were stable quarter-on-quarter and up 3% year-on-year. We also noticed a shift from deposits towards our mutual fund business, which led to net inflows in higher-margin direct client money of 1.8 billion euros in the quarter under review. In the organic growth figures, the forex-related impact and the effects of changes in the scope of consolidation were eliminated.

For an indication of the expected net interest income for full-year 2023, see 'Guidance' on page 9 of this publication.

Insurance revenues before reinsurance contributed 631 million euros to total income, up 2% and 9% on their performance in the previous and year-earlier quarters, respectively. The **'insurance service result'** (insurance revenues before reinsurance - insurance service expenses before reinsurance + net result from reinsurance contracts held; the two latter items are not part of total income) amounted to 110 million euros (96 million euros for non-life insurance and 15 million euros for life insurance), compared to 139 million euros and 74 million euros in the previous and year-earlier quarters, respectively. The quarter-on-quarter decrease was mainly due to higher insurance service expenses (mainly in life insurance and related to the upfront booking of insurance-related taxes, among other things) and a lower non-life reinsurance result, notwithstanding higher non-life insurance revenues. Year-on-year, the increase was primarily attributable to higher insurance revenues in non-life insurance, lower insurance service expenses in life insurance and in non-life insurance (impact of the storms in the reference quarter, among other factors), despite a lower non-life reinsurance result. Insurance finance income and expenses amounted to -66 million euros in the quarter under review, more or less stable quarter-on-quarter but down on the year-earlier quarter (related to interest rate and stock market developments).

The combined ratio of the non-life insurance activities amounted to an excellent 83%, compared to 86% in the year-earlier quarter and 87% for full-year 2022. Non-life insurance sales increased by 11% year-on-year, with growth in all countries and all classes, due a combination of volume and tariff increases. Sales of life insurance products in the quarter under review amounted to 477 million euros and were down 34% on the relatively high level recorded in the previous quarter, due to the combination of lower sales of guaranteed-interest products (as the previous quarter had benefited from the traditionally higher volumes in tax-incentivised pension savings products in the last quarter of the year) and significantly lower sales of unit-linked products (the reference quarter had benefited from the successful launch of new structured products in Belgium). Life sales were down 11% on the level recorded in the year-earlier quarter, due entirely to lower sales of unit-linked products in Belgium. Overall, the share of guaranteed-interest products and unit-linked products in our total life insurance sales in the quarter under review amounted to 52% and 42%, respectively, with hybrid products (mainly in the Czech Republic) accounting for the remainder.

Net fee and commission income amounted to 576 million euros, up 5% and 1% on its level in the previous and year-earlier quarters, respectively. The quarter-on-quarter increase was accounted for by a combination of increased fees for our asset management activities and increased fees related to banking activities (lower fees for payment transactions were more than offset by higher securities-related fees and lower paid distribution fees, among other things). The small year-on-year increase was accounted for by higher fees for banking activities (including the positive effect of the consolidation of Raiffeisenbank Bulgaria), which more than offset the decrease in asset management-related fees. At the end of March 2023, our total assets under management amounted to 217 billion euros, up 5% quarter-on-quarter (+2 percentage points related to net inflows and +3 percentage points related to the positive quarter-on-quarter market performance), but down 5% year-on-year (+2 percentage points related to net inflows, which was more than offset by the -7 percentage points related to the negative year-on-year market performance).

The **net result from financial instruments at fair value** (trading & fair value income) amounted to 90 million euros, in line with the 90 million euros in the previous quarter and the 89 million euros in the year-earlier quarter. Movements in the underlying drivers were rather limited quarter-on-quarter. Year-on-year, the positive result from investments backing unit-linked insurance contracts under IFRS 17 offset the lower dealing room result and the negative change in market value adjustments, among other things.

The **other remaining income items** included dividend income of 8 million euros and net other income of 498 million euros. The latter figure was significantly higher than the 50-million-euro normal run rate for this item, as it included a positive, one-off impact of 405 million euros related to the sale of KBC Bank Ireland and a few other positive items (such as recoveries of bank and insurance taxes paid in the past in Belgium and the linked moratorium interest). Note that the previous quarter had included a negative 149 million euros related to a legacy legal file in the Czech Republic.

Total operating expenses without bank and insurance taxes: 1 077 million euros

down 6% quarter-on-quarter and up 7% year-on-year

The quarter-on-quarter comparison of operating expenses is distorted by the fact that the bulk of the bank and insurance taxes for the full year is traditionally recorded in the first quarter of the year. In the first quarter of 2023, these taxes amounted to 571 million euros, compared to 15 million euros in the previous quarter and 514 million euros in the year-earlier quarter. The year-on-year increase was partly due to the additional Hungarian windfall bank and insurance taxes being recorded in the first quarter (whereas they had been recorded in the second quarter in 2022), as well as the consolidation of Raiffeisenbank Bulgaria, partly offset by the recovery of the remaining amount of the additional bank and insurance taxes related to the wind down of Sberbank Hungary (which had initially been recorded in the reference quarter).

Excluding bank and insurance taxes, total operating expenses in the first quarter of 2023 amounted to 1 077 million euros, down 6% on their level in the previous quarter, thanks to (partly seasonal) lower expenses for ICT, marketing and professional fees, among other costs. Operating expenses excluding bank and insurance taxes were up 7% on their year-earlier level. Disregarding the effect of the consolidation of Raiffeisenbank Bulgaria as of the third quarter of 2022, operating expenses excluding bank and insurance taxes increased by 5% year-on-year, due mainly to wage drift and indexation, as well as higher ICT and facility expenses. These were partly offset by the fact that the reference quarter had been impacted by an exceptional profit bonus for staff.

When certain non-operating items are excluded and bank and insurance taxes are spread evenly through the year, the cost/income ratio amounted to 50%, compared to 49% for full-year 2022. When excluding all bank and insurance taxes, the cost-income ratio improved to 38%, compared to 45% for full-year 2022.

For an indication of the operating expenses for full-year 2023, see ‘Guidance’ on page 9 of this publication.

Loan loss impairment: 24-million-euro net release

versus an 82-million-euro net charge in the previous quarter and a 15-million-euro net release in the year-earlier quarter

In the quarter under review, we recorded a 24-million-euro net loan loss impairment release, compared with a net charge of 82 million euros in the previous quarter and a net release of 15 million euros in the year-earlier quarter. The net impairment release in the quarter under review included a small net release of 3 million euros in respect of our loan book, and a 21-million-euros release following the update of the reserve for geopolitical and emerging risks (an additional 18 million euros of the reserve was written back via net other income, as it related to the sale of KBC Bank Ireland's portfolio). As a consequence, the outstanding reserve for geopolitical and emerging risks amounted to 390 million euros at the end of March 2023. A detailed calculation and background information is provided in Note 1.4 of the 'Consolidated financial statements' section of the quarterly report.

Broken down by country, the 24-million-euro net loan loss impairment release in the quarter under review breaks down as follows ('+' is a net charge and '-' a net release): -9 million euros in Belgium, -7 million euros in the Czech Republic, +1 million euros in Slovakia, -11 million euros in Hungary, +6 million euros in Bulgaria and -5 million euros in the Group Centre.

For the entire group, the credit cost ratio amounted to -0.04% in the quarter under review (0.00% excluding the changes in the reserve for geopolitical and emerging risks), compared to 0.08% for full-year 2022 (0.00% excluding the changes in the reserves for geopolitical and emerging risks and for the coronavirus crisis). A negative figure implies a positive impact on the result. At the end of March 2023, 2.0% of our total loan book was classified as impaired ('Stage 3'), compared to 2.1% at year-end 2022. Impaired loans that are more than 90 days past due amounted to 1.0% of the loan book, compared to 1.1% at year-end 2022.

For an indication of the expected impact of loan loss impairment for full-year 2023, see 'Guidance' on page 9 of this publication.

Impairment on assets other than loans amounted to a 1-million-euro net release, compared to a 51-million-euro charge in the previous quarter and a 36-million-euro charge in the year-earlier quarter. The figure for the previous quarter had included impairment charges related to modification losses from the extension of the interest cap regulation in Hungary and a charge on tangible and intangible assets, whereas the year-earlier quarter had included a one-off impairment on fixed assets in Ireland and an impairment on real estate in the Belgium Business Unit.

Net result by business unit

Belgium 299 million euros; Czech Rep. 184 million euros; International Markets 108 million euros, Group Centre 291 million euros

Belgium: at first sight, the net result (299 million euros) was down 45% quarter-on-quarter. Excluding bank and insurance taxes, the bulk of which are recorded in the first quarter of the year and hence distort the comparison, the net result was 3% higher than the previous quarter. This was due primarily to the combined effect of more or less stable total income (with higher net fee and commission income and net other income offsetting lower net interest income), lower costs, higher insurance service expenses and a net release of impairment (compared to a net charge in the previous quarter).

Czech Republic: the net result (184 million euros) was up 143 million euros quarter-on-quarter. Excluding bank and insurance taxes and forex effects, the net result was as much as 186 million euros higher than the previous quarter. This was essentially attributable to the fact that the previous quarter had included a large negative one-off item (a legacy legal file, with a net impact of -121 million euros) and, to a lesser extent, to slightly higher total income (with higher trading & fair value income and net fee and commission income more than compensating for the decrease in net interest income), lower costs and insurance service expenses, and a net impairment release (compared to a net charge in the previous quarter).

International Markets: the 108-million-euro net result breaks down as follows: 24 million euros in Slovakia, 32 million euros in Hungary and 51 million euros in Bulgaria. For the business unit as a whole, the net result was, at first sight, down 33% on the previous quarter's result. Excluding bank and insurance taxes, however, the net result was 46% higher than the previous quarter, due mainly to a combination of slightly higher total income (with higher net interest income, insurance revenues and net other income more than offsetting the decrease in trading & fair value income), lower costs and a net impairment release (compared to a net charge in the previous quarter).

Group Centre: the net result (291 million euros) was 311 million euros higher than the figure recorded in the previous quarter. That was entirely related to the finalisation of the sale of KBC Bank Ireland, resulting in a positive one-off impact of 370 million euros after tax.

	Belgium		Czech Republic		International Markets	
Selected ratios by business unit	**1Q2023**	**FY2022**	**1Q2023**	**FY2022**	**1Q2023**	**FY2022**
Cost/income ratio, group						
- excl. non-oper. items & spreading bank & ins. taxes evenly through the year	45%	47%	46%	44%	47%	47%
- excl. all bank and insurance taxes	40%	41%	43%	45%	37%	41%
Combined ratio, non-life insurance	81%	85%	82%	83%	97%[2]	91%
Credit cost ratio[1]	-0.03%	0.03%	-0.07%	0.13%	-0.05%	0.31%
Impaired loans ratio	1.9%	1.9%	1.6%	1.7%	1.7%	1.9%

1 A negative figure indicates a net impairment release (positively affecting results). See 'Details of ratios and terms' in the quarterly report.
2 Impacted by a number of one-off items, such as the booking of an additional windfall insurance tax in Hungary in 1Q2023. Excluding this, the ratio would be 83%.

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).

Solvency and liquidity

Common equity ratio 16.1%, NSFR 139%, LCR 152%

At the end of March 2023, total equity came to 23.1 billion euros and comprised 21.6 billion euros in parent shareholders' equity and 1.5 billion euros in additional tier-1 instruments. Total equity was up 1.3 billion euros on its level at the end of 2022. This was accounted for by the combined effect of the inclusion of the profit for the first quarter of 2023 (+0.9 billion euros) and an increase in the revaluation reserves (+0.4 billion euros). We have provided details of these changes under 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section of the quarterly report.

Our solvency position remained strong with a fully loaded common equity ratio of 16.1%, compared to 15.3% at the end of 2022. The solvency ratio for KBC Insurance under the Solvency II framework was 207% at the end of March 2023, compared to 203% at the end of 2022. We have provided more details and additional information on solvency under 'Solvency' in the 'Additional information' section of the quarterly report.

Our liquidity position remained excellent too, as reflected in an LCR ratio of 152% and an NSFR ratio of 139%, compared to 152% and 136%, respectively, at the end of 2022.

ESG developments, risk statement and economic views

ESG developments

We continue to make progress on our sustainability journey at KBC. In this regard, we refer the reader to the recently published Sustainability Report, which provides a complete and practical overview of our achievements, our progress and our ambitions. We are particularly proud of the fact that the progress made on achieving our climate targets has been externally verified and our commitment to have the climate targets for our banking activities validated by the Science Based Targets Initiative.

With the issuance of a first social bond in 2022, we support our social mission by funding the hospital sector and projects that generate social benefits. As regards our ESG ratings, we are clearly amongst the leading financial institutions in Europe. Our CDP 'A' list rating, as well as the Terra Carta Seal we recently received, clearly demonstrate our commitment to creating a sustainable future.

Risk statement

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

At present, a number of factors are considered to constitute the main challenges for the financial sector. These stem primarily from the impact of the war in Ukraine, not just directly, but even more so indirectly due to the resulting increase in energy and commodity prices and supply-side shortages. This has led to a surge in inflation, resulting in upward pressure on interest rates, reduced liquidity and volatility on financial markets, lower growth prospects (or even a recession) and some concerns about the creditworthiness of counterparties in the economic sectors most exposed. These risks affect global, but especially, European economies, including KBC's home markets. Rising interest rates have also been the main source of some turmoil in the financial sector since March. Regulatory and compliance risks (including capital requirements, anti-money laundering regulations and GDPR) also 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. Cyber risk has become one of the main threats during the past few years, not just for the financial sector, but for the economy as a whole. The war in Ukraine has again increased vigilance in this area. Finally, we have seen governments across Europe taking additional measures to support their budgets (via increased tax contributions from the financial sector) and their citizens and corporate sector (by, for instance, implementing interest rate caps or loan repayment moratoria).

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

Following quarter-on-quarter growth of 0.6% (non-annualised) in the fourth quarter of 2022, the US economy expanded further in the first quarter of 2023 (+0.3% non-annualised), albeit at a slower pace. The slowdown was mainly the result of a turning inventory cycle, while private consumption growth remained solid. A mild contraction of the economy is likely in the third and the fourth quarters of 2023, implying a technical recession. This will be largely driven by some persistence in inflation and a further tightening of financial conditions as a result of the Fed's monetary policy.

Meanwhile, after stagnating in the fourth quarter of 2022, growth in the euro area was slightly positive at 0.1% quarter-on-quarter. Low GDP growth in the euro area early this year is expected to continue for the remainder of 2023, likely caused by the persistent effects of the energy crisis and the tightening of the ECB's monetary policy.

In the first quarter of 2023, economic growth in Belgium was 0.4%, well above growth in the euro area, probably on account of the strong increase in private consumption supported by the specific system of automatic wage indexation. For the remainder of 2023, we expect quarterly growth to be in line with the path for the euro area.

The Czech economy ended its technical recession in the first quarter of 2023. Negative growth of -0.4% quarter-on-quarter in the fourth quarter of 2022 was followed by positive growth of +0.1% in the first quarter of 2023.

The main risks to our short-term outlook for European growth relate to the persistence of underlying core inflation (excluding food and energy), and the uncertainty regarding the timing and impact of the monetary policy tightening response by the ECB and, more broadly, by the Fed. Other major risks relate to elevated real estate valuations and high levels of debt in the context of tightening financing conditions worldwide.

Our view on interest rates and foreign exchange rates

To fight persistently high underlying inflationary pressure, the Fed continued to raise its policy rate in the first quarter twice in steps of 25 basis points to 4.75%-5% and to 5%-5.25% in early May. We expect the Fed to keep its policy rate at that level for the remainder of 2023. Moreover, the ongoing run-down of the Fed's balance sheet (Quantitative Tightening) is contributing to a tightening monetary policy stance. Meanwhile, the ECB also raised all of its policy rates in steps of 50 basis points, followed by a 25-basis-point hike in early May. After the latest rate hike, the ECB deposit rate stood at 3.25%. We expect the ECB to continue raising its policy rates. After the gradual rundown of the ECB's APP portfolio started in March 2023 with a limited pace, the ECB expects to fully stop the reinvestments under its APP as of July 2023.

On balance, both 10-year US and German government bond yields fell slightly during the first quarter, with the US-German spread narrowing by about 15 basis points. There was a pronounced upward trend between mid-January and the beginning of March, when bond markets priced in the possibility of a more restrictive (Fed) monetary policy than previously expected. From early March on, yields moved downward again at the start of temporary and localised stress in the banking sector, partly reflecting the possibility that financial stability considerations might limit the upward potential of monetary policy rates.

During the first quarter of 2023, the euro on balance appreciated further against the US dollar. However, the path within the quarter was quite volatile, driven by market expectations of short-term interest rate differentials and changes in global risk sentiment (with the US dollar benefiting from its safe haven status in times of stress and vice versa). For the remainder of 2023, we expect on balance the gradual appreciating trend of the euro to continue.

During the first quarter, the Czech koruna appreciated on balance against the euro. Improved global risk sentiment supported the koruna's exchange rate. However, intra-quarter volatility of the exchange rate was high, mainly related to global risk sentiment as well as the positive interest rate differential with the euro area. The Czech National Bank left its policy rate unchanged at 7%, which we expect to be the peak level in the current tightening cycle. The phasing out of targeted forex interventions in preparation for the first rate cut expected in the fourth quarter is likely to cause the koruna to weaken against the euro in the second half of 2023.

In order to bring inflation down towards its target level, the National Bank of Hungary kept its main policy base rate at 13% during the first quarter. Given the persistence of underlying inflation, the first cut in this rate is expected only in the second half of 2023. On balance, the exchange rate of the Hungarian forint against the euro appreciated sharply during the first quarter of 2023. However, as was the case for the Czech koruna, intra-quarter volatility of the exchange rate was high, again mainly related to global risk sentiment and interest rate differentials.

Our guidance

As a consequence of the implementation of IFRS 17 (relating to insurance contracts), the income statement of KBC Group has been restated. The financial guidance, as provided with the full-year 2022 results, has consequently also been duly adapted (see below) to take account of a number of IFRS 17-related changes to the presentation (please refer to the specific press release and presentation of 18 April 2023 on www.kbc.com for a more detailed overview, including restated full-year 2022 P&L figures with an in-depth reconciliation per quarter, as well as the impact on a number of key ratios).

Guidance for full-year 2023 (as provided with the FY 2022 results)

- Total income: approximately 11.15 billion euros, approximately 5.7 billion euros of which in net interest income.
- Operating expenses without bank and insurance taxes, plus insurance commissions: approximately 4.75 billion euros.
- Credit cost ratio: 20-25 basis points (below the through-the-cycle credit cost ratio of 25-30 basis points) excluding any movement in the ECL buffer.

Medium to long-term guidance (as provided with the FY 2022 results)

- CAGR total income (2022-2025): approximately 7.3%.
- CAGR operating expenses without bank and insurance taxes, plus insurance commissions (2022-2025): approx. 2.3%.
- Combined ratio: ≤ 92%.
- Credit cost ratio: 25-30 basis points, through-the-cycle.

Upcoming events	2Q2023 results: 10 August 2023 3Q2023 results: 9 November 2023 Other events: www.kbc.com / Investor Relations / Financial calendar
More information on 1Q2023	Quarterly report: www.kbc.com / Investor Relations / Reports Company presentation: www.kbc.com / Investor Relations / Presentations
Information on IFRS 17 implementation	Press release of 18 April 2023: www.kbc.com / Newsroom / Press release archive
Detailed information on Ukraine crisis	Quarterly report, Note 1.4 in 'Consolidated financial statements according to IFRS' Company presentation
Definitions of ratios	'Details of ratios and terms at KBC Group level' in the last section of the quarterly report.

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

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