Press Release

Outside trading hours - Regulated information*

Brussels, 9 February 2017 (07.00 a.m. CET)

KBC Group: Strong fourth-quarter result of 685 million euros, leading to a full-year profit of 2.4 billion euros

In an environment of persisting low interest rates, firm economic growth in Central Europe and Ireland, and more modest growth in Belgium, KBC turned in a strong performance by posting net profit of 685 million euros in the fourth quarter of 2016, compared with 629 million euros in the preceding quarter and an exceptional 862 million euros in the fourth quarter of 2015 (or 441 million euros excluding two major one-off items in that quarter). For full year 2016, our net result amounted to 2 427 million euros, compared with 2 639 million euros for 2015 (2 218 million euros excluding the two main one-off items). Moreover, our lending and deposit volumes continued to grow in 2016, as did sales of both non-life and life insurance products. Our already solid solvency and liquidity positions strengthened further.

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

- Both our banking and insurance franchises in our core markets and core activities continued to perform well.
- Lending to our customers increased by 1%, with volumes going up in all countries except Ireland. Deposits from our customers went up by 6%.
- Net interest income – our main source of income – continued to be impacted by the climate of low interest rates, but its quarter-on-quarter decrease was less than 1% thanks to offsetting factors such as healthy lending growth and lower funding costs. Our average net interest margin stood at 1.90% in the fourth quarter, similar to the quarter-earlier level. For full year 2016, our net interest margin stood at 1.92%.
- The premium income we earned on our non-life insurance products increased by 2%, while claims fell by 4%. Consequently, the non-life combined ratio for FY2016 ended up at a good 93%. Following a relatively weak third quarter, sales of life insurance products increased strongly by 17%, partially because of seasonal effects.
- Our net fee and commission income went up again, rising by 2% mainly on account of management fees and loan-related fees. Assets under management increased further, going up by 2% to 213 billion euros.

- Trading and fair value income more than tripled, thanks to a better performance in the dealing room, a higher mark-to-market valuation of derivatives used for asset/liability management purposes and positive changes in our valuation adjustments.
- Our operating expenses were up 8% on their level in the previous quarter, due to a one-off expense for early retirement and seasonal effects. Strict cost management resulted in a cost/income ratio for FY2016 of 55% (57% adjusted for specific items).
- Loan loss impairment stood at 54 million euros in the quarter under review, which brought the cost of credit to an excellent, but unsustainably low, 0.09% of our loan portfolio for full year 2016.
- Our liquidity position remained solid, as did our capital base, with a common equity ratio of 15.8% (fully loaded, Danish compromise). This compares positively to the new target of 10.40% set by the regulators to be reached by 2019 (with additional pillar 2 guidance (P2G) of 1.0% CET1).

Johan Thijs, our group CEO, adds:

'Once again KBC continues to perform very well, reflected in an overall increase in lending, deposits, sales of life and non-life insurance products and in assets under management in 2016. This shows clients continue to entrust their deposits and assets to us and count on us to help them realise and protect their projects. We're firing on all cylinders at KBC and the results show that our client-centric approach is paying off.

The fourth quarter was characterised by an almost stable level of net interest income, increased net fee and commission income and significantly higher trading and fair value income. Costs were up, due in part to a one-off item, and loan loss impairment increased somewhat on the exceptionally low level of the previous quarter. Overall, we managed to generate a strong result of 685 million euros in this quarter, which brings our profit for the full year to 2 427 million euros, a fine result indeed and one for which we want to explicitly thank our staff.

On the strategic front, our acquisition of United Bulgarian Bank and Interlease will enable CIBANK and DZI Insurance to become the largest bank-insurance group in Bulgaria, a country in which we look forward to developing our bank-insurance business further. In addition to this strategic move, we decided to make Ireland one of our core countries. It is a sound and attractive market in which we wish to play a more active role.

The solvency and liquidity positions of our group remained strong– even after paying an interim dividend in November – and comfortably surpassed the new minimum capital requirements set by the regulators in December, namely a fully loaded minimum CET1 ratio of 10.40% under Basel III, excluding additional regulatory guidance of 1%.

Consequently, we will propose to the General Meeting of Shareholders in May to set the full (gross) dividend for 2016 at 2.80 euros per share, meaning that – after subtracting the 1 euro interim dividend per share that was paid in November 2016 – the final gross dividend to be paid in May will be 1.80 euros per share. This is in line with the dividend payment policy for this year and the years ahead.

Our aim for 2017 is to build on the momentum of previous years and, in particular, to maintain our role in society as a client-centric organisation. Our bank-insurance model, supported by solid liquidity and capital bases, allows us to generate sustainable results. However, the continuing low level of interest rates remains a challenge for the entire financial sector. And as political uncertainty creates volatility on the financial markets, it makes our fee business more challenging. Fundamentally, we are continuing to invest in the future and to pro-actively roll out our financial technology plans so we can serve our clients even better than we already do today.'

Overview KBC Group (consolidated)	4Q2015	3Q2016	4Q2016	FY2015	FY2016
Net result, IFRS (in millions of EUR)	862	629	685	2 639	2 427
Basic earnings per share, IFRS (in EUR)*	-0.36	1.47	1.61	3.80	5.68
Breakdown of the net result, IFRS, by business unit (in millions of EUR)					
Belgium	348	414	439	1 564	1 432
Czech Republic	119	145	131	542	596
International Markets	61	106	139	245	428
Group Centre	334	-36	-24	287	-29
Parent shareholders' equity per share (in EUR, end of period)	34.5	36.2	38.1	34.5	38.1

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

The core of our strategy

- Our core strategy remains focused on providing bank-insurance products and services to retail, SME and mid-cap clients in Belgium, Bulgaria, Czech Republic, Hungary and Slovakia. We have now also defined Ireland as our sixth core country.
- Established in a number of different countries, we are a group of some 38 000 talented individuals who work together and share a common culture. Our culture is paramount to building our strategy, which consists of four interacting cornerstones:
  We strive to offer our clients a unique bank-insurance experience.
  We develop our group with a long-term perspective in order to achieve sustainable and profitable growth.
  We put our clients' interests at the heart of what we do and strive to offer them high quality service and relevant solutions at all times.
  We take our responsibility towards society and local economies very seriously and aim to reflect that in our everyday activities.
- We are convinced that our strategy – powered by our culture and the efforts of our people – helps us earn, keep and grow trust day by day and, therefore, gives us the capacity to become the reference in our core markets.

Highlights in the quarter under review

- In mid-December 2016, we were informed by the European Central Bank (ECB) of its new minimum capital requirements. Following the Supervisory Review and Evaluation Process (SREP) performed for 2016, the ECB formally notified KBC of its decision to set a pillar 2 requirement (P2R) of 1.75% common equity tier 1 (CET1) and a pillar 2 guidance (P2G) of 1.0% CET1. The capital requirement for KBC Group is determined not only by the ECB, but also by the decisions of the various local competent authorities in KBC's core markets. Adding these national requirements brings the CET1 requirement (under the Danish Compromise) to 10.40% (11.25% in the previous year) with an additional 1% guidance (P2G). At the close of the fourth quarter of 2016, KBC's fully loaded CET1 ratio came to 15.8%, well above the new CET1 requirement.
- On 30 December 2016, we agreed to acquire United Bulgarian Bank (UBB) and Interlease for a total consideration of 610 million euros. This deal will enable us to become the largest bank-insurance group in Bulgaria. KBC has been present in the Bulgarian banking sector since 2007 through its subsidiary CIBANK. The combination of UBB and CIBANK will result in the creation of the third-largest banking group in Bulgaria in terms of assets, with a market share of approximately 11%. Potential synergies (in terms of both revenue and costs) are estimated at approximately 20 million euros (pre-tax, 2023). KBC has also been active in the Bulgarian life and non-life insurance sectors through its subsidiary DZI Insurance. UBB, CIBANK and DZI together will become the largest bank-insurance group in Bulgaria, one of KBC's core markets, boasting strong macroeconomic fundamentals and characterised by a high degree of underpenetration of financial services

compared to developed, Western European markets. The parties involved in the deal expect it to be concluded during the second quarter of 2017 at the latest.

- After the end of the quarter, in February 2017, we confirmed our long standing commitment of 40 years to the Irish market. Ireland will become one of the group's core markets, alongside Belgium, Bulgaria, Czech Republic, Hungary and Slovakia. As a consequence, KBC Bank Ireland will strive to achieve at least a 10% market share in the retail and micro-SME segments, and plans to develop similar bank-insurance operations to our other core markets. KBC Bank Ireland will accelerate its efforts and investments in expertise and resources to evolve fully into a digital-first client-centric bank, while continuing to carefully and efficiently manage its legacy portfolio for maximum recovery. The bank will further target retail and micro-SME clients. Life and non-life insurance products will continue to be offered through partnerships and collaboration.
- We are continuing to pro-actively roll-out our financial technology plans so we can serve our clients even better going forward.
  - The Happy@Home initiative is designed to make life easier for households by bringing outside help closer to them. Households often find it time-consuming and far from straightforward to source external help. KBC is the first financial institution to offer a service – through an ecosystem –that allows clients to use a digital platform to purchase domestic help, garden maintenance and other specific home services.
  - In December, Google's Android Pay launched in Ireland and is available to KBC customers who can now use their Android phone to pay for goods and services at a point of sale. KBC is one of the first banks in Ireland to offer customers this more convenient way to make mobile payments.
  - At the end of the year. ČSOB SmartBanking welcomed its 100.000th user in Slovakia. The app is already used by more than 30% of the bank's client portfolio and it makes CSOB SmartBanking one the bank applications with the highest penetrations in central Europe.
  - KBC has agreed in principle with six other banks to develop a ground-breaking shared platform that aims to make domestic and cross-border trade easier for European small and medium-sized enterprises (SMEs) by harnessing the power of distributed ledger technology ('blockchain'). This group of seven banks intends to collaborate on the development and commercialisation of a new product called Digital Trade Chain (DTC). The KBC product, which won the Efma-Accenture Innovation Award for 'best new product or service of 2016' in October, is designed to seamlessly connect the parties involved in a trade transaction online and via mobile devices. It will simplify trade finance processes for SMEs by addressing the challenge of managing, tracking and securing domestic and international trade transactions.
- At the end of 2016, the renowned London-based International Banker magazine named Johan Thijs 'Banking CEO of the Year in Western Europe' for 2016. It also honoured KBC Belgium with awards in the categories 'Best Innovation in Retail Banking Belgium' and 'Private Bank of the Year Belgium' for 2016. The International Banker Awards are voted for by the magazine's readership and a jury comprising financial journalists. International Banker described Johan Thijs as the personification of the values promoted by KBC, and also praised the company's trademark transparency.
  At the start of 2017, Euronext Brussels named KBC Securities 'Equity Finance House of the Year' and 'Belgian SME Brokerage House of the Year'. These awards are granted to the major players on the Brussels stock markets for their achievements over the previous year.

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.

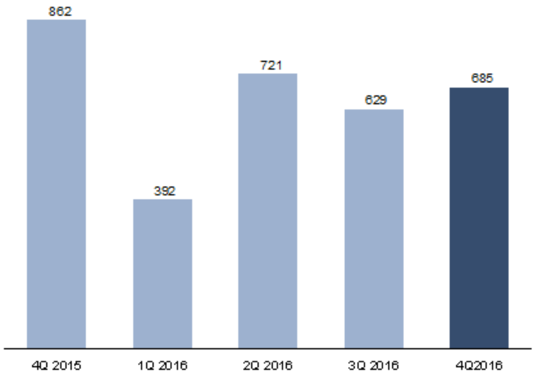
Consolidated income statement, IFRS KBC Group (in millions of EUR)	4Q2015	1Q2016	2Q2016	3Q2016	4Q2016	FY 2015	FY 2016
Net interest income	1 066	1 067	1 070	1 064	1 057	4 311	4 258
Interest income	1 725	1 720	1 654	1 673	1 593	7 150	6 642
Interest expense	-659	-653	-585	-609	-537	-2 839	-2 384
Non-life insurance (before reinsurance)	147	145	141	164	178	611	628
Earned premiums	*338*	*341*	*349*	*357*	*363*	*1 319*	*1 410*
Technical charges	*-191*	*-196*	*-208*	*-193*	*-185*	*-708*	*-782*
Life insurance (before reinsurance)	-51	-35	-38	-34	-44	-201	-152
Earned premiums	*445*	*426*	*402*	*336*	*413*	*1 301*	*1 577*
Technical charges	*-496*	*-461*	*-440*	*-370*	*-457*	*-1 502*	*-1 728*
Ceded reinsurance result	-10	-8	-13	-1	-15	-29	-38
Dividend income	12	10	36	12	19	75	77
Net result from financial instruments at fair value through P&L	-68	93	154	69	224	214	540
Net realised result from available-for-sale assets	30	27	128	26	8	190	189
Net fee and commission income	371	346	360	368	376	1 678	1 450
Fee and commission income	533	507	517	525	552	2 348	2 101
Fee and commission expense	-162	-161	-157	-157	-176	-670	-651
Other net income	47	51	47	59	101	297	258
Total income	1 543	1 697	1 885	1 727	1 903	7 148	7 211
Operating expenses	-962	-1 186	-904	-895	-963	-3 890	-3 948
Impairment	-472	-28	-71	-28	-73	-747	-201
on loans and receivables	-78	-4	-50	-18	-54	-323	-126
on available-for-sale assets	-21	-24	-20	-7	-4	-45	-55
on goodwill	-344	0	0	0	0	-344	0
other	-29	-1	-1	-3	-15	-34	-20
Share in results of associated companies and joint ventures	5	7	6	9	5	24	27
Result before tax	114	489	916	814	871	2 535	3 090
Income tax expense	749	-97	-194	-184	-186	104	-662
Net post-tax result from discontinued operations	0	0	0	0	0	0	0
Result after tax	863	392	721	629	685	2 639	2 428
attributable to minority interests	0	0	0	0	0	0	0
attributable to equity holders of the parent	**862**	**392**	**721**	**629**	**685**	**2 639**	**2 427**
Basic earnings per share (EUR)*	-0.36	0.91	1.69	1.47	1,61	3.80	5.68
Diluted earnings per share (EUR)*	-0.36	0.91	1.69	1.47	1,61	3.80	5.68

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

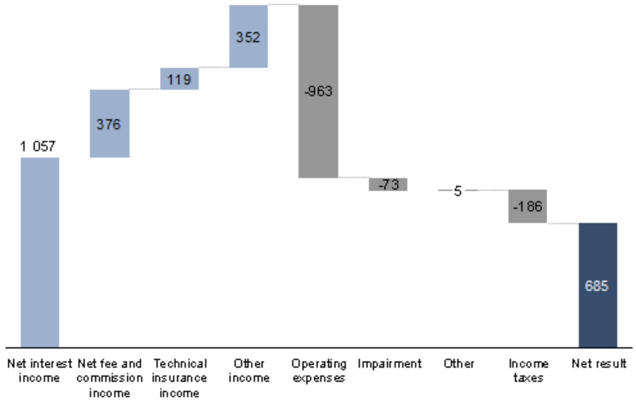
Key consolidated balance sheet figures KBC Group (in millions of EUR)	31-12-2015	31-03-2016	30-06-2016	30-09-2016	31-12-2016
Total assets	252 356	261 551	265 681	266 016	275 200
Loans and advances to customers	128 223	129 703	131 383	131 973	133 231
Securities (equity and debt instruments)	72 623	72 860	73 494	72 774	73 262
Deposits from customers and debt certificates	170 109	173 646	175 870	170 425	177 730
Technical provisions, before reinsurance	19 532	19 619	19 724	19 745	19 657
Liabilities under investment contracts, insurance	12 387	12 508	12 427	12 506	12 653
Parent shareholders' equity	14 411	14 335	14 834	15 135	15 957

Analysis of the quarter (4Q2016)

Net result (in millions of EUR)



Breakdown of net result for 4Q2016 (in millions of EUR)



The net result for the quarter under review amounted to 685 million euros, compared to 629 million euros in the previous quarter and 862 million euros in the corresponding quarter a year earlier (or 441 million euros excluding the two main one-off items in that quarter, i.e. the positive effect of the liquidation of KBC Financial Holding Inc. and the negative effect of the large impairment on goodwill).

Total income up 10% quarter-on-quarter: net interest income only marginally down, net fee and commission income slightly up, good non-life result, life insurance sales rebound and strong increase in trading and fair value

- Our net interest income in the quarter under review (1 057 million euros) was only marginally down on the level recorded in the previous quarter (less than -1%) and on the year-earlier quarter (also less than -1%). The low level of interest rates continues to weigh on reinvestment yields in the investment book. In addition, the contribution to interest income made by the dealing room was lower and pressure on margins persists. However, the impact of these items was almost entirely offset by lower funding costs, rate cuts on saving accounts, the further expansion of the investment book and higher lending-related interest income (thanks to volume growth (see below)). As a result, our net interest margin came to 1.90% for the quarter under review, a similar level compared to the previous quarter, and 5 basis points lower than the level of the year-earlier quarter. As mentioned, interest income continued to be supported by loan volume growth: our total lending volume went up both quarter-on-quarter (by 1%) and year-on-year (by 4%). The volume of deposits went up by 6% quarter-on-quarter and 10% year-on-year.
- Technical income from our non-life and life insurance activities (gross earned premiums less gross technical charges and the ceded reinsurance result, which came to 119 million euros) was down 8% on its quarter-earlier level and up 38% on its year-earlier level.
  Non-life insurance activities contributed 163 million euros to technical insurance income, on par with the previous quarter but up 19% on the year-earlier quarter. Total earned premiums from our non-life insurance activities rose by 2% quarter-on-quarter and 7% year-on-year, with all countries making a positive contribution to the growth, while non-life insurance claims were lower quarter-on-quarter (-4%) and year-on-year (-3%). The reinsurance result was -15 million in the fourth quarter of 2016, compared to -1 million euros in the previous quarter and -10 million euros in the year-earlier quarter. As a result, our combined ratio for full year 2016 came to a fine 93% (a slight deterioration on the 91% for full year 2015).

Life insurance activities contributed -44 million euros to technical insurance income, compared to -34 million euros in the previous quarter and -51 million euros in the year-earlier quarter. Following a relatively weak third quarter, aggregate sales of our unit-linked and guaranteed-interest life insurance products increased by 17%. Year-on-year sales of life insurance fell slightly (-2%). During the fourth quarter of 2016, investment income derived from insurance activities was down 4% on its level of the previous quarter, and up 20% on the year-earlier quarter. The quarter-on-quarter deterioration was driven primarily by lower net interest income and the net realised result from available-for-sale assets, while the year-on-year improvement was due chiefly to much lower impairment on available-for-sale assets.

- In the quarter under review, our total assets under management increased quarter-on-quarter (+2% to 213 billion euros), driven mainly by positive price performance while net entries were flat. Our total assets under management were up 2% year-on-year as well, thanks primarily to another positive price performance (+3%), somewhat mitigated by negative net sales (-1%). Asset management services are one of the main drivers of our net fee and commission income, which continued to improve (up 2% quarter-on-quarter and 1% year-on-year to 376 million euros), owing essentially to increased management fees on investment products and higher credit and guarantee-related fees.
- The net result from financial instruments at fair value (trading and fair value income) stood at a high 224 million euros in the fourth quarter of 2016, compared to 69 million euros in the previous quarter and -68 million euros in the year-earlier quarter. The figure for the fourth quarter of 2015 had been negatively impacted by a one-off translation difference relating to the liquidation of KBC Financial Holdings Inc. (-156 million euros, though largely offset by the positive tax impact – see below). The remaining quarter-on-quarter and year-on-year changes were primarily driven by the higher valuation of derivative instruments used for asset/liability management purposes, a higher level of income generated by the dealing rooms and a substantial positive impact of valuation adjustments (MVA/CVA/FVA) primarily because of lower exposure and model changes.
- All other income items amounted to an aggregate 128 million euros, 31 million euros more than in the previous quarter and 39 million euros more than in the year-earlier quarter. The figures for the fourth quarter of 2016 include 8 million euros in gains realised on the sale of securities, 19 million euros of dividend income and 101 million euros of other net income (which contains a number of one-off items totalling 51 million euros).

Operating expenses up 8% quarter-on-quarter, but in line with their year-earlier level

- Our operating expenses amounted to 963 million euros in the quarter under review, which is 8% higher than the previous quarter. It includes items such as a one-off expense for early retirement in Belgium, as well as seasonally higher marketing costs, ICT expenses and professional fees. Year-on-year, costs stayed at the same level owing to a number of factors, including lower bank taxes in that quarter, mitigated by the one-off expense for early retirement in Belgium. As a result, the full-year cost/income ratio of our banking activities stood at 55%, the same level as in 2015.

Loan impairment charges: up slightly quarter-on-quarter, but still an extremely low credit cost ratio of 0.09% for full year 2016

- Loan loss impairment charges stood at 54 million euros in the quarter under review, up on the extremely low 18 million euros recorded in the previous quarter but down on the 78 million euros recorded a year earlier. Broken down by country, loan loss impairment in the fourth quarter of 2016 came to 46 million euros in Belgium (including KBC Bank's limited branch network abroad), 11 million euros in the Czech Republic, 7 million euros in Slovakia, 5 million euros in the Group Centre and a net release (with a positive impact) of 1 million euros in Hungary, 1 million euros in Bulgaria and 12 million euros in Ireland. For the entire group, loan loss impairment in 2016 accounted for a very low 0.09% of the total loan portfolio. At the end of December 2016, some 7.2% of our loan book was classified as impaired (3.90% was impaired and more than 90 days past due); in both cases, this is a gradual improvement on the situation at the beginning of the year (8.6% and 4.8%, respectively).

- Impairment on assets other than loans stood at 19 million euros, compared to 10 million in the third quarter of 2016 and a high 394 million euros in the fourth quarter of 2015. The latter had included significant impairment on goodwill (344 million) relating largely to group companies in Bulgaria and Slovakia.

Income tax expense

- There was an income tax charge of 186 million euros in the fourth quarter of 2016, compared to 184 million euros in the previous quarter and a tax credit of 749 million euros in the year-earlier quarter. The latter figure was accounted for by the liquidation of KBC Financial Holding Inc. (the loss in paid-up capital at KBC Bank was tax-deductible for the parent company at the moment of liquidation).

Results per business unit

- Our quarterly profit of 685 million euros breaks down into 439 million euros for the Belgium Business Unit, 131 million euros for the Czech Republic Business Unit, 139 million euros for the International Markets Business Unit and -24 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 December 2016, our total equity (including our additional tier-1 issues) stood at 17.4 billion euros, up 1.5 billion euros on its level at the beginning of the year. The change during 2016 resulted from the inclusion of the profit for that period (+2.4 billion euros), changes in the valuation of the cash flow reserve (-0.2 billion euros), the payment of an interim dividend in November (-0.4 billion euros), remeasurements of defined benefit plans (-0.2 billion euros) and a number of minor items.
- Our solvency ratios continue to comfortably exceed the regulators’ current joint solvency targets for 2016 (a minimum CET1 ratio of 10.25%, Basel III, phased-in under the Danish compromise) and also surpass the new target (a minimum CET1 of 10.40% by 2019 (Basel III, fully loaded under the Danish compromise), with additional pillar 2 guidance (P2G) of 1.0% CET1). At 31 December 2016, our common equity ratio (Basel III, under the Danish compromise) stood at a strong 16.2% (phased-in) or 15.8% (fully loaded), while our leverage ratio (Basel III, fully loaded) came to 6.1%. Although impacted by a cap (on the use of deferred tax assets) imposed by the Belgian regulator, the solvency ratio for KBC Insurance under the new Solvency II framework was a sound 203% at 31 December 2016 (and 214% without this cap).
- Our liquidity position remained at an excellent level, as reflected in an LCR ratio of 139% and an NSFR ratio of 125% at the end of December 2016.

Analysis of full year 2016

Our aggregate result for full year 2016 amounted to 2 427 million euros, compared with 2 639 million euros a year earlier.
Compared with the previous year, the result for 2016 was characterised by:

- A slightly lower level of net interest income (-1% to 4 258 million euros), due primarily to the current environment of low interest rates, the adverse impact of losses on prepaid mortgages and the lower level of interest income generated by the dealing room, but partly offset by lower funding costs and higher interest income from lending activities. The deposit volume increased (+10%), as did the lending volume (+4%). The net interest margin for 2016 amounted to 1.92%, down 10 basis points year-on-year.

- A higher contribution made by technical insurance results (gross earned premiums less gross technical charges and the ceded reinsurance result: +15% to 438 million euros), due to higher earned premiums both in the life and non-life segments, though partly offset by higher claims and technical charges. In non-life insurance, the resulting year-to-date combined ratio stood at 93%. In life insurance, sales were up 18%, with growth in sales of both interest-guaranteed and unit-linked products.
- Lower net fee and commission income (-14% to 1 450 million euros), due to lower levels of entry fees on investment products, management fees (driven by the asset mix) and securities-related fees. At the end of December 2016, total assets under management stood at 213 billion euros, a 2% year-on-year increase resulting from a 1% net outflow and a 2% average price increase.
- A significantly higher net result from financial instruments at fair value (+152% to 540 million euros), partly due to the fact that 2015 had been negatively impacted by the liquidation of KBC Financial Holdings Inc. (-156 million euros; though largely offset by the positive tax impact – see below), higher dealing room income and higher value adjustments (CVA, MVA, FVA).
- A small decrease in all other income items combined (-7% to an aggregate 524 million euros). It includes roughly the same amount of net realised gains from available-for-sale assets (189 million euros, including the gain on the sale of Visa Europe shares recorded in the second quarter), slightly higher dividend income (+2% to 77 million euros) and lower other net income (-13% to 258 million euros).
- Slightly higher operating expenses (+1% to 3 948 million euros), owing essentially to higher bank taxes (up 5%), ICT costs and the one-off expense of 33 million euros for early retirement in the fourth quarter, somewhat mitigated by lower facilities expenses. As a result, the full-year cost/income ratio came to 55%, the same year-earlier level.
- Significantly lower loan loss impairment charges (-61% to 126 million euros). The improvement came about largely on account of Ireland, where there was a net impairment release of 45 million euros in 2016, compared to a net addition of 48 million euros the year before. As a result, the credit cost ratio for the whole group stood at an excellent but unsustainable 0.09%.
- Income taxes amounted to a tax charge of 662 million euros, compared to a tax credit of 104 million in 2015, which had benefited from the positive tax impact relating to the liquidation of KBC Financial Holding Inc.

Selected ratios for the KBC group (consolidated)	FY2015	FY2016
Profitability and efficiency		
Return on equity	22%	18%
Cost/income ratio, banking	55%	55%
Combined ratio, non-life insurance	91%	93%
Solvency		
Common equity ratio according to Basel III Danish Compromise method (phased-in)	15.2%	16.2%
Common equity ratio according to Basel III Danish Compromise method (fully loaded)	14.9%	15.8%
Common equity ratio according to FICOD method (fully loaded)	14.0%	14.5%
Leverage ratio according to Basel III (fully loaded)	6.3%	6.1%
Credit risk		
Credit cost ratio	0.23%	0.09%
Impaired loans ratio	8.6%	7.2%
for loans more than 90 days overdue	4.8%	3.9%
Liquidity		
Net stable funding ratio (NSFR)	121%	125%
Liquidity coverage ratio (LCR)	127%	139%

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, 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. Although we closely monitor and manage 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 us. Regulatory uncertainty regarding capital requirements is a dominant theme for the sector. Current major regulatory initiatives relate to capital charges for credit risk, operational risk, trading risk, ALM risk and enhanced consumer protection. Another ongoing challenge remains the low interest rate environment despite the recent uptrend at the longer end of the curve. 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 and protectionist measures in the US, which will have an impact on the European economy. Moreover, EU political risks are growing given that multiple elections are to take place in 2017 and because concerns remain about the banking sector in certain countries, such as Italy. 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.
- On the macroeconomic front, the world's economic environment in the fourth quarter of 2016 was relatively favourable. Recent data show a broad-based strengthening of growth and inflation in the global economy. Expectations about the US President's expansionary policies have boosted sentiment in the US, which has had positive spill-over effects in both developed and emerging economies. Led by the favourable developments after the presidential election in the US, the growth environment in other developed economies and in the emerging markets improved further at the end of 2016. Moreover, the better-than-expected data confirm our view that the current expansionary phase will continue. The base effects of rising commodity prices are pushing up headline inflation. Indeed, in response to the general improvement of economic conditions, a recovering labour market, heightened inflation expectations and rising bond yields, the Federal Reserve decided to up its policy rate by 25 basis points in December 2016, one year after the previous rate hike. This, together with the heightened inflationary expectations has led to a sharp upward correction in bond yields and to an appreciation of the US dollar against the euro.
- Risk management data is provided in our annual reports, extended quarterly reports and dedicated risk reports, all of which are available at www.kbc.com.

Views and guidance

- Our view on interest rates and foreign exchange rates: given the political uncertainty in 2017, intra-EMU spreads are likely to be volatile and may even widen temporarily ahead of the upcoming political events. The presidential election in France is the most important event-related risk in this regard. We are working on the assumption that the euro area will 'survive' its election calendar of 2017 and that intra-EMU spreads will eventually ease again to about their current levels by the end of 2017. After December 2017, we expect the ECB to start 'real tapering' and, therefore, the QE programme will last well into 2017. Based on its own earlier communication, we expect the ECB not to raise its policy rate until well after its QE programme has come to an end, i.e. not before the end

of 2018. In the meantime, the Fed has stated that it will stick to its policy of gradual rate adjustments, but has revised up the number of times it expects to raise rates to three in 2017. For 2018, we forecast two more rate hikes, although the risks are tilted to the upside, as wage inflation could accelerate if Trump's policies become genuinely expansionary.
As a result, we expect the US dollar to appreciate further against the euro as it will benefit from interest rate support thanks to the divergence in policy being pursued by the Fed and ECB. We expect German and US long-term bond yields to increase only gradually during the coming period. A lot of the expansionary effects of the US president's policies are already priced in. Given the above, the upward potential for German yields remains limited. Some downward correction of (mainly US) bond yields is possible, should the US not deliver on its policy promises to the same extent that the markets are currently pricing in.

- Our view on economic growth: we expect a further modest expansion for the euro area economy, driven by the growth engine of Germany. The main risks stem from political events and from the growing trend of de-globalisation. German growth will most likely accelerate again in the coming quarters as consumption benefits from a further tightening of the German labour market and the increased minimum wage. Furthermore, public-sector investments are also increasing. However, the German economy may also suffer from the growing trend of de-globalisation. As Germany has always been the main export engine of the euro area, this also poses a risk to other open economies in the euro area. The most important risks stem from political events, with multiple elections on the horizon and the start of Brexit negotiations. These will cause additional uncertainty that could potentially spill over to the real economy in the form of more pessimistic sentiment and a postponement of investments.
- Our guidance on KBC's results for 2017: we anticipate solid returns for all our business units. We see the current credit cost ratio as being unsustainably low. For Ireland, in particular, our guidance for loan impairment charges is for a release of 25-75 million euros for the full year.
- It will be proposed to the Annual General Meeting of Shareholders that the total gross dividend for financial year 2016 amount to 2.80 euros per share entitled to dividend. As the group already paid an interim dividend of 1 euro in November 2016, the final gross dividend for financial year 2016 will amount to 1.80 euros per share (ex-date: 9 May 2017; record date: 10 May 2017; payment date: 11 May 2017).

Additional information

- The statutory auditor, PwC Bedrijfsrevisoren bcvba/Reviseurs d'Entreprises sccrl, represented by Roland Jeanquart and Tom Meuleman, has confirmed that its audit work, which is substantially complete, has not to date revealed any significant matters requiring adjustments to the 2016 consolidated income statement, the condensed consolidated statement of comprehensive income for the year, the consolidated balance sheet and the consolidated statement of changes in equity and explanatory notes, comprising a summary of significant accounting policies and other explanatory notes included in this press release.

- Financial calendar for 2017:

    - 31 March 2017: 2016 Annual Report and 2016 Risk Report
    - 4 May 2017: Annual General Meeting
    - 11 May 2017: Publication of 1Q 2017 results
    - 10 August 2017: Publication of 2Q 2017 results
    - 16 November 2017: Publication of 3Q 2017 results

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

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