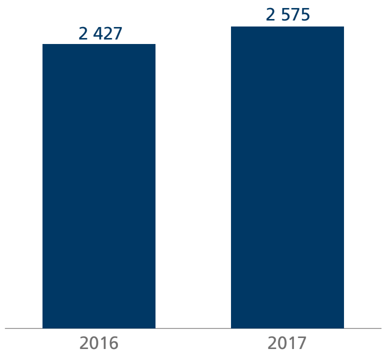
KBC Group

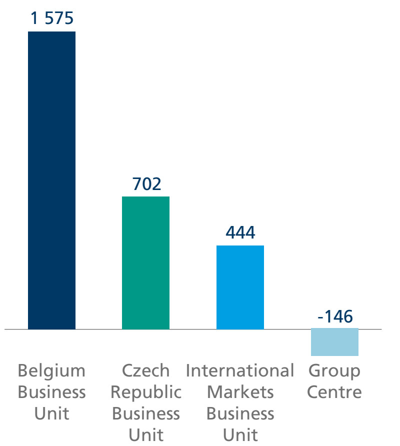
Annual Report

for 2017

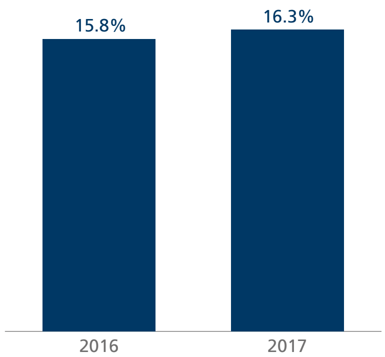
Net result
(in millions of EUR)



Breakdown of net result by business unit
(2017, in millions of EUR)



Common equity ratio at group level
(Basel III, Danish compromise, fully loaded)



KBC group passport

Our area of operation

We are an integrated bank-insurance group, catering mainly for retail, private banking, SME and mid-cap clients. Our core markets are Belgium, Bulgaria, the Czech Republic, Hungary, Ireland and Slovakia. We are also present to a limited extent in several other countries to support corporate clients from our core markets.

Our clients, staff and network

Clients	11 million
Staff	42 000
Bank branches	1 521
Insurance network	404 agencies in Belgium, various distribution channels in Central and Eastern Europe

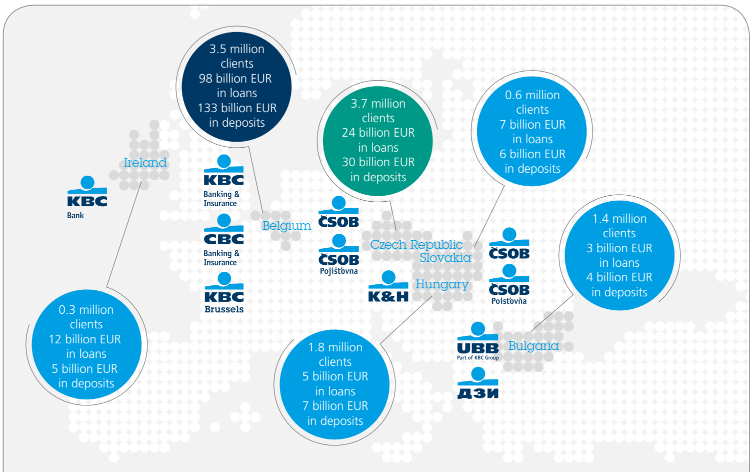
Our long-term credit ratings (15-03-2018)

	Fitch	Moody's	Standard & Poor's
KBC Bank NV	A	A1	A
KBC Insurance NV	–	–	A-
KBC Group NV	A	Baa1	BBB+

Our core shareholders

KBC Ancora	18.5%
Cera	2.7%
MRBB	11.4%
Other core shareholders	7.4%

Data relates to year-end 2017, unless otherwise indicated. For definitions, please see the detailed tables and analyses in this report. Outlook/watch/review data for our ratings is given elsewhere in this report.



Clients: estimates; loans: see the 'How do we manage our risks?' section; deposits: deposits from customers and debt securities (excluding repos). Data for Belgium includes the limited network of KBC Bank branches abroad.

	2017	2016	2015	2014	2013
Consolidated balance sheet, end of period (in millions of EUR)					
Total assets	292 342	275 200	252 356	245 174	238 686
Loans and advances to customers	141 502	133 231	128 223	124 551	120 371
Securities	67 743	73 262	72 623	70 359	64 904
Deposits from customers and debt securities	193 968	177 730	170 109	161 783	161 135
Technical provisions and liabilities under investment contracts, insurance	32 193	32 310	31 919	31 487	30 488
Total equity	18 803	17 357	15 811	16 521	14 514
Consolidated income statement (in millions of EUR)					
Total income	7 700	7 211	7 148	6 720	7 448
Operating expenses	-4 074	-3 948	-3 890	-3 818	-3 843
Impairment	30	-201	-747	-506	-1 927
Net result, group share	2 575	2 427	2 639	1 762	1 015
Belgium	1 575	1 432	1 564	1 516	–
Czech Republic	702	596	542	528	–
International Markets (Slovakia, Hungary, Bulgaria, Ireland)	444	428	245	-182	–
Group Centre	-146	-29	287	-100	–
Environment, sustainability and gender diversity					
Own greenhouse gas emissions (in tonnes of CO_2e per FTE)	2.5	2.9	3.3	–	–
Proportion of renewable energy in loans to energy sector (%)	41%	42%	–	–	–
Volume of SRI funds (in billions of EUR)	7.1	2.8	–	–	–
Gender diversity in the workforce (percentage of women)	57%	56%	56%	57%	57%
Gender diversity in the Board of Directors (percentage of women)	31%	31%	25%	22%	15%
KBC share					
Number of shares outstanding, end of period (in millions)	418.6	418.4	418.1	417.8	417.4
Parent shareholders' equity per share, end of period (in EUR)	41.6	38.1	34.5	31.4	28.3
Average share price for the financial year (in EUR)	66.5	51.0	56.8	43.1	32.8
Share price at year-end (in EUR)	71.1	58.8	57.7	46.5	41.3
Gross dividend per share (in EUR)	3.00	2.80	0.00	2.00	0.00
Basic earnings per share (in EUR)	6.03	5.68	3.80	3.32	1.03
Equity market capitalisation, end of period (in billions of EUR)	29.8	24.6	24.1	19.4	17.2
Financial ratios					
Return on equity	17%	18%	22%	14%	9%
Cost/income ratio, banking	54%	55%	55%	58%	52%
Combined ratio, non-life insurance	88%	93%	91%	94%	94%
Credit cost ratio, banking	-0.06%	0.09%	0.23%	0.42%	1.21%
Common equity ratio (Danish compromise method, fully loaded)	16.3%	15.8%	14.9%	14.3%	12.8%

For definitions and comments, please see the analyses and 'Glossary of financial ratios and terms' in this report. The proposed dividend for 2017 is subject to the approval of the General Meeting of Shareholders.

Our key performance indicators (KPIs) at group level

Total income Target: CAGR for 2016–2020 ≥ 2.25%	**Cost/income ratio** Target: ≤ 47% (excl. bank tax) in 2020 and ≤ 54% (incl. bank tax) in 2020	**Combined ratio** Target: ≤ 94% in 2020	**Dividend payout** Target: ≥ 50%	**Digital interaction** Target: ≥ 80% in 2020
Bank-insurance clients Target: CAGR for 2016–2020 ≥ 2% in Belgium, ≥ 15% in the Czech Republic, ≥ 10% at International Markets	**Stable bank-insurance clients** Target: CAGR for 2016–2020 ≥ 2% in Belgium, ≥ 15% in the Czech Republic, ≥ 15% at International Markets	**Reputation** Target: achieve the same or a higher score than the peer group average	**Client experience** Target: achieve the same or a higher score than the peer group average	**Innovation** Target: achieve the same or a higher score than the peer group average
Governance Target: achieve the same or a higher score than the peer group average	**Stakeholder interaction** Target: formal stakeholder interaction process in each core country	**Own capital target** Target: fully loaded common equity ratio of 14% in 2018	**Reference capital position** Target: fully loaded common equity ratio of 16% in 2018	**Position in SRI funds** Target: 10 billion euros by year-end 2020
Renewable energy loans Target: share of renewable energy sources and biofuels in the energy-sector loan portfolio ≥ 50% in 2030	**Own greenhouse gas emissions** Target: reduction of at least 20% between 2015 and 2020			

KPI definitions and the scores achieved to date are provided in the 'Our strategy' section, as are the key regulatory capital and liquidity risks (common equity ratio, MREL, NSFR and LCR).

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Report of the Board of Directors

Consolidated financial statements

The cover illustration symbolises the commitment shown each day by all at KBC in helping clients realise their dreams. The original large-format work was painted by Matthew Dawn.

Company annual accounts and additional information

Welcome

Statutory annual report: we have incorporated the content of the annual report required by law into the 'Report of the Board of Directors', which also contains additional, non-compulsory information. We have also combined the reports for the company and consolidated financial statements. All other reports and the websites we refer to do not form part of our annual report.

Statement regarding the publication of non-financial information: in keeping with our commitment to integrated reporting, we have incorporated our non-financial information in various sections of this report. The references to the sections concerned are provided under the 'Non-financial information statement'. Information concerning diversity can be found in the 'Corporate governance statement'.

Company name: 'KBC', 'we', 'the group' or 'the KBC group' refer to the consolidated entity, i.e. KBC Group NV plus all the group companies included in the scope of consolidation. 'KBC Group NV' refers solely to the parent company.

Translation: this annual report is available in Dutch, French and English. The Dutch version is the original; the other language versions are unofficial translations. We have made every reasonable effort to avoid any discrepancies between the different language versions. However, should such discrepancies exist, the Dutch version will take precedence.

Disclaimer: the expectations, forecasts and statements regarding future developments that are contained in the annual report are based on assumptions and assessments made when drawing up this report. By their nature, forward-looking statements involve uncertainty. Various factors could cause actual results and developments to differ from the initial statements.

Glossary: a list of the most important financial ratios and terms used (including the alternative performance measures) can be found at the back of this report.

Report of the Board of Directors

KBC at a glance

Who are we?

Creation: formed in 1998 after the merger of two large Belgian banks (Kredietbank and CERA Bank) and a large Belgian insurance company (ABB Insurance)

Principal activity: integrated bank-insurance (banking, insurance and asset management)

Approximately 11 million **clients**

Approximately 42 000 **employees**

Principal brands:

- Belgium: KBC, KBC Brussels, CBC
- Bulgaria: UBB (incl. CIBANK), DZI
- Czech Republic: ČSOB
- Hungary: K&H
- Ireland: KBC Bank Ireland
- Slovakia: ČSOB

1 521 bank branches, insurance sales via own agents and other channels, various mobile and online channels

Our goal, our ambition and our strategy

Goal

Through our activities, we want to help our clients to both realise and protect their dreams and projects.

Ambition

We want to be the reference for bank-insurance in all our core markets.

Strategy

Our strategy rests on four principles:
- We place our clients at the centre of everything we do.
- We look to offer our clients a unique bank-insurance experience.
- We focus on sustainable and profitable growth.
- We meet our responsibility to society and local economies.

We put our strategy into practice within a stringent risk, capital and liquidity management framework.

Sustainability

To us, corporate sustainability means the ability to live up to the expectations of all our stakeholders and to meet our obligations, not just today but also in the future. Our sustainability strategy has three cornerstones:
- enhancing our positive impact on society;
- limiting any negative impact we might have;
- encouraging responsible behaviour on the part of our employees.

How do we determine what is important enough to mention in our annual report?

We take our cue from relevant legislation and the International Financial Reporting Standards, for instance, and take as much account as possible of the guidelines issued by the International Integrated Reporting Council. We base our non-financial statement primarily on the GRI (Global Reporting Initiative) Standards. Full implementation of GRI Standards (Core option) and the GRI Content Index are discussed in our Sustainability Report, which is published at www.kbc.com.

These reporting frameworks emphasise materiality and relevance in reporting. We ask our stakeholders themselves for input on determining which subjects are important to them. The results obtained are discussed under ‘Our stakeholder survey’ (which also includes a reference list showing where we cover the matters in question in the report).

Information on the scope of consolidation used for financial information is provided in Note 6.5 of the ‘Consolidated financial statements’ section. Our non-financial data is collected through a group-wide process that includes strict hierarchical validation and applies as a minimum to all KBC entities with over 100 FTEs (for some areas it applies to the entire scope of consolidation).

Statement by the Chairman of the Board of Directors and the Chief Executive Officer

All eyes are fixed right now on digital transformation. How does KBC view these developments?

Thomas Leysen: You cannot underestimate the importance of digital transformation, which is why we have embedded it into the updated strategy we unveiled in mid-2017. The essence of our strategy and our business model hasn't been altered: we continue to focus on achieving a high level of client satisfaction through seamless distribution via a range of channels, on consolidating our integrated bank-insurance model in our six core countries and on generating sustainable and profitable growth within a stringent risk framework.

We have to contend, of course, with changing expectations on the part of our clients, as well as new technologies and a challenging macroeconomic environment. This has led us to modify the way we implement our strategy, paying particular attention to the digital dimension. We sum it up in the formula 'think like the client and design for a digital world'. There's more to this than our front-end applications, such as our successful smartphone and tablet apps: it also relates to the entirety of our back-office systems and procedures, or – in other words – how we develop products and ensure that they are readily accessible to our clients.

It goes without saying that our clients can continue to choose whichever channel they prefer, be it the branch or agency, their smartphone, the website, the contact centre or our apps. In other words, human contact will continue to play a crucial role, but will be enhanced by digital options. We plan to invest roughly 1.5 billion euros in this digital transformation between 2017 and the end of 2020. To highlight the importance of innovation and digitalisation within our group, we have also appointed a Chief Innovation Officer to the Executive Committee, who will focus on our group's agenda in this area.

What events stood out for you in 2017?

Johan Thijs: An obvious one is our acquisition of United Bulgarian Bank, which is an extremely important step in our expansion in Central and Eastern Europe, a strategy we embarked on almost 20 years ago. Combining this acquisition with our existing banking and insurance presence makes us the leading bank-insurance group in Bulgaria, which we regard as an attractive growth market for KBC. We can share our know-how and experience in the field of bank-insurance, leasing, asset management and factoring there, which will generate all sorts of synergies and so create value for our stakeholders.

We also reaffirmed our commitment to Ireland, where we have been present now for almost 40 years, by making it a fully fledged core country for our group, alongside Belgium, the Czech Republic, Bulgaria, Slovakia and Hungary. The aim is for our bank in Ireland to develop specifically into a 'Digital First', client-centred bank that shares ideas with the rest of our group.

Sustainability remains an important aspect of KBC's strategy. What are the key takeaways from that?

Thomas Leysen: Sustainability to us means being able to live up to the expectations of all our stakeholders. That's something we do every day through our core activities. Our loans, deposit products and asset management services enable us to help people realise their dreams and projects and our insurance products allow them to protect those dreams and projects. We also look to increase the positive impact we have on society by focusing on a number of areas in which we can make a difference as a bank-insurer, such as financial literacy, environmental responsibility, promoting entrepreneurship, and demographic ageing and health. Initiatives like 'Start it @KBC' – an incubator for new businesses – or 'Get-a-teacher' – where we give schools the opportunity to order a teacher from KBC – are just a couple of examples. We also want to limit any adverse impact we may have as much as possible. We're not

just talking here about reducing our own environmental footprint, but also about the indirect impact we have through, say, our lending and investment activities. Last but not least, we want to encourage responsible behaviour on the part of all our employees. That's the bedrock for sustainability and an absolute necessity if we are to implement a credible sustainability strategy.

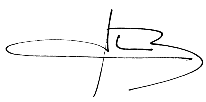
Our net profit came to almost 2.6 billion euros in 2017. What were the most important contributors to that figure?

Johan Thijs: 2017 was a strong year in financial terms too, as illustrated by our net profit of 2 575 million euros, up a further 6% on the figure for 2016. This was partly attributable to the increase in our net fee and commission income – due to the strong performance of our asset management activities – a higher contribution from our insurance business and robust trading income. What's more, the decline in our net interest income was relatively limited, which is still a highly respectable performance in a climate of low interest rates.
We kept a firm lid on our costs too, with the result that our cost/income ratio came to an excellent 54%. The quality of our loan portfolio continued to improve, and we were even able – on balance – to reverse some of the provisions that had been set aside in the past, thanks primarily to our Irish portfolio. All of this, combined with a number of one-off items, gave us a total net profit for 2017 of 2 575 million euros. We are looking to pay out a total of approximately 1.26 billion euros of that figure to our shareholders, subject to the approval of the General Meeting of Shareholders. That translates into a total gross dividend of 3 euros per share, with 1 euro of that amount already paid as an interim dividend in November 2017. We are also proposing to buy back 2.7 million of our own shares.

What do you expect to see going forward?

Thomas Leysen: 2017 was a year of healthy economic growth, despite all sorts of political turbulence, including the various elections in the euro area, the Catalan issue and the drawn-out Brexit negotiations. We expect continued economic expansion in 2018, accompanied by a limited uptick in inflation. The ECB may end its asset purchase programme in September 2018, but is likely to leave its key rate unchanged for the entire year. Consequently, European government bond yields are only likely to rise to a limited extent. Worldwide geopolitical risks are and will remain the main factors that could impede European economic growth.

Johan Thijs: The unflagging efforts we have made in recent years give KBC a solid starting position in that economic arena. This is reflected by, among other things, the 'World's Best Bank Transformation Award' for 2017 that we received from *Euromoney*, illustrating that our group's redefinition and repositioning in recent years is appreciated in international circles. Twenty years on from the creation of our group in 1998, we are where we are now thanks more than ever to our clients, staff and all our other stakeholders. We are sincerely grateful to them for that trust.

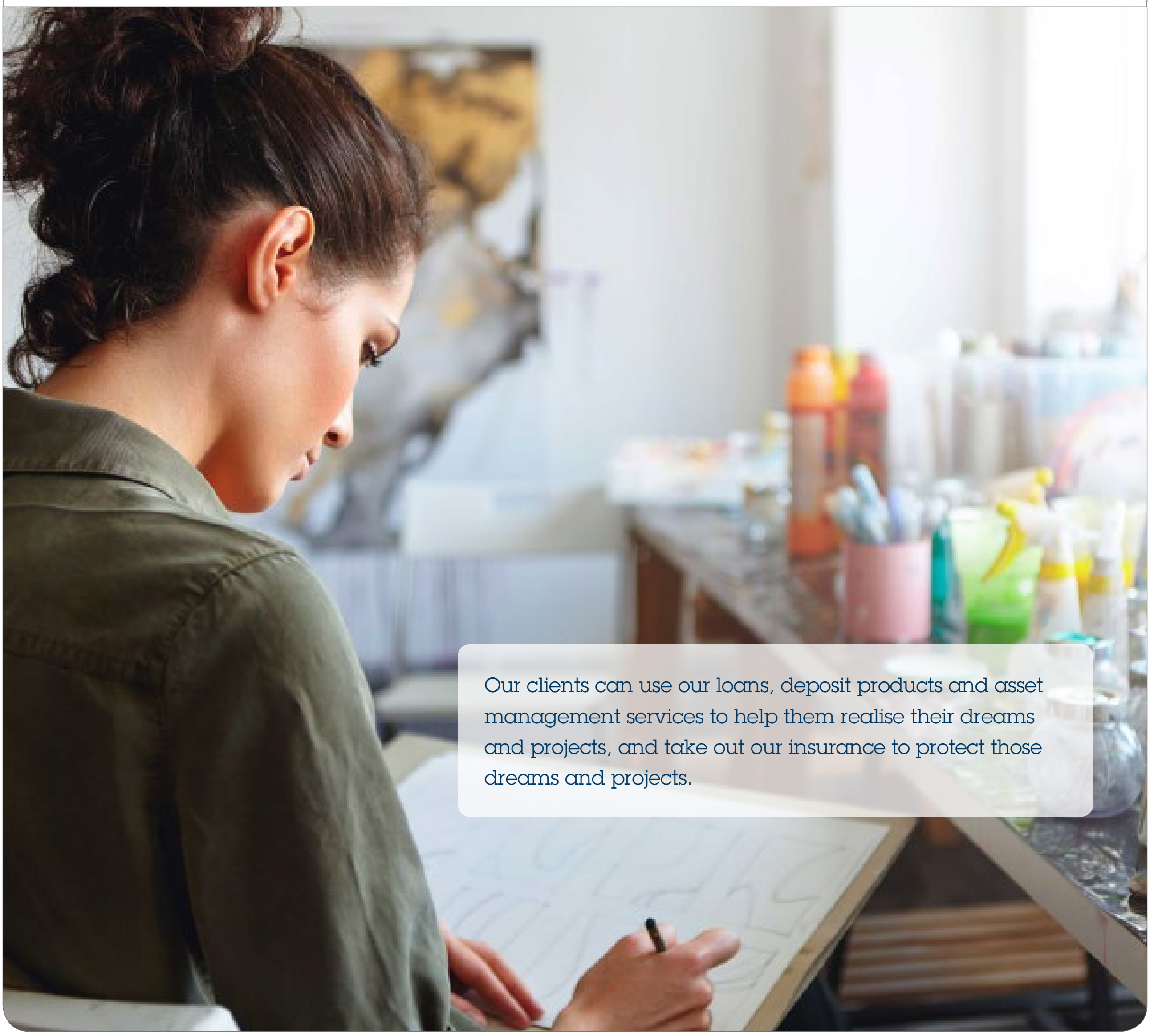


Johan Thijs
Chief Executive Officer

Thomas Leysen
Chairman of the Board of Directors

Our business model

In this section, we describe how we create sustainable value, the characteristics of our model, the conditions in which we pursue our activities, and what types of capital we use for that purpose. In the section on our strategy, we discuss the principles we apply in order to achieve our goal of becoming the reference for bank-insurance in all our core markets.



Our clients can use our loans, deposit products and asset management services to help them realise their dreams and projects, and take out our insurance to protect those dreams and projects.

How do we create sustainable value?

Our business model

Our value creation | Our model | Our environment | Our capitals

In our capacity as a bank, we ensure that our clients can save and invest in a well-informed manner. In this way, every client can grow their assets in keeping with their personal risk profile, and call on the expertise of our staff to assist them. We use the money from the deposits our clients entrust to us to provide loans to individuals, businesses and public authorities, thereby putting that money to productive use in society. As a lender, we enable people to build a house or buy a car, for instance, and businesses to be created or to grow.

We also hold a portfolio of investments, which means we invest in the economy indirectly too. Besides lending to individuals and businesses, we fund specific sectors and projects, such as the social profit sector, infrastructure projects that have a major impact on the domestic economy, and green energy projects.

The role we play as a deposit-taker and a lender ultimately means that we assume our clients' risks for them. Our highly developed risk and capital management know-how allows us to manage those risks.

As an insurer, we enable our clients to operate free of worry and to limit their risks. We work hard every day to provide the best insurance cover at a fair price and we invest in a high-quality claims-handling service, because that will always be the litmus test of any non-life policy. What's more, we use our knowledge of the causes of accidents to develop accident prevention campaigns and we have a long-standing tradition of working with organisations involved in road safety, welfare and victim assistance.

We also offer our clients a variety of other services that are important to them in their everyday lives, including payments, cash management, trade finance, leasing, corporate finance, and money and capital market products. In this way too, we contribute to the economic system.

2017

154	194	219	32
billion euros in loans	billion euros in customer deposits and debt securities (excl. repos)	billion euros of total assets under management	billion euros in insurance reserves (incl. unit-linked insurance products)

What's more, as a major local player in each of our core countries, we form part of the economic and social fabric in those countries. We make an important contribution to employment in all our core markets and, as such, recognise that we have a significant direct impact on the lives of our staff. We therefore offer them a fair reward for their work, thereby contributing to the welfare of the countries in which we operate. We provide them with development opportunities too and the means to maintain the best possible work-life balance.

We want to be able to meet the expectations of all our stakeholders in our core countries and to live up to our commitments. As already stated, that is something we do every day through our core activities. Our clients can use our loans, deposit products and asset management services to help them realise their dreams and projects, and take out our insurance to protect those dreams and projects. Moreover, we want to enhance our positive impact on society (with a focus on financial education, environmental awareness, entrepreneurship and the issue of demographic ageing and health), to limit any adverse impact on society (e.g., our direct and indirect impact on the environment) and to encourage responsible behaviour on the part of all our employees.

We use various types of resource or 'capital' to enable us to operate.

- *Financial capital* is the money we receive from different capital providers to support our activities and to invest further in our business strategy. It comprises the capital made available by our shareholders and accumulated profit generated by our operations.
- *Human capital and intellectual capital (employees and brand)* refer to the recruitment, management and development of our employees, to enable them to make the best possible use of their talents and experience in order to keep improving our service and to develop solutions for our clients. Intellectual capital includes the knowledge and creativity of our employees, together with our intellectual property and brand name.
- *Social and relationship capital (clients and other stakeholders)* comprises all relationships with and our reputation among our clients, stakeholders, government, regulators and other stakeholders who enable us to operate.
- *Manufactured capital (infrastructure)* is a generic term for all the forms of infrastructure we use to perform our activities. It includes our office buildings, branches and agencies, our electronic and other networks and our ICT platforms.
- *Natural capital (environment and society)* refers to the raw materials we use in our operations. Although the direct consumption of raw materials is less significant for a financial institution, our indirect impact is more substantial on account of our loan and investment portfolios, for instance.

Financial capital

- Total equity of 18.8 billion euros

- Net profit of 2.6 billion euros
- Gross dividend of 3 euros for 2017
- 154-billion-euro loan portfolio, 194 billion euros in deposits and 32 billion euros in insurance reserves
- Robust capital and liquidity ratios
- Cost/income ratio of 54% and combined ratio of 88%
- …

Employees and brand

- Approx. 42 000 employees
- Strong brands in all core countries
- Capacity to innovate
- PEARL business culture

- 2.3 billion euros in remuneration paid to staff
- Higher level of staff involvement
- United Bulgarian Bank (UBB) acquired in Bulgaria
- Ireland included as a core market
- KPI for reputation: see elsewhere in this report
- …

Infrastructure

- 1 521 bank branches
- Different distribution channels for insurance
- Various electronic distribution platforms, apps and underlying ICT systems

- Various new electronic applications
- Group’s digital strategy clearly defined within an omnichannel approach
- KPIs for digital interaction and innovation: see elsewhere in this report
- 1.5-billion-euro investment in digitalisation in 2017–2020
- …

Clients and other stakeholders

- Approx. 11 million clients
- Relationships with suppliers, government, regulators and other stakeholders

- KPIs for client experience, governance and growth in bank-insurance clients: see elsewhere in this report
- Stakeholder interaction process in each core country
- Aggregate 1.5 billion euros paid in income taxes and bank taxes
- Focus on financial literacy and promoting entrepreneurship
- …

Environment and society

- Direct use of electricity, gas, water, paper, etc.
- Indirect impact through lending, investment portfolio, funds, etc.

- Clear sustainability strategy
- Focus on environmental awareness and the issue of demographic ageing and health care
- KPIs for own greenhouse gas emissions, SRI funds and loans for renewable energy
- …

Financial capital | **Employees and brand** | **Infrastructure** | **Clients and other stakeholders** | **Environment and society**

+

Income generation

What does our group look like in figures?

See 'Our financial report'.

Activities (simplified)	Impact on income statement (main items)
We lend money to clients, taking account of our own risk appetite and relevant legislation. We build up the funds for this lending activity chiefly through clients' savings.	Interest income and Interest expense
We offer our clients a broad range of investment products and advise them on managing their assets.	Fee and commission income and Fee and commission expense
We protect our clients from risks via a comprehensive insurance offering and compensate them for insured losses.	Earned premiums and Technical charges (insurance)
We support our clients by offering services in the area of payments, securities, access to the financial markets and derivative products, leasing, real estate activities, etc.	Other income items
We invest a proportion of our funds in securities.	
We set aside provisions to cover loan losses, among other things.	Impairment
We invest in our employees to guarantee seamless service provision to our clients and to further develop our business strategy.	Staff expenses
We invest in our infrastructure and ICT to improve our efficiency and to serve our clients even more effectively.	General administrative and other expenses
We contribute to society by paying income tax and special bank taxes.	Income tax expense

Profit carried forward,

used to bolster capital and to make investments, with a positive long-term effect for all stakeholders.

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Risk hedging and cost payment

What are our main challenges?

See 'In what environment do we operate?' in this section.

Where do we want to go?

See 'Our strategy'.

=

Net profit

–

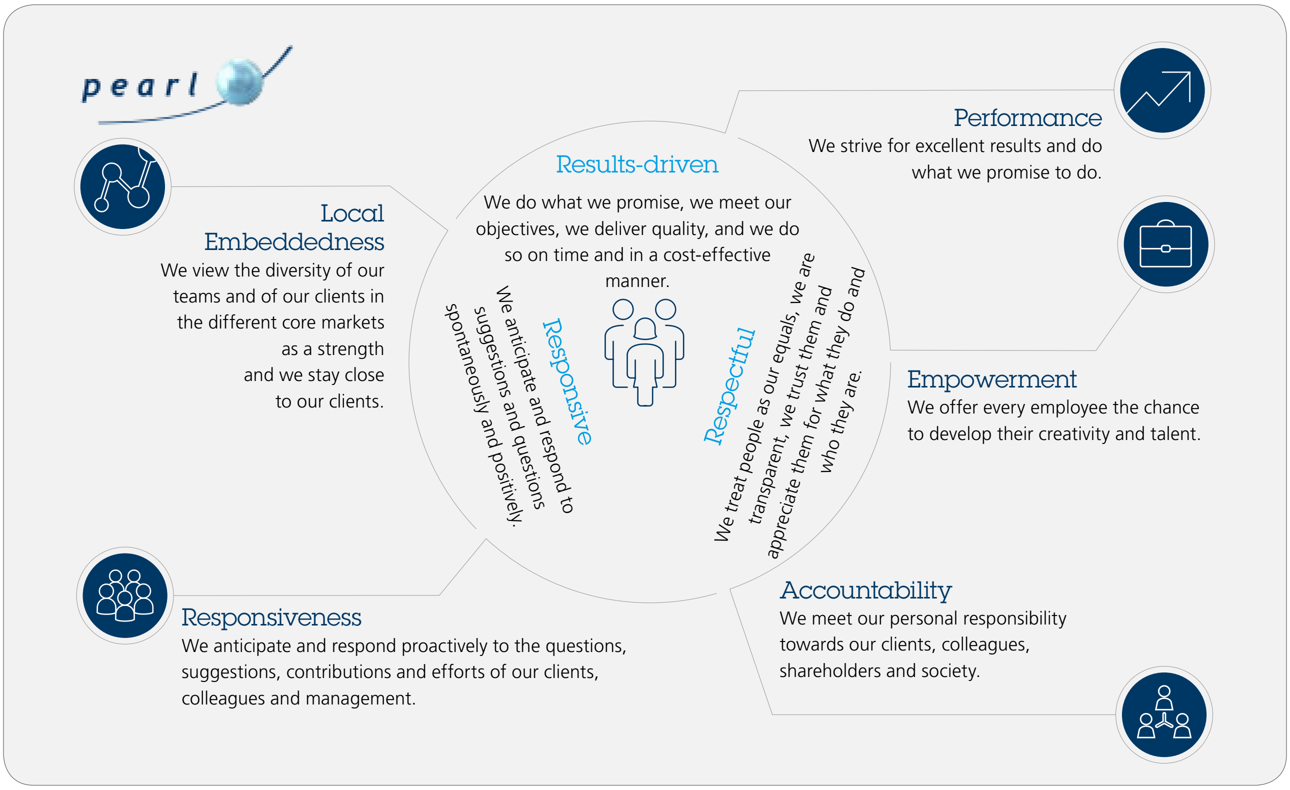
Dividends to shareholders

Etc.

We sum up our business culture in the acronym 'PEARL', which stands for Performance, Empowerment, Accountability, Responsiveness and Local Embeddedness. We also encourage all our employees to behave in a way that is responsive, respectful and results-driven. An explanation of what we mean is given in the diagram.

It goes without saying that we monitor how embedded this culture is among our staff. We have even appointed a dedicated PEARL manager to make sure that all our employees are thoroughly imbued with these values. The PEARL manager reports to our CEO.

We also distinguish ourselves from our competitors through several specific features, including our integrated bank-insurance model and our focus on a number of specific countries. The tables below go into this in greater depth.



What differentiates us from our peers?

Our integrated bank-insurance model

We offer an integrated response to our clients' banking and insurance needs. Our organisation is similarly integrated, with most services operating at group level and the group also managed in an integrated style. Our integrated model offers our clients the benefit of a comprehensive, one-stop financial service that allows them to choose from a wider, complementary and optimised range of products and services. For ourselves, it offers benefits in terms of income and risk diversification, additional sales potential through intensive co-operation between the bank and insurance distribution channels, and significant cost-savings and synergies.

Our strong geographical focus

We focus on our core markets of Belgium, Bulgaria, the Czech Republic, Hungary, Ireland and Slovakia. As a result, we now operate in a mix of mature and growth markets, taking advantage in the latter of the catch-up potential for financial services. We have a limited presence elsewhere in the world, primarily to support activities in our core markets.

Our focus on local responsiveness

We want to build sustainable local relationships with private individuals, SMEs and mid-caps in our core countries. Local responsiveness is very important to us in that regard. It means we know and understand our local clients better, that we pick up signals effectively and respond to them proactively, and that we offer products and services tailored to these local needs. It also means that we focus on the sustainable development of the different communities in which we operate (see below).

Our approach to sustainability

Sustainability is not a separate policy at KBC, but an integral part of our overall business strategy, which is anchored in our day-to-day activities. Our sustainability strategy has three cornerstones: increasing our positive impact on society, limiting any adverse impact we might have and encouraging responsible behaviour on the part of all employees.

Our shareholder structure

A special feature of our shareholder structure is the core shareholder syndicate consisting of Cera, KBC Ancora, MRBB and the other core shareholders, which together held roughly 40% of our shares at the end of 2017. These shareholders act in concert, thereby ensuring shareholder stability in our group.

Our strengths

A well-developed multichannel bank-insurance and digital strategy, which enables us to respond immediately to our clients' needs	Strong commercial banking and insurance franchises	Turnaround achieved in the International Markets Business Unit and position in Bulgaria considerably strengthened	Successful track record of underlying business results	Solid capital position and strong liquidity	Firmly embedded in the local economies of our core countries

Our challenges

Macroeconomic environment characterised by low interest rates, demographic ageing, increased nervousness on the financial markets, and geopolitical and climate-related challenges	Stricter regulation in areas like client protection and solvency	Competition, new players in the market and changing client behaviour	New technologies and cyber crime

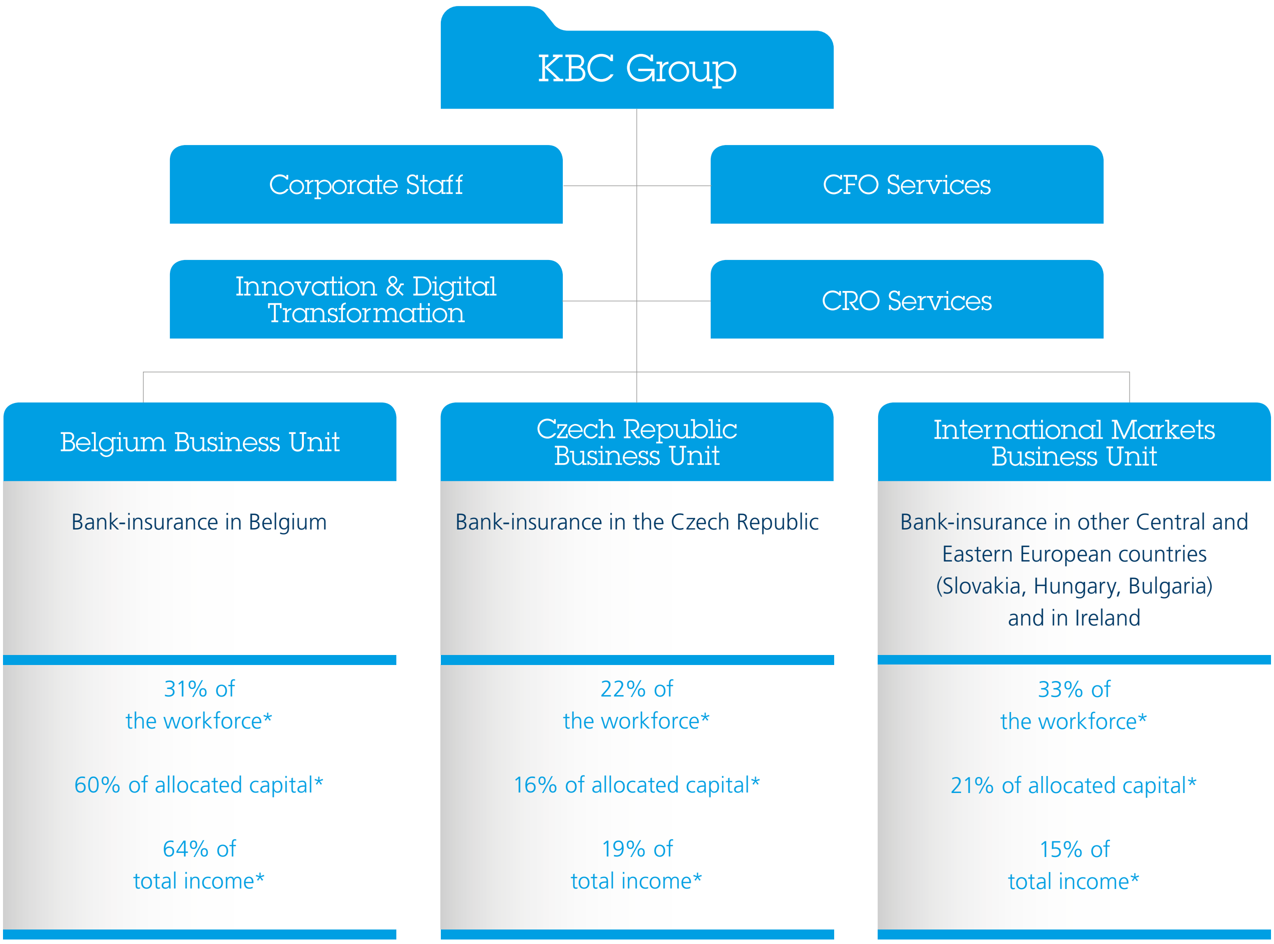
Like to know more? You will find information on each business unit and country in the 'Our business units' section. Information about our culture and values can be found at www.kbc.com > About us.

We have structured our group around three business units, which focus on local activities and contribute to sustainable earnings and growth. The units are Belgium, the Czech Republic and International Markets. We have illustrated the importance of each business unit in the diagram below. A more detailed description is provided in the 'Our business units' section.

The Board of Directors is responsible for defining our group's strategy, general policy and risk appetite. It is supported by several specialised committees, namely the Audit Committee, the Risk & Compliance Committee, the Nomination Committee and the Remuneration Committee. These committees are dealt with in the 'Corporate governance statement'.

Our Executive Committee provides the operational management of the group within the confines of the general strategy approved by the board. Besides the CEO, the Executive Committee includes the Chief Financial Officer (CFO), the Chief Risk Officer (CRO) and the Chief Innovation Officer (CIO) of the group, as well as the CEOs of the three business units.

The most important matters discussed by the Board of Directors in 2017 are summarised in the 'Corporate governance statement'. We also deal with our remuneration policy for senior management in that section. The principle underpinning this policy – and indeed the remuneration of all our staff – is that good performance deserves to be recognised. It is only fair that every employee who works hard is properly rewarded for their efforts, including by means of limited variable remuneration.



* A proportion of our employees work in other countries or in group functions. We also allocate part of our capital and income to the Group Centre (see below). The capital allocated to a business unit is based on the risk-weighted assets for the banking activities and risk-weighted asset equivalents for the insurance activities (see 'Glossary of financial ratios and terms').

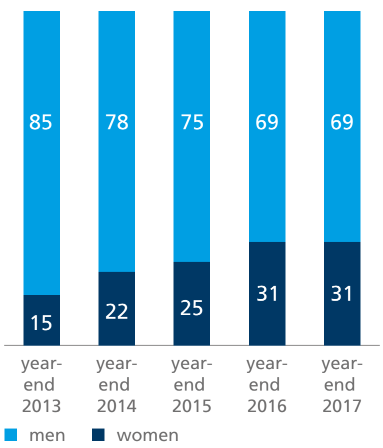
Composition of the Board of Directors and Executive Committee (year-end 2017)

Board of Directors	Members	16
	Men/Women	11/5
	Principal qualifications	economics, law, actuarial sciences, management, mathematics, fiscal sciences, philosophy, etc.
	Nationality	Belgian (14), Hungarian (1), Czech (1)
	Independent directors	3
	Attendance record	See the 'Corporate governance statement'
Executive Committee	Members	7
	Men/Women	6/1
	Principal qualifications	law, economics, actuarial sciences, mathematics, international relations, pedagogy
	Nationality	Belgian (6), British (1)

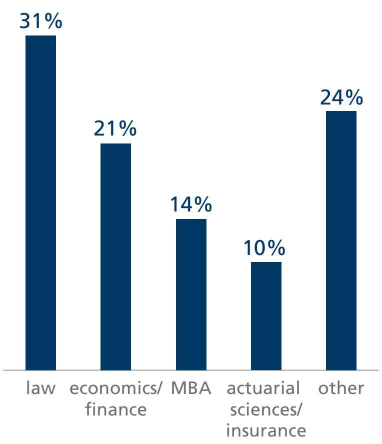
Like to know more?

More detailed information on our governance is provided in the 'Corporate governance statement' section and in the group's Corporate Governance Charter at www.kbc.com.

Percentage of men and women on the Board of Directors



Qualifications held by members of the Board of Directors (year-end 2017)

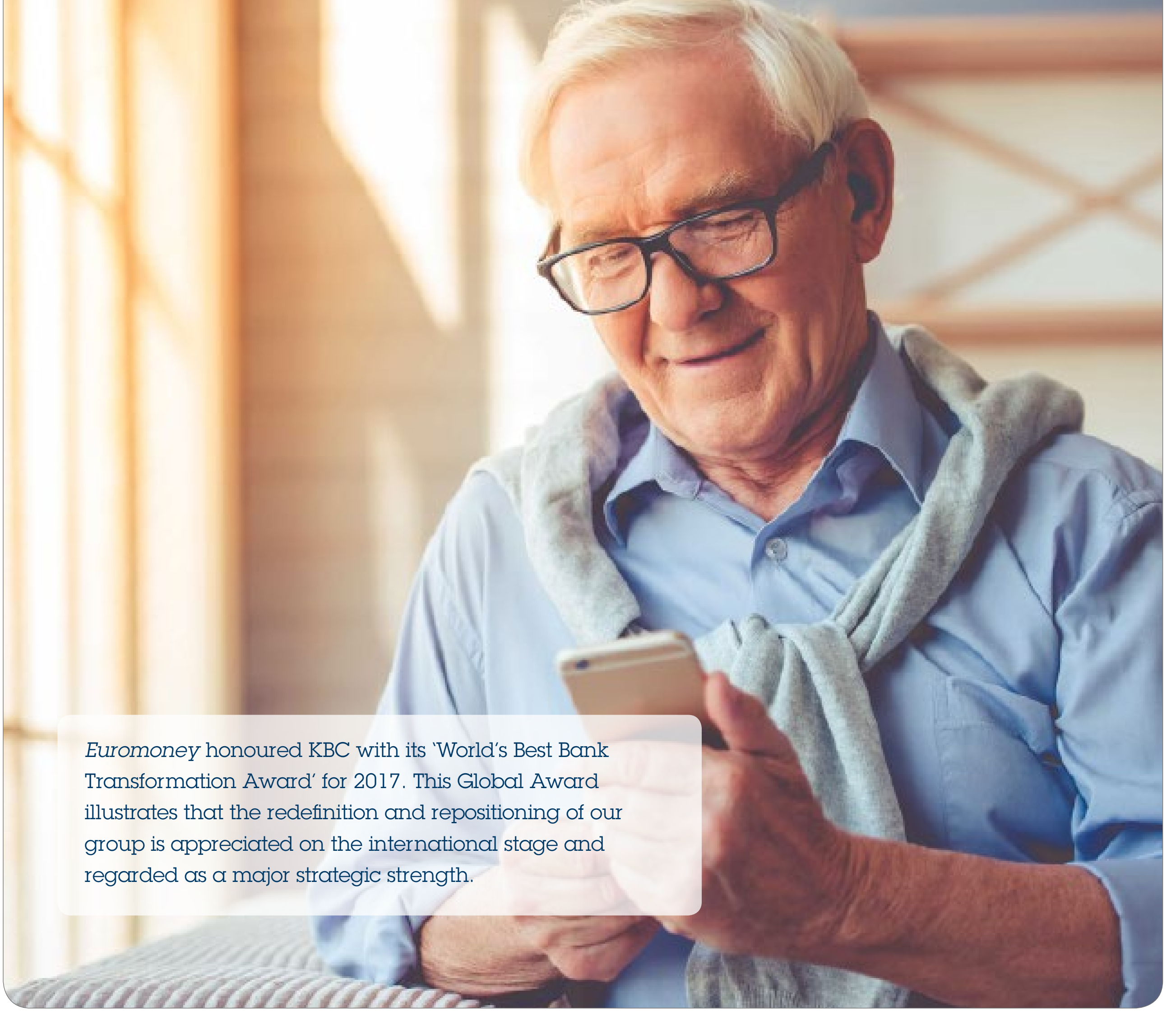


Rough breakdown based on all qualifications (several individuals have more than one degree)

In what environment do we operate?

Our business model

Our value creation | Our model | **Our environment** | Our capitals



Euromoney honoured KBC with its 'World's Best Bank Transformation Award' for 2017. This Global Award illustrates that the redefinition and repositioning of our group is appreciated on the international stage and regarded as a major strategic strength.

What are our main challenges?	How are we addressing them?
The world economy, geopolitical challenges and the environment The world economy, the financial markets and demographic developments can strongly influence our results. This relates to matters like growth, the level and volatility of interest rates, inflation, employment, population structure, bankruptcies, household income, financial market liquidity, exchange rate movements, availability of funding, investor and consumer confidence, credit spreads and asset bubbles. Persistently low interest rates have become an important factor in recent years, exerting significant pressure on the income of banks and insurers. Demographic ageing is also a challenge for our life insurance business, for instance, where it can lead to a changing product offering due to the shift in the structure of the insurance population, and because it drives up demand for rate products with longer maturities. There is a risk, moreover, of corrections in markets where disequilibrium may have built up (asset bubbles). Geopolitical developments (such as Brexit, political tensions and military threats) could have significant implications for the economy and hence our results. The same goes for climate change and the transition to a low-carbon society.	• We ensure in our long-term planning/scenario that our capital and liquidity positions are capable of withstanding a negative scenario. • We take proactive measures. Examples include adjusting our offering to take account of demographic ageing (more insurance policies relating to health care, investment products linked to financial planning, etc.). • We make sure that our own capital position is strong to ensure financial stability. • We calculate the potential impact of changes in key parameters and estimate the impact of material events as effectively as possible. • We intend to diversify our income sources further to include more fee business, for example, alongside interest income. • Limiting our negative impact on the environment (both direct and indirect) is an important strand of our sustainability strategy.
Competition and technological change We carry out our activities in a highly competitive environment. Our competitors too are being affected by technological change and shifting client behaviour. Examples include the surge in growth of online services. Besides the traditional players, therefore, there is also intensifying competition from online banks, fintechs and e-commerce in general. Heightened competition is affecting client expectations, exerting potential pressure on cross-selling opportunities, increasing the importance of digitalisation, and creating a need for an organisation that is responsive and resilient. We are both eager and obliged, therefore, to keep up and constantly to challenge our business model with technological developments and the new needs of a changing society. These changes prompt the necessary adjustments to our processes and systems.	• The creative input and training of our employees is highly important when it comes to equipping ourselves to deal with competition and technological change. • As an integrated financial institution, we can draw on an immense volume of data, which enables us to understand more clearly what clients really want. What's more, our integrated model allows us to offer our clients more comprehensive solutions than pure banks or insurers can. • We have a specific process in place to ensure that the business side receives approval efficiently for new product launches. The process also includes a thorough examination of the potential risks. We regularly review all our existing products, so that they can be adapted to take account of evolving client needs or changing circumstances. • Research and development has been performed at a variety of group companies as part of a programme to develop new and innovative financial products and services. Over the past few years, we have launched numerous successful mobile and other innovative apps (examples are provided in the 'Our business units' section). • We are open to partnerships with fintech firms or even sector peers. • We have committed ourselves in Ireland to implementing a 'Digital First' strategy. Cooperation with other group entities is being increased to speed up digitalisation and innovation. • In addition to digitalisation, we are working hard to simplify products and processes. • We intend to invest 1.5 billion euros throughout the group in digital transformation between 2017 and year-end 2020.

What are our main challenges? / How are we addressing them?

Regulation

What are our main challenges?

Increasing regulation is an issue for the financial sector as a whole. It includes the following in the years ahead:

- General Data Protection Regulation (GDPR), which imposes rules on the processing of personal data and could have a significant impact on a range of activities, including marketing, databases and insurance policies;
- Markets in Financial Instruments Directive II (MiFID II and MiFIR), which aims to make European financial markets more efficient and transparent and to enhance investor protection. It will affect all areas relating to investment products and processes;
- Payment Services Directive II (PSD2), which includes opening up account information to third parties so that they can enter the market more readily. This could directly impact financial institutions' traditional business models.
- Other legislation worth mentioning includes the anticipated ePrivacy Regulation on the protection of electronic communication, PRIIPs (Packaged Retail and Insurance-based Investment Products), which will standardise the information on the products in question, and the Insurance Distribution Directive, which will protect the client's interests and establish product oversight and governance arrangements.
- Various initiatives are currently underway in the area of solvency, mainly in relation to the banking business. The main initiatives relate to the method for calculating risk-weighted assets (Basel IV) and the further streamlining of legislation to ensure that shareholders and creditors absorb losses at banks rather than the government.
- Others factors are the new IFRS that have yet to become effective, including IFRS 17, which applies specifically to the insurance business and will come into effect as from 2021 (subject to EU endorsement) and especially IFRS 9, which becomes effective as from 2018 and introduces a number of measures, including a new classification system for financial instruments and new impairment rules (see Note 1.0 in the 'Consolidated financial statements' section).
- We also anticipate more stringent transparency requirements in the future with regard to the risks and opportunities associated with climate change.

How are we addressing them?

- We are making thorough preparations for the new regulations. Specialised teams (group legal, capital management, group risk and compliance) keep close track of the rules and propose the necessary responses in terms, for instance, of the group's capital planning.
- In the case of regulations that will have a major impact on us (such as IFRS 9), internal programmes and working groups have also been set up, in which staff from all the relevant areas can work together.
- A special team focuses on contacts with government and regulators.
- We participate in working groups at sector organisations, where we analyse draft texts.
- We produce memorandums and provide training courses for the business side.

Cyber risk/Information security

What are our main challenges?

Hacking and cyber attacks are a constant threat in an increasingly digital world, with the potential to cause significant financial and reputational harm. Our focus here is on the optimum protection of both our clients and our group itself.

How are we addressing them?

- We raise our employees' awareness of cyber risks by providing training in areas like phishing and vishing, and fraud in general.
- We work to achieve highly secure and reliable ICT systems and robust data protection procedures, and we constantly monitor our systems and the environment.
- We analyse cyber risks from an IT and business perspective, so that we can offer maximum resistance and are able to remedy attacks swiftly and efficiently. We regularly evaluate our action plans and adapt them on the basis of new internal and external information.
- A certified Cyber Expertise & Response Team focuses on cyber crime, informs and assists local entities, tests KBC's defence mechanisms and provides training and cyber-awareness in the group. A group-wide Competence Centre for Information Risk Management concentrates on the risks associated with information security and cyber crime, and on operational IT risks.
- We are members of the Belgian Cyber Risk Coalition – a knowledge and consultative platform consisting of around 50 public and private-sector enterprises and academics.
- We also have our entities' cyber risks and defence mechanisms evaluated on an annual basis by an international team of internal information security experts.

Market conditions in our core markets in 2017

Belgium

Market environment

- Growth driven by domestic demand and net exports, thanks to job creation and improved competitiveness
- Inflation again higher than in the rest of the EMU
- Home loans and business loans both up by over 5% – above the euro area average. Slightly slower – but still respectable – growth of household deposits and business deposits throughout the year
- Forecast real GDP growth in 2018 of 1.9%

KBC in Belgium

- Main brands: KBC, KBC Brussels and CBC
- 659 bank branches[1], 404 insurance agencies, electronic channels
- Estimated 20% share of the market for traditional bank products, 33% for investment funds, 14% for life insurance and 9% for non-life insurance
- 3.5 million clients
- 98-billion-euro loan portfolio[2] and 133 billion euros in deposits and debt securities
- Net result of 1 575 million euros

1 Excluding self-service branches and KBC Bank's 11 branches in the US, Asia and Europe.
2 Including KBC Bank's branches abroad.

Czech Republic

Market environment

- Growth picked up sharply, putting it among the strongest in the EU
- Household consumption underpinned by pay rises and job creation
- Inflation rose sharply above the EMU average
- Very robust growth of lending and client deposits
- Forecast real GDP growth in 2018 of 3.0%

KBC in the Czech Republic

- Main brand: ČSOB
- 270 bank branches, various distribution channels for insurance, electronic channels
- Estimated 20% share of the market for traditional bank products, 22% for investment funds, 8% for life insurance and 7% for non-life insurance
- 3.7 million clients
- 24-billion-euro loan portfolio and 30 billion euros in deposits and debt securities
- Net result of 702 million euros

Slovakia

Market environment

- Robust growth in 2017 in line with year-earlier figure and well ahead of the EMU
- Slovakia moved out of negative inflation. Average annual increase in consumer prices just below the EMU average
- Lending – home loans in particular – exceptionally strong. Vigorous growth of deposits, but less strong than the increase in lending
- Forecast real GDP growth in 2018 of 3.8%

KBC in Slovakia

- Main brand: ČSOB
- 122 bank branches, various distribution channels for insurance, electronic channels
- Estimated 11% share of the market for traditional bank products, 7% for investment funds, 4% for life insurance and 3% for non-life insurance
- 0.6 million clients
- 7-billion-euro loan portfolio and 6 billion euros in deposits and debt securities
- Net result of 79 million euros

The world economy in 2017

2017 was a year full of positive surprises for the world economy. Accelerating global demand was reflected in strong domestic consumption and robust international trade. There were also signs that an investment cycle was finally getting underway. However, there was evidence of political turbulence too in 2017. All the same, even major geopolitical conflicts like the military confrontations in the Middle East and the North Korea crisis failed to darken the rosy economic outlook.
Inflation in the euro area remained stubbornly low, despite strong economic growth. This encouraged the ECB to extent its quantitative easing programme until September 2018. The same policy continued to weigh on interest rates, particularly at the longer end. It also kept rate spreads low within the EMU.
For the US economy, 2017 was another year of vigorous economic growth. The current expansion could even strengthen a little further, driven in part by upcoming tax cuts. Monetary policy also remained supportive. The strong performance of US economic growth prompted the Fed to hike its policy rate three times in 2017. It also started deliberately scaling back its balance sheet in October 2017, as previously announced.

Hungary

Market environment

- Real GDP growth recovered sharply year-on-year, moving well above the EMU average
- Inflation jumped to 2.4%
- Further easing of monetary policy
- Lending up sharply again after years of declining loan volumes, with deposits following suit
- Forecast real GDP growth in 2018 of 3.8%

KBC in Hungary

- Main brand: K&H
- 207 bank branches, various distribution channels for insurance, electronic channels
- Estimated 11% share of the market for traditional bank products, 13% for investment funds, 3% for life insurance and 7% for non-life insurance
- 1.8 million clients
- 5-billion-euro loan portfolio and 7 billion euros in deposits and debt securities
- Net result of 146 million euros

Bulgaria

Market environment

- At 3.9%, growth down a little year-on-year, but among the highest in the EU
- Inflation turned positive again, averaging 1.3%
- Robust growth in both lending and deposits
- Forecast real GDP growth in 2018 of 3.9%

KBC in Bulgaria

- Main brands: UBB (incl. CIBANK) and DZI Insurance
- 236 bank branches, various distribution channels for insurance, electronic channels
- Estimated 10% share of the market for traditional bank products, 13% for investment funds, 21% for life insurance and 11% for non-life insurance
- 1.4 million clients
- 3-billion-euro loan portfolio and 4 billion euros in deposits and debt securities
- Net result of 50 million euros

Ireland

Market environment

- At 6.5%, growth again among the strongest in the EU
- Inflation remained remarkably low – well under the EU average
- Continuing debt reduction thanks to robust growth
- Outstanding loans stabilised overall, while the vigorous deposit growth of recent years continued
- Forecast real GDP growth in 2018 of 3.5%

KBC in Ireland

- Main brand: KBC Bank Ireland
- 16 bank branches (hubs), electronic channels
- Estimated 8% share of the market for retail banking
- 0.3 million clients
- 12-billion-euro loan portfolio and 5 billion euros in deposits and debt securities
- Net result of 167 million euros

Like to know more? More information on market conditions in each country is provided in the 'Our business units' section.

Our employees, capital, network and relationships

Our business model

Our value creation | Our model | Our environment | **Our capitals**

Our employees are our greatest strength. They come into direct contact with our clients and define the way KBC is viewed by them. We are fully aware that it is chiefly due to the commitment and efforts of our employees that we are able to achieve strong results and to fulfil our strategy.

As a financial group, we draw on many different types of capital, including our employees and our capital base, but also our brands, reputation and capacity to innovate, our relationships with all our stakeholders, our networks – both electronic and bricks-and-mortar – and our ICT infrastructure.

Our employees

Our HR policy is based on our PEARL business culture and it is our employees who give it tangible shape each day in all our group's core countries. The 'E' in PEARL stands for 'Empowerment', referring to our commitment to give every employee the space they need to develop their talent and creativity. This includes giving them the opportunity and scope to take an innovative idea and develop it in practice. Once again, many such initiatives in 2017 were translated into concrete achievements within our group.

We also encourage our employees to develop ideas as a team. Although our group is made up of many businesses – each with its own, locally familiar name – all our employees also belong to one big family called 'Team Blue'. 'Team Blue' symbolises the way we cooperate across borders and our group's different business units, encouraging the 'smart copying' of each other's ideas and pooling experiences. In the present, deeply changing digital world, it is an exceptional advantage to be able to work in this group-wide manner.

We create a motivating working environment where our employees are given the opportunity to develop their talents and skills, not only by learning, but also by communicating their ideas and taking responsibility. We view self-development as key to professional growth, along with KBC. Our staff can choose among a wide range of e-learning courses, online learning journeys involving *learning nuggets*, Skype sessions, workplace coaching, and other development opportunities. Our new learning culture makes the fullest possible use of digital possibilities, but we also remain committed to traditional training courses where these are most appropriate.

Although employees are primarily responsible for developing their careers, KBC offers a great deal of support. There is also a range of interesting assignments, and plenty of opportunities are offered to change jobs internally via the internal job market and for employees to grow in their current setting.
Our staff increasingly collaborate in multidisciplinary teams on both long-term projects and short-term assignments, encouraging them to think creatively and to take on new roles. This opens up the prospect of a richer career path, which is fully aligned with the employee's individual talents and KBC's goals. We understand that it is the flexible approach of our staff themselves that enables us as an organisation to respond proactively to the wishes of consumers and to the digital environment in which we operate.

At the same time, we pay particular attention to extending careers. For instance, Minerva – our HR plan for older employees in Belgium – has enabled us to move towards a more individualised approach geared to their particular needs. We are responding in this way to demographic developments and preparing people to work for longer.

We realise that good managers are key when it comes to enabling employees to bring out the best in themselves. That's why we have intensive leadership tracks in place at different levels. Managers develop their skills through our 'lead yourself', 'lead your business' and 'lead your people' courses. They are increasingly taking on the role of coach, whose task it is to translate strategy to the workplace, to motivate employees and to give them the space to perform. 'KBC University' is now also up and running. This ambitious development programme is aimed at senior managers from the entire KBC group, with different speakers and modules

2017

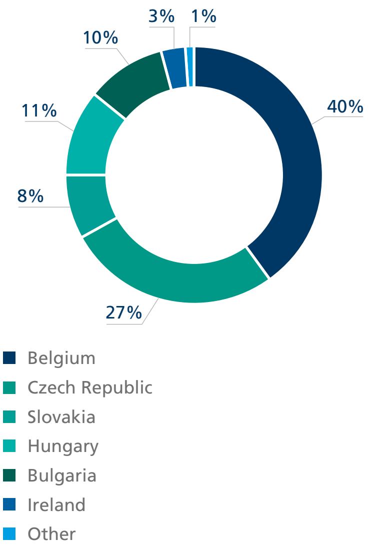
Approx. 42 000	55%	40%	87%
employees	in Central Europe	in Belgium	response rate in the Group Employee Survey

focusing on bank-insurance, leadership and client-centricity. At the same time, KBC is actively working on a separate policy for top talent management, in which we identify future senior managers and fast-track them to face tomorrow's challenges.

We take the well-being of our employees very seriously – a vision that has long been embedded in our organisation. 'Healthy' employees feel at ease with themselves and are strong enough to use their own creativity in pursuit of client-focused solutions. To that end, we aim to keep our staff as fit and deployable as possible in the long term, both physically and mentally. Employees are given the opportunity in the workplace to focus actively on their 'wellness' in dialogue with their co-workers and managers. Particular attention is paid in this regard to mental health. In Belgium, for instance, a project on well-being was started in 2017 covering specific health and safety initiatives ranging from presentations on burn-out to individual testimonies and interactive sessions with managers, so that stress and burn-out can be discussed openly within teams.

We do not make any distinction on the grounds of gender, religion, ethnic background or sexual orientation in our HR, recruitment and promotion policies or remuneration systems.

Breakdown of workforce by country/region
(year-end 2017)



Equal treatment of employees is also enshrined in the KBC Code of Conduct and in the various manifestos and charters we have endorsed. As an employer, we want to give a clear signal to society: we treat our employees in a socially responsible manner and that relationship is grounded in mutual trust and respect. We also raise diversity awareness among our employees. It is important to realise that everyone has their own unique combination of visible and less visible characteristics. With this in mind, we launched the 'Diversity Rocks' campaign in Belgium in 2017.

We use an operational risk framework to perform an annual review of key risks in the HR process. The implementation and monitoring of legislation forms an important part of this process and we ensure that it is applied strictly in the area of HR. Examples in this regard include EBA guidelines on remuneration policy (including the variable wage component), the General Data Protection Regulation (privacy legislation) and the re-integration of employees after long-term sick leave. We also raise risk-awareness among our staff through targeted information campaigns and training.

Without the right staff, KBC would not be able to remain a reference in the European financial sector and so this, too, is an operational risk. We face it through carefully targeted recruitment and by encouraging our employees to update their skills continuously.

The application of our HR policy is closely monitored, not only by means of high-quality surveys, but also on the basis of accumulated HR data. Information on reward components, hours of training and lost working days, for instance, is taken into account. And we continuously test our policy against market indicators. We also monitor staff numbers group-wide and country by country, and present these figures every quarter to the Executive Committee.

KBC invests in good social dialogue with employee representatives. This consultation covers a very wide range of themes, such as pay and employment conditions, reorganisation and well-being. It is organised primarily on an individual country and company basis to take account of the local legal and business-specific situations. The process also resulted in collective agreements being concluded in the different countries in 2017. Meanwhile, an annual meeting of the European Works Council has been held at group level for over 20 years now. It brings together employee representatives from the various countries, senior KBC management and a broad, international HR delegation to deal with topics of cross-border importance, so ensuring that there is a forum for discussing the impact of decision-making at group level too.

We closely monitor employee satisfaction and engagement and consult our staff each year by means of the Group Employee Survey. The 87% response was up two percentage points on the previous year, with over 32 000 employees taking the time to share their opinions. The survey revealed an engagement level for the group as a whole that was up on the previous year, putting it a percentage point ahead of the European financial sector average. The engagement index rose in the Czech Republic, Hungary and Ireland, but was down slightly on its year-earlier level in Slovakia and Bulgaria. The index was stable in Belgium, but still four percentage points ahead of the national benchmark.

Number of staff, KBC group	31-12-2017[1]	31-12-2016
Absolute number	41 876	38 356
FTEs	38 459	36 315
In % (based on FTEs)		
Belgium	40%	44%
Central and Eastern Europe	56%	52%
Rest of the world	4%	4%
Belgium Business Unit	31%	34%
Czech Republic Business Unit	22%	23%
International Markets Business Unit	33%	29%
Group Functions and Group Centre	14%	14%
Men	43%	44%
Women	57%	56%
Full-time	83%	82%
Part-time	17%	18%
Average age	42	42
Average seniority (years)	13	13
Number of days absent through illness per employee	8	8
Staff turnover (as % of total workforce)	12%	10%
Internal labour mobility (as % of total workforce)	18%	18%
Number of training days per employee[2]	4.7	3.4

1 The increase largely reflects the acquisition of United Bulgarian Bank and Interlease in Bulgaria in mid-2017. Flexible DPP and DPC contracts in the Czech Republic and Slovakia have also been included in the totals (but not in the various breakdowns in the table) as from 2017. DPP and DPC stand for *Dohoda o vykonaní práce / o brigádnickej práci študenta* and *Dohoda o pracovnej Činnosti*.

2 Excluding training in 2016 at ČSOB Bank in the Czech Republic.

Information

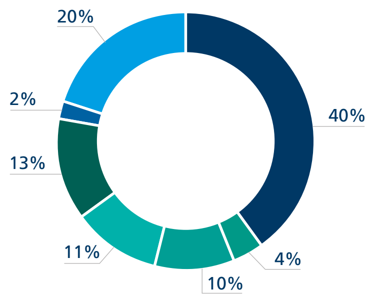
on diversity in our Board of Directors and Executive Committee can be found in the 'Corporate governance' section of this annual report.

Our capital

Our activities are only possible if we have a solid capital base. At year-end 2017, our total equity came to 18.8 billion euros and chiefly comprised own share capital, share premiums, reserves and certain additional tier-1 instruments. Our capital was represented by 418 597 567 shares at year-end 2017, a small increase of 225 485 shares on the previous year, due to the customary capital increase reserved for staff in December each year.

Our shares are held by a large number of shareholders in a number of countries. A group of shareholders consisting of MRBB, Cera, KBC Ancora and the Other core shareholders, constitute KBC's core shareholders. A shareholder agreement was concluded between these core shareholders in order to ensure shareholder stability and guarantee continuity within the group, as well as to support and co-ordinate its general policy. To this end, the core shareholders act in concert at the General Meeting of KBC Group NV and are represented on its Board of Directors. The current agreement applies for a ten-year period with effect from 1 December 2014. According to the most recent notifications, the core shareholders own 40% of our shares between them.

Breakdown of shareholder structure by country/region
(mid-2017, own estimates)



It is our intention (subject to the approval of the General Meeting of Shareholders) to pay out at least 50% of the available consolidated profit as dividend (dividends on shares and coupon on the additional tier-1 instruments combined). Barring exceptional or unforeseen circumstances, we will pay an interim dividend of 1 euro per share annually in November of the current financial year as an advance on the total dividend, plus a final dividend after the Annual General Meeting of Shareholders.

Subject to the approval of the General Meeting of Shareholders, the total gross dividend per share for 2017 will amount to 3 euros, 1 euro of which has already been paid out as an interim dividend in November 2017. We will also propose buying back 2.7 million shares to compensate for shareholder dilution caused by capital increases for staff.

2017

419	40%	71.1	29.8	3.0
million shares	held by core shareholders	euros closing price	billion euros in market capitalisation	euros dividend per share* 1 euro of which already paid as an interim dividend

* Subject to the approval of the General Meeting of Shareholders.

KBC share	2017	2016
Number of shares outstanding at year-end (in millions)	418.6	418.4
Share price for the financial year*		
Highest price (in EUR)	72.5	61.3
Lowest price (in EUR)	57.0	39.8
Average price (in EUR)	66.5	51.0
Closing price (in EUR)	71.1	58.8
Difference between closing price at financial year-end and previous financial year-end	+21%	+2%
Equity market capitalisation at year-end (in billions of EUR)	29.8	24.6
Average daily volume traded on Euronext Brussels (source: Bloomberg)		
Number of shares (in millions)	0.8	1.0
In millions of EUR	50	51
Equity per share (in EUR)	41.6	38.1

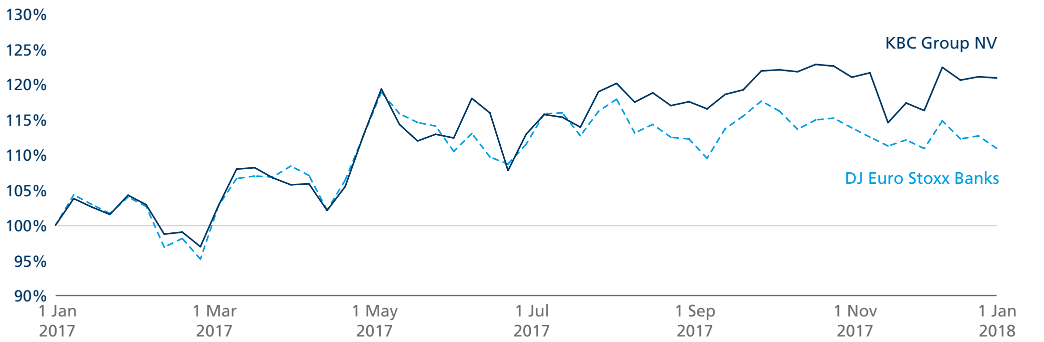
* Based on closing prices and rounded to one decimal place.

Shareholder structure of KBC Group NV (31 December 2017)*	Number of shares at the time of disclosure	% of the current number of shares
KBC Ancora	77 516 380	18.5%
Cera	11 127 166	2.7%
MRBB	47 887 696	11.4%
Other core shareholders	31 109 379	7.4%
Subtotal for core shareholders	167 640 621	40.0%
Free float	250 956 946	60.0%
Total	418 597 567	100.0%

* The shareholder structure is based on the most recent notifications made under the transparency rules or (if they are more recent) on disclosures made under the Act on public takeover bids or other available information. Details of notifications from shareholders can be found in the 'Company annual accounts and additional information' section.

KBC share price over one year

(31 December 2016 = 100%, end-of-week prices)



A major part of our activities involves transforming deposits and other forms of funding into loans.

For that reason, funding through deposits and debt securities is an important *raw material* for our group. We have therefore developed a strong retail/mid-cap deposit base in our core markets. We also regularly issue debt instruments, including via KBC IFIMA, KBC Bank and KBC Group NV itself.

Credit ratings* on 15/03/2018	**Long-term rating**	**Outlook/watch/review**	**Short-term rating**
Fitch			
KBC Bank NV	A	(Positive outlook)	F1
KBC Group NV	A	(Stable outlook)	F1
Moody's			
KBC Bank NV	A1	(Stable outlook)	P-1
KBC Group NV	Baa1	(Stable outlook)	P-2
Standard & Poor's			
KBC Bank NV	A	(Positive outlook)	A-1
KBC Insurance NV	A-	(Stable outlook)	–
KBC Group NV	BBB+	(Stable outlook)	A-2

* Please refer to the respective credit rating agencies for definitions of the different ratings. In KBC Insurance's case, it is the financial strength rating, which indicates the likelihood of policyholders' claims being met, whereas the ratings given for KBC Bank and KBC Group indicate the likelihood of their financial obligations being met.

Our network and our relationships

Alongside staff and capital, our network and relationships are especially important to our activities. An overview of our network can be found under 'Market conditions in our core markets in 2017'.

Our social and relationship capital comprises all relationships with our clients, shareholders, government, regulators and other stakeholders who enable us to remain socially relevant and to operate as a socially responsible business. This theme is dealt with in depth under 'Our role in society' in the 'Our strategy' section.

Like to know more?

More information about our shareholder structure is provided in the 'Corporate governance statement' section. Further details of our credit ratings are available at www.kbc.com > Investor Relations > Credit ratings. Information on our debt issues can be found in the Debt Investor Presentation at www.kbc.com > Investor Relations > Presentations.

Our strategy

Our strategy rests on four principles:

- We place our clients at the centre of everything we do.
- We look to offer our clients 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 implement our strategy within a strict risk, capital and liquidity management framework.

Sustainability is embedded in our strategy. To us, this primarily means the ability to live up to the expectations of all our stakeholders and to meet our obligations, not just today but also in the future. Our sustainability strategy has three cornerstones:

- enhancing our positive impact on society;
- limiting any negative impact we might have;
- encouraging responsible behaviour on the part of all our employees.

The client is at the centre of our business culture

Cornerstones of our strategy

client centricity	bank-insurance	sustainable profitable growth	role in society

Within a stringent risk, capital and liquidity management framework

We have to earn our clients' trust every day. We work hard to offer them complete, accessible and relevant solutions at a fair price and to achieve an optimum client experience. That means taking their needs rather than our banking or insurance products as our starting point.

We prepare thoroughly for the future. We operate in a highly dynamic environment, in which we have to contend with changing behaviour and evolving expectations on the part of our clients, new technologies, a challenging macroeconomic context, intensifying competition and so on. We continue to provide an integrated response to our clients' banking and insurance needs in this more digital world too, in the shape of a comprehensive, one-stop financial service, in which they can choose from a wider, complementary and optimised offering.

What our clients want today is actually the same as they wanted in the past: a bank or insurer they can trust, and who offers them the right solutions. The difference today is that they want it through a variety of channels and at the moment that suits them best: mobile payments in the restaurant, online banking from home, advice from an insurance agent or an investment expert in an office or remotely from a regional advisory centre.

We have therefore refined our client focus to the formula 'think like the client and design for a digital world'. Clients can continue to choose whichever channel they prefer, be it the bricks-and-mortar branch or agency, their smartphone, the website, the contact centre or our apps. Human contact will continue to play a crucial role, but backed up with digital possibilities: face-to-face contact, for instance, supported by robot advice or chatbots, as in the K'Ching app in Belgium.

This approach also entails further internal simplification of processes, systems and products so that we can remain a secure and reliable partner for our clients, who are looking for convenience and ease-of-use, wherever and whenever they want. To this end, we will continue to enhance the efficiency and effectiveness of our processes and our data management, so that we act swiftly and decisively to offer our clients a convenient and pleasant experience.

We intend to invest 1.5 billion euros throughout the group in digital transformation between 2017 and year-end 2020.

Meanwhile, we are ensuring that ideas are exchanged within our group and that apps are copied and reused as much as possible at other group entities. In this way, we create additional synergies and leverage the talent, entrepreneurship and resources available within our organisation. Ireland will play a pioneering role for the group in this regard, with its 'Digital First' strategy.

Digitalisation also provides us with a multiplicity of data, which we can use to get to know our clients better and advise them more effectively. It goes without saying that clients only accept us analysing their data once they already trust us. We achieve that through an excellent privacy policy, for which the client sets the limits. Because privacy is not only an objective concept, defined by law, it is a highly subjective one too. For that reason, we want to let clients themselves choose what we can do with their data. In the process, we aim to communicate in a transparent way and offer our clients a clear privacy overview, in which they can adjust their choices at any moment. We view smart data analysis allied with effective privacy protection as the ideal opportunity to enhance our clients' trust.

Access to financial services and solid financial advice for all sections of society contributes to economic development and forms the basis for financial and social integration. We fulfil our responsibility as a bank-insurer in this regard too, we promote financial literacy and seek by means of solid and transparent advice to help our clients make the right decisions. Various examples of our financial literacy initiatives are set out under 'Our role in society' in the 'Our strategy' section of this report.

Since putting the interests of our clients at the heart of everything we do is the cornerstone of our strategy, we keep a close eye on their situation. We collect their experiences in the various markets in which we are active and use that information to improve our products and services.

We also closely monitor our reputation and communicate this analysis to all the departments and individuals concerned, so they can take appropriate action. The targets and results for client experience and reputation are set out below.

In the assessments below, we compare the score for the principal KBC entity/entities in each core country with the average score in the sector (peer group) per country. We classify a score as being higher or lower if there is a difference of 5 percentage points or more with the peer group average.

KPI	Description	Target and result*
Reputation index	The index reflects the overall public attitude towards the company and is influenced by the performance of seven manageable reputation drivers, which are also measured in the study. The survey is performed by Ipsos.	Target: achieve the same or a higher score than the peer group average per country. 2017 result: K&H in Hungary and KBC Bank Ireland achieved a higher score than the peer group average. The scores for the other entities (KBC in Belgium, ČSOB in the Czech Republic, ČSOB in Slovakia and UBB/DZI in Bulgaria) were in line with the peer group average in their respective countries.
Client experience	Client experience is measured on the basis of responses to statements such as: 'offers quality products and services', 'offers transparent products and services', 'is easy to interact with', 'offers good value for money' and 'understands client needs'. The survey is performed by Ipsos.	Target: achieve the same or a higher score than the peer group average per country. 2017 result: KBC Bank Ireland achieved a higher score than the peer group average. The scores for the other entities (KBC in Belgium, K&H in Hungary, ČSOB in the Czech Republic, ČSOB in Slovakia and UBB/DZI in Bulgaria) were in line with the peer group average in their respective countries.

* In Belgium, the financial benchmarks are: BNP Paribas Fortis, ING, Argenta, Ethias, AG Insurance, Belfius, Baloise; in the Czech Republic: Air Bank, GE Money Bank, Česká spořitelna, Komerční banka, Kooperativa pojišťovna, Česká pojišťovna, Fio banka, Česká pošta, Unicredit Bank; in Hungary: OTP Bank, Erste Bank Hungary, Budapest Bank, CIB Bank, Raiffeisen Bank Hungary, UniCredit Bank Hungary; in Slovakia: Slovenská sporiteľňa, VÚB Banka, Tatra banka, Prima banka, Poštová Banka, Unicredit Bank, Allianz; in Ireland: Permanent TSB, Bank of Ireland, Ulster Bank, AIB, EBS; in Bulgaria: UniCredit Bulbank, Société Générale Expressbank, Allianz Bank, Central Cooperative Bank, Bulstrad Vienna Insurance, Armeec, Piraeus Bank, Allianz Insurance.
The scores relate to the KBC brand (banking and insurance) in Belgium, the ČSOB brand (banking) in the Czech Republic, the ČSOB brand (banking) in Slovakia, the K&H brand (banking) in Hungary, the KBC brand in Ireland and the UBB and DZI brands in Bulgaria. We have simplified the methodology since the previous annual report.

We offer our clients a unique bank-insurance experience

Cornerstones of our strategy

client centricity	bank-insurance	sustainable profitable growth	role in society

Within a stringent risk, capital and liquidity management framework

Our clients don't dream about loans or insurance policies, but about a car, a house, a holiday or a business of their own – things for which they need money. And when they have them, they want to protect them, so they look for insurance too. Thanks to our integrated bank-insurance model, we can proactively offer them a comprehensive range of banking and insurance products.

We respond in an integrated way to all of our clients' banking and insurance needs and we also position ourselves as an integrated bank-insurer within our organisation.

As a bank-insurer, we can put our clients' interests at the heart of what we do by offering them an integrated product range and advising them based on needs that transcend pure banking or insurance, and include family, the home and mobility. Our integrated model offers the client the benefit of a comprehensive, one-stop service that allows them to choose from a wider, complementary and optimised range of products and services. It offers the group benefits in terms of income and risk diversification, additional sales potential through intensive co-operation between the bank and insurance distribution channels, and significant cost-savings and synergies.

As stated earlier, we do everything we can to integrate our channels (bank branches and insurance agencies, contact centres, self-service terminals, the website, our home banking application and mobile apps). Because we are both a bank and an insurer, we can commit ourselves completely to this integrated approach and seamless service. The best mix of channels is determined locally based on the client's needs and also depends on the degree of maturity of our bank and insurer in each country.

We have developed a unique bank-insurance co-operation concept within our group, the roll-out of which varies from one country to another.

We are furthest advanced in this area in Belgium, where our bank-insurance business operates as a single unit that is achieving both commercial and non-commercial synergies. An important feature of our model in Belgium is the unique co-operation between our bank branches and insurance agencies in micro markets. The branches sell bank and standard insurance products, and refer clients to the insurance agency in the same micro market for other insurance products. The insurance agencies sell the full range of insurance products and handle all claims, including those relating to policies taken out at a bank branch.

We have not yet gone so far as in Belgium in our other core countries, but we want to create an integrated distribution model as swiftly as possible, which will allow commercial synergies. In Ireland, our focus is on working together with third parties.

Our bank-insurance model also enables us to achieve various commercial synergies. In Belgium, for instance, more than seven out of ten clients who agreed home loans with KBC Bank in 2017 also took out mortgage protection cover with KBC Insurance, while eight to nine out of ten purchased home insurance. At ČSOB in the Czech Republic, more than six out of ten clients who took out home loans in 2017 also purchased home insurance from the group. To give another example, roughly half of households in Belgium that bank with KBC Bank hold at least one KBC Insurance product. About one in five of these households actually held three banking and three insurance products from KBC. The number of clients holding both banking and insurance products from our group rose in 2017. The figures for each business unit are set out in the tables below.

2017

Approx. 50%	> 60%	13%
of households in Belgium that are KBC Bank clients hold at least 1 insurance product from KBC	of ČSOB clients in the Czech Republic who agreed a home loan with the bank also took out home insurance with the group	increase in the number of bank-insurance clients in the Czech Republic and at International Markets

We use a number of new Key Performance Indicators (KPIs) to track the success of our bank-insurance and digitalisation performance, the most important of which are listed in the table below.

KPI	Description	Target and result
CAGR of bank-insurance clients	Compound annual growth rate (CAGR) of the number of clients holding at least 1 banking and 1 insurance product from the group[1]	Target CAGR for 2016–2020: ≥ 2% in Belgium, ≥ 15% in the Czech Republic, ≥ 10% at International Markets CAGR for 2016–2017: +1% in Belgium, +13% in the Czech Republic and +13% at International Markets
CAGR of stable bank-insurance clients	Compound annual growth rate of the number of clients holding at least 2 banking and 2 insurance products from the group (3 and 3 for Belgium)[1]	Target CAGR for 2016–2020: ≥ 2% in Belgium, ≥ 15% in the Czech Republic, ≥ 15% at International Markets CAGR for 2016–2017: +1% in Belgium, +21% in the Czech Republic and +23% at International Markets
Digital interaction	Proportion of clients who interact with KBC via at least one of the non-physical channels (digital or remote advisory centre)[2]	Target: ≥ 80% in 2020 2017 result: 74%

1 Based on a list of previously selected products.

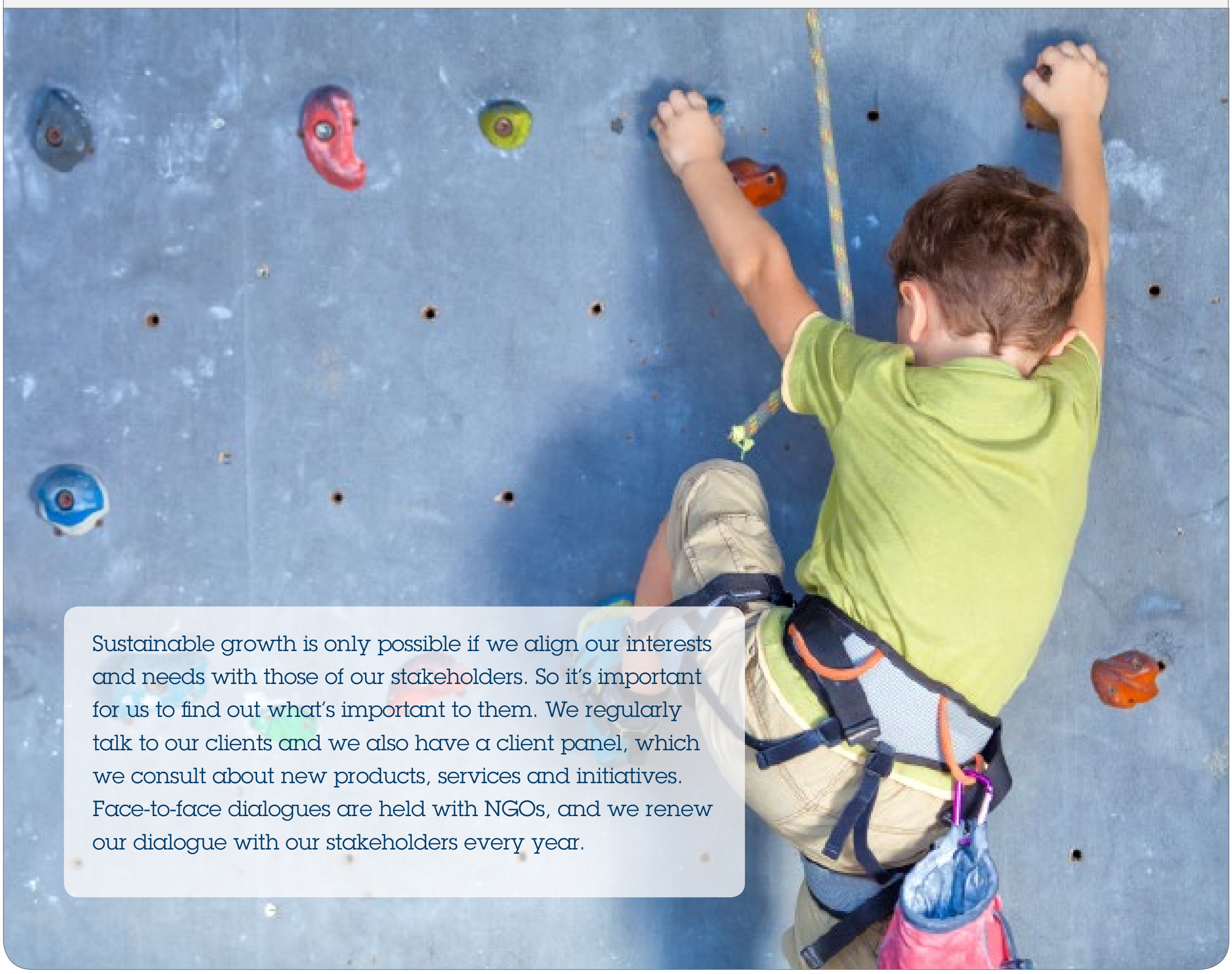
2 Excluding Bulgaria and Postal Savings Bank (Czech Republic). Excluding 'dormant clients'. Including clients who – in addition to using non-physical channels – are also in contact with KBC via the branches. Weighted by the number of active clients per country.

We focus on sustainable and profitable growth

Cornerstones of our strategy

client centricity	bank-insurance	sustainable profitable growth	role in society

Within a stringent risk, capital and liquidity management framework



Sustainable growth is only possible if we align our interests and needs with those of our stakeholders. So it's important for us to find out what's important to them. We regularly talk to our clients and we also have a client panel, which we consult about new products, services and initiatives. Face-to-face dialogues are held with NGOs, and we renew our dialogue with our stakeholders every year.

Developing long-term relationships with our clients is crucial if we are to secure our long-term future. Therefore, we do not pursue high short-term returns that come with excessive risks but rather focus on sustainable and profitable growth in the long run.

Sustainable and long-term thinking also means concentrating on the local economies of the core markets in which we operate and that we invest only to a very limited extent in projects outside these markets. Our geographical footprint remains firmly focused on our core countries. We view our presence in these countries as a long-term commitment and want to consolidate our presence there by means of organic growth or attractive acquisitions, in line with clear and strict strategic and financial criteria. The acquisition of United Bulgarian Bank and Interlease in Bulgaria in June 2017 is perfectly aligned with this strategy (see also the 'Our business units' section).

We decided, moreover, at the beginning of 2017 to include Ireland as one of our core countries, where we have fully committed ourselves to a 'Digital First' strategy for an outstanding client experience. Core country' status also means that we aim to achieve a market share of at least 10% in the retail and micro-SME segments and to develop bank-insurance as we do in our other core markets. Insurance products are being offered in Ireland through partnerships and co-operation agreements. The focus on our six core markets is also illustrated by the sale of our KBC TFI asset manager in Poland, as that country does not belong to our geographical core territory.

The pursuit of sustainable and profitable growth also guarantees us a diversified income base. In that respect, we want to generate more revenue from the fee business and insurance activities, alongside our interest income. We therefore aim to expand our insurance business and asset management services further in our core countries. We also want to build on the one-stop-shop offering to our clients through partnerships with fintech firms or even sector peers, and to offer services related to bank-insurance, such as advice.

Lastly, stringent risk management in everything we do is an absolute precondition in terms of guaranteeing sustainability. For more information on this, see 'We aim to achieve our ambitions within a stringent risk management framework'.

We monitor our long-term performance and our focus on the real economy and sustainability via a number of Key Performance Indicators (KPIs), the most important of which are listed in the following table.

KPI	Description	Target and result
CAGR of total income	Compound annual growth rate (CAGR) of total income. The calculation excludes fluctuations in value of the derivatives used for asset/liability management purposes.	Target CAGR for total income 2016–2020: ≥ 2.25% CAGR for 2016–2017: 5.6% (excluding UBB/Interlease)
Cost/income ratio	[operating expenses of the banking activities] / [total income of the banking activities]. The ratio is calculated both including and excluding special bank taxes.	Target for cost/income ratio (excl./incl. bank tax): ≤ 47% / ≤ 54% in 2020 2017 result (excl./incl. bank tax): 48% / 54%
Combined ratio	[technical insurance charges, including the internal cost of settling claims / earned insurance premiums] + [operating expenses / written insurance premiums] (for non-life insurance, and data after reinsurance).	Target for combined ratio: ≤ 94% in 2020 2017 result: 88%
Innovation	Innovation relates to: 'launches innovative products/services faster than competitors', 'continuously innovates to improve client experience', 'exceeds client expectations', 'uses advanced technologies'. The survey is performed by Ipsos.	Target: achieve the same or a higher score than the peer group average per country*. 2017 result: KBC in Belgium, K&H in Hungary and KBC Bank Ireland achieved a higher score for innovation than the peer group average. The scores for ČSOB in Slovakia and UBB/DZI in Bulgaria were in line with the market average and the score for ČSOB in the Czech Republic lower than the peer group average in that country.

* The list of benchmarks and an explanation of the methodology are provided under the table appearing in 'The client is at the centre of our business culture'.

Like to know more?

More information on strategy by business unit and country can be found in the 'Our business units' section. More information on our financial performance can be found in the 'Our financial report' section.

Our role in society

Sustainability is not a separate policy at KBC, but an integral part of our overall strategy, which is anchored in our day-to-day activities. First and foremost, sustainability to us is the ability to live up to the expectations of all our stakeholders and to meet our obligations. That's something we do every day through our core activities. Our loans, deposit products and asset management services enable us to help people realise their dreams and projects and our insurance products allow them to protect those dreams and projects.

Our sustainability strategy has three cornerstones, which we discuss below:

- encouraging responsible behaviour on the part of all employees;
- enhancing our positive impact on society;
- limiting any negative impact we might have on society.

Aiming to encourage responsible behaviour on the part of all our employees

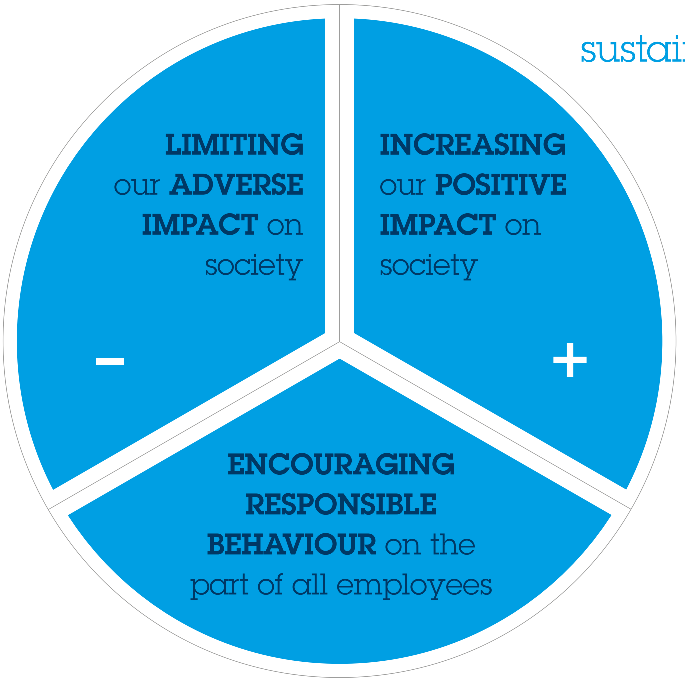
If we want to retain and grow our stakeholders' trust, it is extremely important that we behave responsibly in everything we do. It is therefore not enough for KBC employees simply to comply with regulations: our ambition in this area goes further than that. The basis of responsible behaviour is integrity, which requires honesty, fairness, transparency and confidentiality, as well as a healthy awareness of risk.

Responsible behaviour is especially relevant for a bank-insurer when it comes to appropriate advice and sales. We pay particular attention, therefore, to training and awareness. We have developed an internal programme to explore issues such as professional integrity, advising clients appropriately and dealing with dilemmas. Responsible behaviour is also a theme at 'KBC University', our senior management training programme. Using the dilemma approach, this type of behaviour has already been addressed at 14 sessions as an essential topic for management.

In all our activities, we respect all relevant rules and regulations that ensure ethical business, as well as the KBC group's specific policies and guidelines in this area. The basic principles of responsible behaviour are enshrined in our group-wide integrity policy, which embraces high ethical standards. Clients must always be treated in a fair, reasonable, honest and professional manner. Integrity and ethical values are also reflected in our Code of Conduct for KBC Group Employees. More information in this regard is provided in the 'Corporate governance statement' section.

We communicate transparently on our policy guidelines and codes of conduct, which are published on our corporate website (www.kbc.com/en/policies). More information on our Integrity Policy and its application is provided in the 'Corporate governance statement' section.

The core of our sustainability strategy



Aiming to enhance our positive impact on society

We contribute to the real economy in all our core markets through our core banking and insurance activities. We want to go further, however, and increase our positive impact in fields where we, as a bank-insurer, can make a difference. We take our cue when determining our focus areas from the UN Sustainable Development Goals. Bearing in mind the context in our different core markets, we have defined the following focus areas for sustainability: 'financial literacy', 'environmental awareness', 'entrepreneurship', and 'demographic ageing and/or health'. We aim to develop innovative financial and insurance solutions for each of these areas in all our core countries.

Our focus areas	Description	How? A few recent examples:
Financial literacy	• Helping clients make the right choices through good and transparent advice, and clear communication. • Improving general public knowledge of financial concepts and products.	• Launching financial education initiatives in all countries, including seminars, various master's programmes, a range of digital learning packs and internships. • Around 200 lessons on financial subjects given by ČSOB employees at 50 different schools. • Launch of an investors' club by K&H in Hungary, aimed at the younger generation so that they can learn more about investing, the financial markets, etc. • Introduction of 'KBC Go Digital Intro' in Belgium, in which clients can discover our digital offering. • Launch of 'Get-a-teacher' by KBC in Belgium, to give schools the opportunity to extend financial knowledge by 'ordering' a teacher from KBC.

Our focus areas	Description	How? A few recent examples:
Environmental awareness	• Reducing our environmental footprint through a diverse range of initiatives and objectives. • Developing products and services that can make a positive contribution to the environment.	• Focusing on multi-mobility at KBC Autolease, including the development of bicycle leasing. • Signing the 'Green Deal for Circular Procurement' to help achieve a more circular economy in Flanders. • Obtaining a 'Leadership A-' score in the 2017 Carbon Disclosure Project Climate Change Programme.
Entrepreneurship	• Contributing to economic growth by supporting innovative ideas and projects.	• Launching the e-stores programme in Bulgaria. • Rolling out *Start it @kbc* from Belgium to other core countries. • *KBC Match'it*, a digital platform for transferring businesses. • Providing capital for start-ups via the *KBC Start it Fund*. • Supporting local initiatives through the Bolero crowdfunding platform. • Encouraging clients to take the step to e-commerce via *Storesquare*, *FarmCafe* and similar initiatives. • Realising various European programmes to support small and micro businesses and SMEs. • Launching the KBC Service to Associations to encourage involvement in clubs, societies and associations in Belgium.
Demographic ageing and health	• We have opted for 'demographic ageing' as our fourth pillar in Belgium and the Czech Republic. This requires us to adapt our policy and our range of products and services to the fact that people are living longer and to make a positive contribution to the issues surrounding an ageing population by offering specific solutions through our core activities. • We chose 'health' as the fourth pillar in Bulgaria, Slovakia, Hungary and Ireland. These core countries will develop products, services and projects geared towards improving general health, healthcare and quality of life.	• Providing digitalisation lessons for over-55s in Belgium. • Providing financial and material assistance to sick children through the 'K&H MediMagic Programme' in Hungary. • ČSOB is collaborating with the Centre of Health Economics and Management at the Faculty of Social Sciences at the Charles University in Prague. • Launch by ČSOB in the Czech Republic of the online portal 'Find your way through senior age' in collaboration with the Sue Ryder Home advisory centre.

Limiting any negative impact we might have on society

We want to limit the unfavourable direct and indirect impact our operations might have on society as much as possible.

To mitigate our direct impact on global warming, we have started a group-wide programme to reduce our own environmental footprint. It includes:

- Greenhouse gas emission targets: by 2020, the group wants to reduce its own greenhouse gas emissions (in absolute terms and per FTE) by at least 20% compared to 2015 and excluding commuter travel. We have translated this aim into action plans in each core country. You can read further on what we have achieved to date.
- The ambition to obtain ISO 14001 certification in all our core countries by the end of 2017. This external certification confirms the quality of our environmental management system.
- An HR policy that contributes to the transition to a low-carbon economy (including by reducing commuter and business travel, promoting the use of public transport and bikes, and adjusting our car policy).

The underlying data and calculations for the KBC group's greenhouse gas emissions were verified for a second successive year by a third party (Vinçotte) in accordance with ISO 14064-3.

You can find more detailed information on our environmental footprint in our Sustainability Report.

2017

632	347	372	3 644	94
thousand GJ of electricity used	thousand GJ of gas and heating oil used	million km in commuter and business travel	tonnes of paper used	thousand tonnes of CO_2e emissions

Own environmental footprint (greenhouse gas emissions in tonnes of CO_2e), KBC group*	2017	2016
Scope 1 emissions are those from direct energy consumption and own-fleet emissions from business and commuter travel	41 730	42 554
Scope 2 emissions are those from indirect energy consumption (electricity, district heating, cooling and steam)	27 551	41 867
Scope 3 emissions are those from business and commuter travel (excluding those from our own fleet, which are counted under Scope 1 emissions), emissions relating to paper and water consumption and to waste-processing	24 903	25 964
Total	94 183	110 385
Total per FTE	2.5	2.9
Covered by the reduction target (excl. commuter travel)	73 029	88 019
Covered by the reduction target (excl. commuter travel) per FTE	1.9	2.3
ISO 14001 in each core country	Belgium, Bulgaria, Czech Republic, Hungary, Ireland, Slovakia	Belgium, Bulgaria, Hungary, Slovakia

* See our Sustainability Report for details of the methodology used and how the reference figures were recalculated.

As a bank-insurer, our indirect impact on the environment and society – partly through our loans, investments and fund offering – is considerably larger than our direct impact.

On the environmental side, we aim to contribute positively to the transition towards a low-carbon economy and to offer solutions from within our core operations that encourage a low-carbon and circular economy.

- We want to actively support energy efficiency, promote sustainable renewable energy, support sustainable, safe mobility and promote the circular economy. In mid-2017, for instance, we signed the ‘Green Deal for Circular Procurement’, committing ourselves to set up two circular procurement processes in 2018.
- We have committed ourselves to increasing the proportion of lending that goes to renewable energy sources. The target is for renewable energy and biofuels to make up at least 50% of our total lending to the energy sector by 2030 (see below for what we have achieved to date). Our policy for lending to the energy sector sets out clear guidelines on how to achieve these goals.
- The system for monitoring the relevant actions and targets includes reporting to the Board of Directors.

We will also continue to back sustainable investments, but it is up to the clients themselves to decide whether they want to invest in traditional or sustainable funds. We offer our clients a wide range of SRI funds, varying from traditional best-in-class funds and funds with sustainable themes to the more recent impact investing funds.

Thorough screening is applied to determine which companies and countries belong to the investment universe for sustainable and socially responsible investment solutions. We also review our sustainability criteria on an ongoing basis. Since November 2017, for instance, businesses active in the extraction or processing of fossil fuels have been removed completely from our SRI fund offering.

Credibility is crucial to sustainable and socially responsible investment. KBC’s sustainability policy and criteria are therefore overseen by the SRI Advisory Board – an advisory committee that functions entirely independently and is made up of leading academics from several universities, who are experts in fields such as human rights, business ethics, biology and ecology (see elsewhere in this report). They decide which screening methods we should apply and set the criteria for rating businesses. They also guarantee that our screening process is performed completely, thoroughly and accurately.

The target we had set ourselves get for SRI funds for 2018 was originally 5 billion euros, but since we had already met that target by the middle of 2017, we decided to raise it to 10 billion euros of sustainable investments (under management) by 2020. You can read below what we have achieved to date.

There are a number of international initiatives regarding the environment, in general, and climate change, in particular, that will have a significant impact on all financial institutions, namely the recommendations of the FSB Taskforce on

Climate-Related Financial Disclosures and the recommendations of the EU High-Level Expert Group on Sustainable Finance. Given this situation, we have launched a project in our group with the aim in 2018 to identify the impact of those guidelines and how they should be implemented.

We apply strict sustainability rules to our business activities in respect of human rights, the environment, business ethics and sensitive or controversial social themes. The table sets out the most important sustainability policies (a more detailed overview is provided under 'Corporate Sustainability' at www.kbc.com).

Important KBC sustainability policies		Applies to
Blacklist of companies and activities	We place businesses on this list that are involved with controversial weapons systems or which commit serious breaches of UN Global Compact Principles. No entity belonging to our group is permitted to do business with such enterprises. For KBC Group NV, speculative, soft commodity transactions are also blacklisted.	Lending, insurance, own investments, SRI and traditional funds, suppliers
Human rights	We have updated our human rights policy to bring us in line with the UN Guiding Principles on Business and Human Rights and UN Global Compact Principles. See also the separate section below.	Lending, insurance, own investments, SRI and traditional funds, suppliers, personnel
Controversial regimes	We do not wish to be involved in financial activities with controversial regimes that fundamentally violate human rights and lack any form of good governance, rule of law or economic freedom. We do, however, make an exception for humanitarian goods. Based on reputable external sources, we decide each year what countries are to be included on our list of controversial regimes.	Lending, insurance, own investments, SRI and traditional funds, suppliers
Sustainable and responsible banking and insurance policy	We have imposed restrictions on providing loans and insurance to controversial socially sensitive sectors and activities such as: the energy sector, project finance, arms-related activities, narcotic crops, gambling, fur, palm oil production, mining, deforestation, land acquisition and involuntary resettlement of indigenous populations, and prostitution.	Lending, insurance
KBC Asset Management SRI exclusions	In the case of traditional funds, we apply the minimum exclusions based on the blacklist of businesses that are involved with controversial weapons systems or which commit serious breaches of UN Global Compact Principles, and the policies on human rights and controversial regimes. What's more, investment products involving food-price speculation are entirely excluded. For SRI funds, we go even further in the exclusion and restriction of controversial activities like gambling, tobacco, aerospace and defence, fur, etc.	SRI funds

Human rights

We have aligned our human rights policy with the UN Guiding Principles on Business and Human Rights and the ten UN Global Compact Principles. We respect the fundamental principles of universal human rights and have implemented them throughout the group by means of the KBC Human Rights Policy.

Certain aspects of the UN Global Compact Principles (on the environment, for instance) are dealt with separately in other policies, including the KBC Energy Credit Policy, the KBC Policy on Sustainable and Responsible Lending, the KBC Policy on Sustainable and Responsible Insurance and the KBC Policy on Controversial Regimes.

As a financial institution, KBC has a direct and an indirect impact on the application of human rights. We have therefore implemented the KBC Human Rights Policy in our relationships with stakeholders, including our clients, suppliers and employees.

We expect our clients to at least comply with local and international laws and regulations, and our Compliance department ensures that this is the case in all our home markets. Commercial relationships with companies that do not respect local and international regulations are not permitted. Companies or countries involved in a serious infringement of human rights are excluded via our blacklists. Where relevant, we also ask our clients to demonstrate their compliance with particular industry standards (UN Global Compact, Extractive Industries Transparency Initiative, Roundtable on Sustainable Palm Oil, etc.). We apply the Equator Principles in the case of international project finance and report on their application in our Sustainability Report.

We are fully committed to respecting and upholding our employees' human rights We likewise expect our employees to respect human rights in the course of their work and to adhere to what is set out in the 'Code of Conduct for KBC Group Employees' (available under 'Corporate Sustainability' at www.kbc.com). Strict national and international laws and regulations are in place in all our core countries to protect human rights. In November 2017, we endorsed the UK Modern Slavery Act 2015 for all our business activities.

Suppliers are amongst our stakeholders too. We therefore want them to incorporate criteria in their purchasing, sales and outsourcing policies that reflect their social, ethical and environmental commitment, as set out in our 'KBC Sustainability Code of Conduct for Suppliers'. A sustainability questionnaire forms part of the selection procedure for key suppliers, all of which are screened against Worldcheck and the KBC blacklists.

Compliance with all our sustainability policies is monitored through internal screening of lending, insurance and investment activities. All new products and/or modifications to existing products and services are screened, for instance, via the New and Active Products Process (NAPP) to assess the risks and impact. The product will only be launched if the outcome of the screening is positive. We also take account of general sustainability assessments drawn up by specialist external partners. Procedures have likewise been implemented to deal with any infringements that are detected. For instance, businesses can be excluded from all our activities, an exit strategy can be launched or special conditions imposed on existing loans and insurance cover.

Strict application of these sustainability rules enables us to oversee the reputational and financial risks arising from potential breaches of human rights and other controversial developments in our core activities.
For more information, see 'Business and strategic risks' in the 'How do we manage our risks?' section.

Our sustainability governance

We have anchored sustainability at the different levels within our group, guaranteeing that it receives attention from the highest decision-making bodies while also being broadly integrated into our operations.

The Group Executive Committee reports to the **Board of Directors** on sustainability matters.

The **Executive Committee** is the highest level with direct responsibility for sustainability.

The **Corporate Sustainability Division** is responsible for developing the sustainability strategy and implementing it across the group. The team monitors implementation of the strategy and informs the Executive Committee and the Board of Directors on progress.

The **Internal Sustainability Board** is chaired by the CEO and comprises senior managers from all business units and core countries as well as the Corporate Sustainability General Manager. The sustainability strategy is drawn up, implemented and communicated under the authority of the Internal Sustainability Board.

The local sustainability departments in each of the core countries support the senior managers on the Internal Sustainability Board with integrating the sustainability strategy and organising and communicating local sustainability initiatives.
CSR committees in each country supply and validate non-financial information.

Business units and countries: sustainability is anchored in the core activities.

In addition to our internal organisation, we have set up external advisory boards to advise KBC on various aspects of sustainability. They consist of experts from the academic world:

- An **External Sustainability Board** advises the Corporate Sustainability Division on KBC sustainability policies.
- An **SRI Advisory Board** acts as an independent body for the SRI funds and oversees screening of the socially responsible character of the SRI funds offered by KBC Asset Management.

We also use a number of Key Performance Indicators (KPIs) to see whether we are focusing sufficiently on socially relevant themes and whether we are meeting stakeholder expectations. The most important of these KPIs are listed in the table.

KPI	Description	Target and result
Formal stakeholder process	Does the entity have a formal process to interact with its stakeholders?	Target: have a stakeholder interaction process in place in each core country 2017 result: OK
Governance	'Governance' refers to the statements: 'behaves ethically', 'is open and transparent', 'acts as an accountable company', 'is a responsive company', 'complies with laws, regulations and industry policies'. The survey is performed by Ipsos.	Target: achieve the same or a higher score than the peer group average per country[1]. 2017 result: K&H in Hungary and KBC Bank Ireland achieved a higher score for governance than the peer group average. The scores for ČSOB in Slovakia, ČSOB in the Czech Republic and UBB/DZI in Bulgaria were in line with the market average in their respective countries. The score for KBC in Belgium was lower than the peer group average.
Reduction in own CO_2 emissions	Reduction in own greenhouse-gas emissions (in absolute terms and per FTE) compared to 2015 and excluding commuter travel	Target: reduce emissions by ≥ 20% between 2015 and 2020 2015–2017 result: -29% (absolute) and -28% (per FTE)
Position in SRI funds	Volume of SRI funds at KBC Asset Management	Target: 10 billion euros by year-end 2020 2017 result: 7.1 billion euros
Renewable energy loans	[outstanding amount of loans to businesses in the renewable energy and biofuels sectors] / [total outstanding energy-sector loan portfolio]	Target: ≥ 50% by 2030 2017 result: 41%
Dividend payout ratio	[(gross dividend x number of shares entitled to dividend) + (coupon on outstanding AT1 securities)] / [consolidated net result]	Target: ≥ 50%[2] 2017 result: 51% / 59%[3]

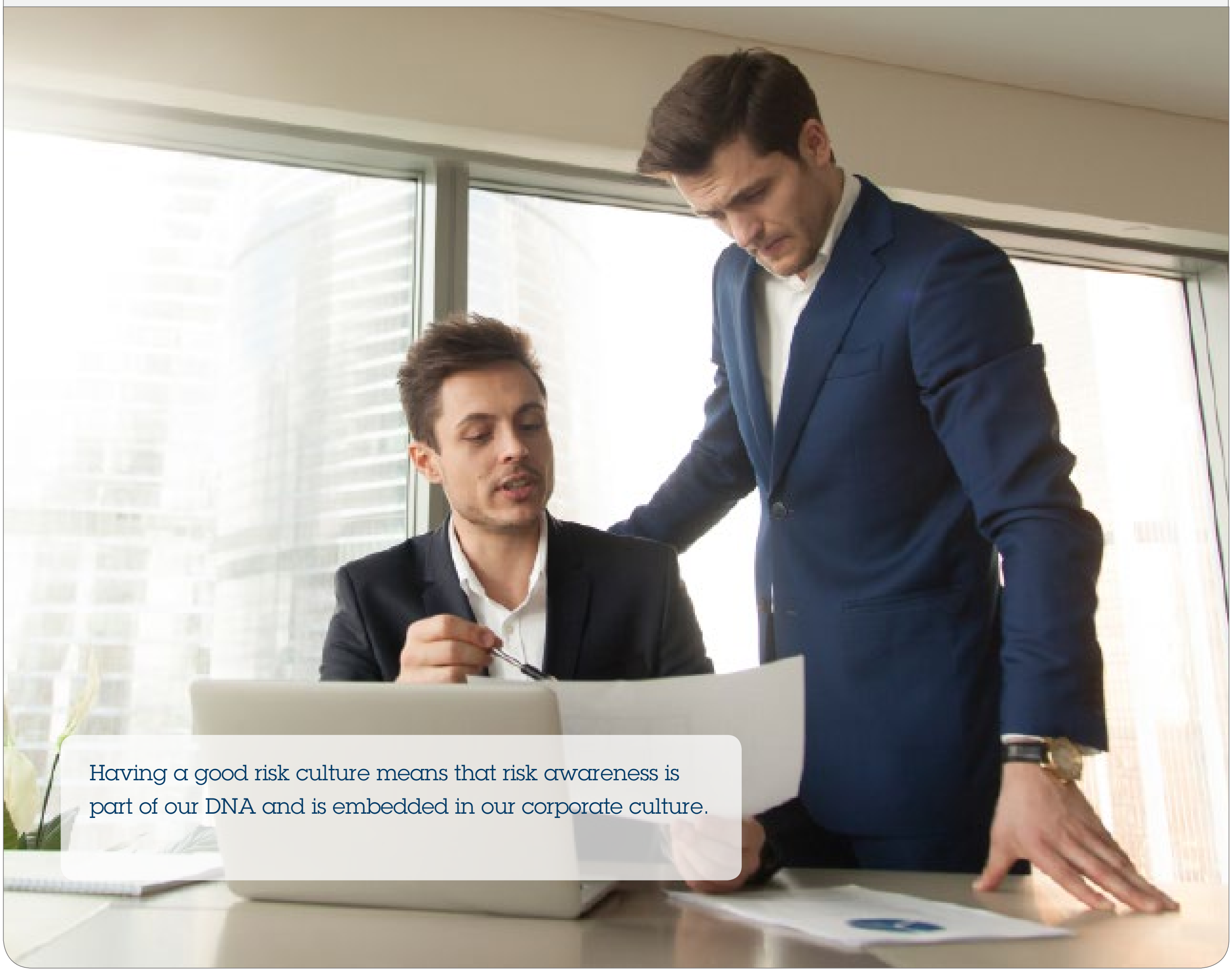
1 The list of benchmarks and an explanation of the methodology are provided under the table appearing in 'The client is at the centre of our business culture'.
2 See also the additional information on the reference capital position elsewhere in this report.
3 Including the impact of the announced share buyback (approximation).

We aim to achieve our ambitions within a stringent risk management framework

Cornerstones of our strategy

- client centricity
- bank-insurance
- sustainable profitable growth
- role in society

Within a stringent risk, capital and liquidity management framework



Having a good risk culture means that risk awareness is part of our DNA and is embedded in our corporate culture.

Risk management is an integral part of our strategy and our decision-making process.

- We perform risk scans to identify all key risks.
- We define our risk appetite in a clear manner.
- We translate that into strict limit tracking per activity and business unit.
- We monitor the risk profile of existing and new products via a New and Active Product Process.
- We challenge the results of the periodic planning process via stress tests.
- We have installed independent chief risk officers in all relevant parts of our organisation.

Although the activities of a large financial group are exposed to risks that only become apparent in retrospect, we can currently identify a number of major challenges for our group. These are set out under 'In what environment do we operate?' in the 'Our business model' section. As a bank-insurer, we are also exposed to the typical risks for the sector, such as credit risk, market risk, technical insurance risk, liquidity risk, solvency risk and non-financial risk, including operational risk. A list of these risks can be found in the table on the next page.

Our 'Three Lines of Defence' model*

1	The business operations side is responsible for managing its risks.
2	As independent control functions, the Group risk function and Compliance, and – for certain matters – Finance, Legal, Tax and Information Risk Security, constitute the second line of defence.
3	As independent third line of defence, Internal Audit provides support to the Executive Committee, the Audit Committee and the Risk & Compliance Committee in monitoring the effectiveness and efficiency of the internal control and risk management system.

* More detailed information on the Three Lines of Defence model can be found in the 'Corporate governance statement' section.

Sector-specific risks	How are we addressing them?
Credit risk The potential negative deviation from the expected value of a financial instrument caused by default on the part of a party to a contract, due to the inability or unwillingness of that party to pay or perform, or due to particular measures on the part of political or monetary authorities in a particular country.	• Existence of a robust management framework • Recording impairment charges, taking risk-mitigating measures, optimising the overall credit risk profile, reporting, stress testing, etc. • Limit systems to manage concentration risk in the loan portfolio.
Market risk in trading activities The potential negative deviation from the expected value of a financial instrument caused by fluctuations in interest rates, exchange rates, and share or commodity prices.	• Existence of a robust management framework • Historical VaR method, duration, 'greeks' for products with options, stress tests, etc.
Operational and other non-financial risks Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems, human error or sudden external events, whether man-made or natural. Other non-financial risks include reputational risk, business risk and strategic risks, including climate-change-related risks.	• Existence of a robust management framework • Group key controls, risk scans, Key Risk Indicators (KRIs), etc.
Market risk in non-trading activities Structural market risks, such as interest risk, equity risk, real estate risk, spread risk, currency risk and inflation risk. Structural risks are risks inherent to the commercial activity or long-term positions.	• Existence of a robust management framework • Basis Point Value (BPV), sensitivity of net interest income, sensitivity per risk type, stress tests, limit tracking for crucial indicators, etc.
Liquidity risk The risk that KBC will be unable to meet its obligations on time, without incurring higher-than-anticipated losses.	• Existence of a robust management framework • Drawing up and testing emergency plans for managing a liquidity crisis. • Liquidity stress tests, management of funding structure, etc.
Technical insurance risks Risks stemming from uncertainty as to how often insured events will occur and how extensive they will be.	• Existence of a robust management framework • Underwriting, pricing, claims reserving, reinsurance and claims handling policies, etc.
Solvency risk The risk that the capital base will fall below an acceptable level.	• Existence of a robust management framework • Minimum solvency ratios, active capital management, etc.

In addition to the comprehensive monitoring of risk indicators (see the 'How do we manage our risks?' section), we monitor our solvency and liquidity performance using a number of regulatory ratios, the most important of which are listed in the table.

Regulatory ratios	Description	Target and result
Common equity ratio	[common equity tier-1 capital] / [total weighted risks]. The calculation shown here is on a fully-loaded basis and according to the Danish compromise method.	Target: ≥ 10.6% (excl. pillar 2 guidance) and ≥ 11.6% (incl. pillar 2 guidance) in 2019 2017 result: 16.3%
MREL ratio	[own funds and eligible liabilities] / [risk-weighted assets]*	Target: ≥ 26.25% in 2020 2017 result: 24.0%
Net stable funding ratio (NSFR)	[available amount of stable funding] / [required amount of stable funding]	Target: ≥ 100% 2017 result: 134%
Liquidity coverage ratio (LCR)	[stock of high-quality liquid assets] / [total net cash outflows over the next 30 calendar days]	Target: ≥ 100% 2017 result: 139%

* The Single Resolution Board (SRB) has yet to communicate the formal MREL target. The stated figure is based on the mechanical calculation method that the SRB published on 28 November 2016.

We aim to be one of the better capitalised financial institutions in Europe. Each year, therefore, we assess the common equity ratios of a group of European banks that are active in the retail, SME, and corporate client segments. We then position ourselves relative to the median fully loaded common equity ratio of that group. This capital policy is encapsulated in an 'own capital target', which amounted to 14% for 2018. We want to maintain an additional flexible buffer of up to 2% of common equity on top of this for potential mergers and acquisitions that would strengthen our position in our core market. This buffer is added to KBC Group's own capital target, giving us a 'Reference capital position' of 16% in 2018.

Our dividend policy is unchanged. Our aim is to achieve a payout ratio (i.e. dividend + coupon paid on outstanding additional tier-1 instruments) of at least 50% of consolidated profit, with an interim dividend of 1 euro being paid in November of each financial year as an advance on the total dividend. In addition to the payout ratio of 50% of consolidated profit, the Board of Directors will each year decide on the distribution of capital above the reference capital position as it sees fit.

KPI	Description	Target and result
Own capital target	[fully loaded common equity tier-1 ratio of the peer group]	Target: 14% in 2018 2017 result: 16.3%
Reference capital position	[own capital target (see above)] + [buffer for mergers and acquisitions]	Target: 16% in 2018 2017 result: 16.3%

As part of the requirements of the Single Resolution Board (SRB), which draws up resolution plans for the big banks in the euro area, a choice has to be made between a single resolution authority that resolves the group as a whole (Single Point of Entry or SPE) or different authorities that resolve those parts of the group that fall within their jurisdiction. KBC prefers an SPE strategy with bail-in as the main instrument of resolution (recapitalisation and stabilisation of the bank), since the KBC business model relies heavily on integration, both commercial and organisational. This approach keeps the group to be resolved intact, while also protecting the continuity of the bank-insurance model.

Like to know more?

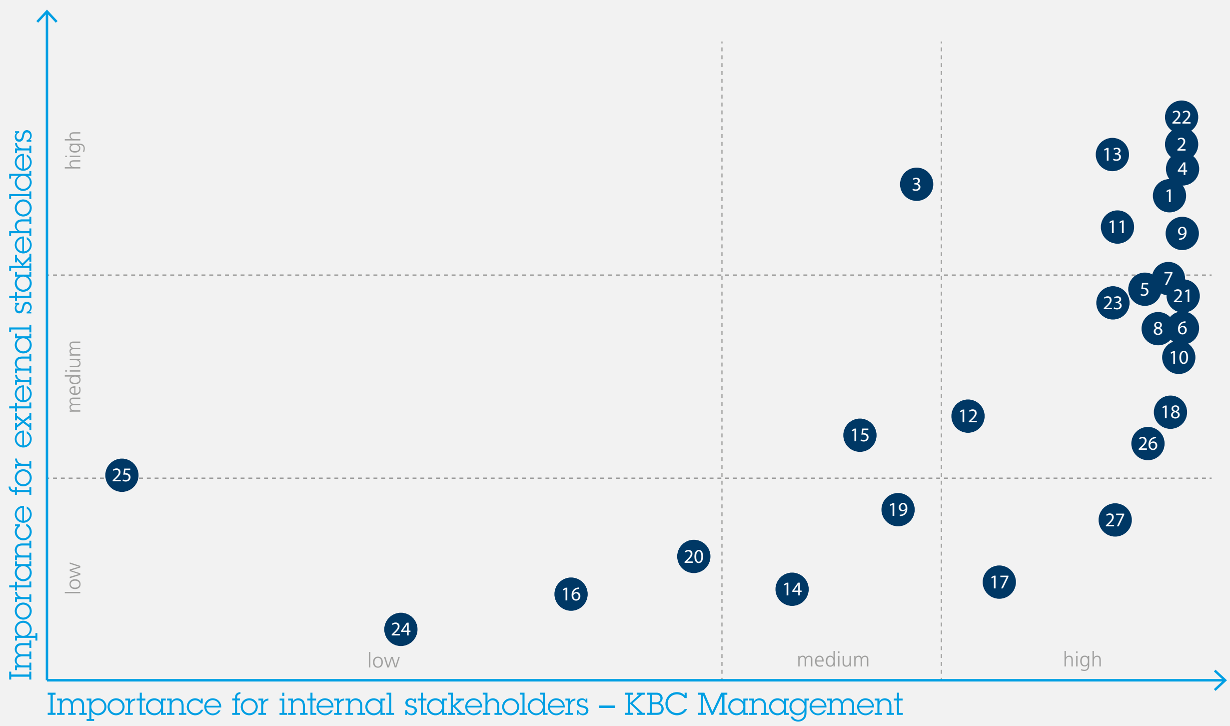
Detailed information can be found in the 'How do we manage our risks?' and 'How do we manage our capital?' sections.

Our stakeholder survey

To help build a sustainable future, we have to be able to align our operations with our stakeholders' needs. Therefore, it is critical that we find out what is important to those stakeholders. To this end, we conduct a survey every two years of the general public in all our core countries and at KBC itself (Board of Directors, Executive Committee and senior management). The most recent survey was performed in 2016, with the next one scheduled for 2018.

We drew up a list of 27 important topics, based on various dialogues with both internal and external stakeholders and using input from market specialists and sustainability experts, and also taking account of global trends. We asked the external and internal target groups to rate these topics by importance. The survey results are set out in the matrix, the vertical axis of which shows the importance of a topic to the external stakeholders and the horizontal axis the importance according to KBC.

1. Quality of products and services
2. Compliance with laws and regulations
3. Pricing of products and services
4. Financial performance
5. Risk management
6. Long term strategy
7. Customer protection
8. Innovative products and services
9. Enable people to make smart financial decisions
10. Transparent communication
11. User-friendliness of products and services
12. Accessibility of products and services
13. Privacy and data protection
14. Involvement with local communities
15. Assessment of suppliers on environmental and social aspects
16. Our direct footprint
17. Limiting our adverse impact on society via sustainable policies
18. Funding and insuring the local economy and stimulating entrepreneurship
19. Develop and launch business solutions with focus on health and longevity
20. Offering sustainable products and services
21. Responsible selling and advice
22. Integrity
23. Business ethics
24. Develop and launch business solutions with focus on environment
25. Job security
26. Equal opportunities for all employees
27. Remuneration policy



Generally speaking, the scores given by the external stakeholders were broadly in line with KBC's. This was reassuring, as it means we are focusing on areas that are important both to society and to the future of our company.

It is important to us that we use this annual report to communicate on the topics considered most important both internally and externally (in other words, the top row and the right-hand column in the matrix). The table indicates where we discuss these topics in this report.

Important topics	Information in this report and/or relationship with KPIs
Integrity	• See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'. • See 'Our role in society' in 'Our strategy'. • 'Governance' KPI: see 'Our role in society' in 'Our strategy'.
Compliance with laws and regulations	• See 'In what environment do we operate?' in 'Our business model'. • See 'How do we manage our capital?'. • See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'. • 'Governance' KPI: see 'Our role in society' in 'Our strategy'. • KPIs on capital and liquidity: see 'Our strategy'.
Privacy and data protection	• See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'. • Cyber risk: see 'In what environment do we operate?' in 'Our business model'. • See 'The client is at the centre of our business culture' in 'Our strategy'.
Financial performance	• See 'Our financial report'. • See 'Our business units'. • See 'Consolidated financial statements'. • Financial KPIs: see 'Our strategy'.
Pricing of products and services	• 'Client experience' KPI: see 'The client is at the centre of our business culture' in 'Our strategy'. • See 'How do we create sustainable value?' in 'Our business model'.
Quality of products and services	• See 'The client is at the centre of our business culture' and 'We offer our clients a unique bank-insurance experience' in 'Our strategy'. • New products and services: see 'Our business units'. • 'Client experience' KPI: see 'The client is at the centre of our business culture' in 'Our strategy'.
User-friendliness of products and services	• See 'The client is at the centre of our business culture' and 'We offer our clients a unique bank-insurance experience' in 'Our strategy'. • New products and services: see 'Our business units'. • 'Client experience' KPI: see 'The client is at the centre of our business culture' in 'Our strategy'.
Enable people to make smart financial decisions	• See 'Our role in society' in 'Our strategy'.

Important topics	Information in this report and/or relationship with KPIs
Customer protection	• See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'. • See 'The client is at the centre of our business culture' in 'Our strategy'. • See 'In what environment do we operate?' in 'Our business model'.
Responsible selling and advice	• See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'. • See 'Our role in society' in 'Our strategy'. • 'Client experience' KPI: see 'The client is at the centre of our business culture' in 'Our strategy'.
Risk management	• See 'We aim to achieve our ambitions within a stringent risk management framework' in 'Our strategy'. • See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'. • See 'How do we manage our risks?'.
Business ethics	• PEARL business culture: see 'What makes us who we are?' in 'Our business model'. • See 'Our role in society' in 'Our strategy'. • 'Reputation index' KPI: see 'The client is at the centre of our business culture' in 'Our strategy'.
Long-term strategy	• See 'Our strategy'.
Innovative products and services	• See 'In what environment do we operate?' in 'Our business model'. • New products and services: see 'Our business units'. • 'Innovation' KPI: see 'We focus on sustainable and profitable growth' in 'Our strategy'.
Transparent communication	• See 'Our role in society' in 'Our strategy'. • 'Client experience' KPI: see 'The client is at the centre of our business culture' in 'Our strategy'. • 'Governance' KPI: see 'Our role in society' in 'Our strategy'.
Funding and insuring the local economy and stimulating entrepreneurship	• See 'Our business model'. • See 'Our role in society' in 'Our strategy'.
Accessibility of products and services	• See 'The client is at the centre of our business culture' in 'Our strategy'. • 'Client experience' KPI: see 'The client is at the centre of our business culture' in 'Our strategy'.
Equal opportunities for all employees	• See 'Our employees, capital, network and relationships' in 'Our business model'. • See 'Diversity policy' in 'Corporate governance statement'.
Remuneration policy	• See 'Remuneration report for financial year 2017' in 'Corporate governance statement'.
Limiting our adverse impact on society via sustainable policies	• See 'Our role in society' in 'Our strategy'.

Our financial report

- Consolidated net profit of 2 575 million euros in 2017.
- Slight decline in net interest income.
- Substantial contribution made by technical insurance results.
- Sharp increase in net fee and commission income.
- Higher trading and fair value income.
- Other net income adversely affected by provisioning for the review of Irish tracker mortgages.
- Growth in lending and deposits in all business units.
- Increased sales of non-life insurance, decline in life insurance.
- Very good combined ratio for non-life insurance (88%) and cost/income ratio for banking activities (54%).
- Net reversal of impairment charges for loans, thanks primarily to Ireland.
- One-off negative impact of the change to the corporation tax system in Belgium.
- Robust solvency with a fully loaded common equity ratio of 16.3%.

Consolidated income statement, KBC group (simplified, in millions of EUR)	**2017**	**2016**
Net interest income	4 121	4 258
Non-life insurance (before reinsurance)	706	628
Earned premiums	1 491	1 410
Technical charges	-785	-782
Life insurance (before reinsurance)*	-58	-152
Earned premiums	1 271	1 577
Technical charges	-1 330	-1 728
Ceded reinsurance result	-8	-38
Dividend income	63	77
Net result from financial instruments at fair value through profit or loss	856	540
Net realised result from available-for-sale assets	199	189
Net fee and commission income	1 707	1 450
Other net income	114	258
Total income	**7 700**	**7 211**
Operating expenses	-4 074	-3 948
Impairment	30	-201
on loans and receivables	87	-126
Share in results of associated companies	11	27
Result before tax	**3 667**	**3 090**
Income tax expense	-1 093	-662
Result after tax	**2 575**	**2 428**
Result after tax, attributable to minority interests	0	0
Result after tax, attributable to equity holders of the parent (net result)	**2 575**	**2 427**
Return on equity	17%	18%
Cost/income ratio, banking	54%	55%
Combined ratio, non-life insurance	88%	93%
Credit cost ratio, banking	-0.06%	0.09%

* Does not include investment contracts without DPF, which roughly correspond to unit-linked life insurance contracts (0.9 billion euros in premiums in 2017, 0.8 billion euros in 2016).

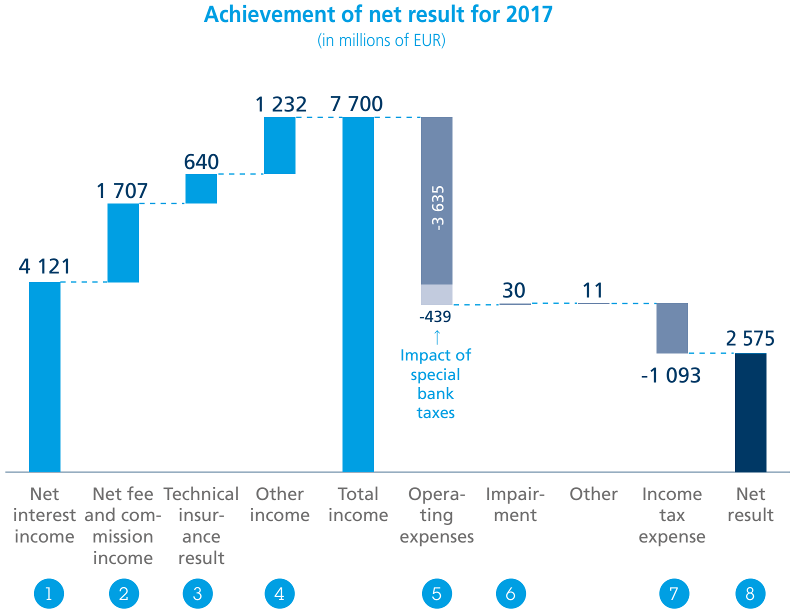
Key consolidated balance sheet, solvency and liquidity figures,* KBC group (in millions of EUR)	**2017**	**2016**
Total assets	292 342	275 200
Loans and advances to customers	141 502	133 231
Securities (equity and debt instruments)	67 743	73 262
Deposits from customers and debt securities	193 968	177 730
Technical provisions (before reinsurance) and liabilities under investment contracts, insurance	32 193	32 310
Risk-weighted assets (Basel III, fully loaded)	92 410	87 782
Total equity	18 803	17 357
Common equity ratio (Basel III, Danish compromise method): fully loaded	16.3%	15.8%
Leverage ratio (Basel III, Danish compromise method): fully loaded	6.1%	6.1%
Minimum requirement for own funds and eligible liabilities (MREL)	24.0%	21.0%
Liquidity coverage ratio (LCR)	139%	139%
Net stable funding ratio (NSFR)	134%	125%

* For a definition of the ratios, see 'Glossary of financial ratios and terms'.

KBC acquired United Bulgarian Bank (UBB) and Interlease in Bulgaria in mid-2017. UBB and Interlease's results are included in the group results with effect from the second half of the year, i.e. for six months. Their contribution to group net profit for that six-month period of 2017 was 27 million euros (see Note 6.6 of the 'Consolidated financial statements' section for more details).

The growth figures for the volume of deposits and loans have been systematically adjusted for exchange rate effects.

Analysis of the results in 2017



Net interest income 1

Our net interest income came to 4 121 million euros in 2017, down 3% on its year-earlier level, owing to a number of negative items, primarily the drop in interest income generated by the dealing rooms (though more than compensated by an increase in trading and fair value income (see below)), but also low reinvestment yields, a reduction in early repayment penalties for home loans in Belgium, lower interest income on the insurer's bond portfolio and general pressure on credit margins. These negative items were partially offset by factors including the positive effect of significantly lower funding costs, the inclusion of UBB and Interlease in the figures as of mid-2017 (55 million euros) and growth in the volume of credit. Excluding the impact of the dealing rooms and UBB/ Interlease, net interest income would have remained virtually stable.

Our loans and advances to customers (excluding reverse repos) went up by 5% to 141 billion euros. There was a 3% increase at the Belgium Business Unit, 8% at the Czech Republic Business Unit and 13% (4% excluding UBB/Interlease) at the International Markets Business Unit, with growth in all countries apart from Ireland, which was influenced by the reduction in the business loan portfolio. Our total volume of deposits (194 billion euros in deposits from customers and debt securities (excluding repos)) rose by 8% in 2017, with the Belgium Business Unit recording an increase of 6%, the Czech Republic Business Unit 9% and the International Markets Business Unit 24% (7% excluding UBB/Interlease), with growth in all countries. Consequently, the net interest margin for our banking activities came to 1.85%, 7 basis points lower than in 2016. It amounted to 1.57% in Belgium, 2.99% in the Czech Republic and 2.77% at the International Markets Business Unit.

Net fee and commission income 2

Our net fee and commission income came to 1 707 million euros in 2017, up a substantial 18% on the year-earlier figure. Most of the growth was accounted for by Belgium and was chiefly attributable to an increase in entry and management fees relating to our asset management activities and, to a lesser extent, to higher securities and payments-related fees and the inclusion of UBB/Interlease (23 million euros).

At the end of 2017, our total assets under management came to approximately 219 billion euros, up 3% year-on-year, due essentially to a positive price performance. Most of these assets were managed at the Belgium Business Unit (205 billion euros) and the Czech Republic Business Unit (10 billion euros).

Insurance premiums and technical charges 3

Our technical insurance result (earned premiums less technical charges plus the ceded reinsurance result) amounted to 640 million euros.

Non-life insurance contributed 697 million euros to this result, up 18% on the year-earlier figure, thanks to growth in premium income (+6%, with an increase in all countries), a higher reinsurance result and broadly stable technical charges (which were positively influenced to the tune of 26 million euros in 2017 by the one-off release of the indexation provision in Belgium). The combined ratio at group level improved as a result from 93% to 88%.

Life insurance accounted for -57 million euros of the technical insurance result, compared to the year-earlier figure of -153 million euros. This result was also influenced positively by the reversal of certain reserves in Belgium in 2017 (23 million euros in the third quarter). However, in compliance with IFRS, certain types of life insurance (i.e. unit-linked products) have been excluded from the figures for premiums and technical charges in the life insurance business. If the premium income from such products is included, premium income from the life insurance business totalled around 1.9 billion euros, 11% less than in 2016. There was a decline of 12% in our main market of Belgium, with lower sales of guaranteed-rate life insurance products (-23%) only being partly offset by higher sales of unit-linked products (+12%). For the group as a whole, products offering guaranteed rates accounted for just over 54% of premium income from the life insurance business in 2017, and unit-linked products for almost 46%.

Other income 4

Other income came to an aggregate 1 232 million euros, as opposed to 1 065 million euros in 2016. The figure includes 63 million euros in dividends received and 199 million euros in gains realised on the sale of available-for-sale securities. Included in the other income figure is also the 856-million-euro net result from financial instruments at fair value through profit or loss (trading and fair value income), which was 316 million euros higher than its level in 2016, due primarily to better dealing room results in Belgium and the Czech Republic and, to a lesser extent, the positive impact of various value adjustments (MVA, CVA, FVA). Lastly, other income also included 114 million euros in other net income. This was 144 million euros lower than in 2016, owing to the recognition in 2017 of -116 million euros in respect of a sector-wide review of tracker rate mortgages originated in Ireland before 2009. More information on this matter can be found in Note 3.6 of the 'Consolidated financial statements'.

Operating expenses 5

Our expenses amounted to 4 074 million euros in 2017, up 3% on the year-earlier figure. This reflected a number of items, including increased investment in digitalisation and the inclusion of UBB/Interlease (40 million euros). Operating expenses also incorporated special bank taxes totalling 439 million euros, roughly comparable with the previous year.

As a result, the cost/income ratio of our banking activities came to 54%, compared to 55% in 2016. The ratio was affected by a number of non-operating and exceptional items, including the mark-to-market valuations for ALM derivatives and the impact of liquidating group companies (for more details, see the 'Glossary of financial ratios and terms' at the back of this report). Adjusted for these specific items, the cost/income ratio was 55%, compared with 57% in 2016. The ratio was 52% for the Belgium Business Unit (53% excluding specific items), 42% for the Czech Republic Business Unit (43% excluding specific items) and 72% for the International Markets Business Unit (the same excluding specific items).

Impairment 6

There was a net reversal of impairment charges on loans and advances of 87 million euros (which had a positive impact on the results), as opposed to net provisioning of 126 million euros in 2016 (which had a negative impact on the results).

The net reversal in 2017 was largely attributable to 215 million euros being reversed in Ireland, which in turn partly reflected a rise in the nine-month house price index in that country and an improvement in the portfolio of problem loans. There was a net reversal in Hungary too (11 million euros), while overall provisioning for impairment remained limited in all the group’s other core countries, i.e. 87 million euros in Belgium, 5 million euros in the Czech Republic, 11 million euros in Slovakia, 17 million euros in Bulgaria (12 million euros of which for UBB) and 18 million euros for the Group Centre. As a result, our overall credit cost ratio amounted to -6 basis points in 2017 (9 basis points for Belgium, 2 basis points for the Czech Republic, -170 basis points for Ireland, 16 basis points for Slovakia, -22 basis points for Hungary, 83 basis points for Bulgaria and 40 basis points for the Group Centre). A negative figure indicates a net reversal of impairment and hence a positive impact on the results. Excluding Ireland, the credit cost ratio would come to 0.09% for 2017.

There was a further improvement in the quality of our loans. The proportion of impaired loans (see the ‘Glossary of financial ratios and terms’ for a definition) in our loan portfolio was 6% at year-end 2017, compared to 7.2% for 2016. This breaks down into 2.8% at the Belgium Business Unit, 2.4% at the Czech Republic Business Unit and 19.7% at the International Markets Business Unit (this relatively high figure was chiefly attributable to Ireland, which had a ratio of 35% due to the real estate crisis of recent years). At group level, the proportion of impaired loans more than 90 days past due came to 3.4% in 2016, compared to the year-earlier figure of 3.9%. At year-end 2017, 44% of impaired loans were covered by accumulated impairment charges. More information on the composition of the loan portfolio is provided in the ‘How do we manage our risks?’ section.

Other impairment charges totalled 57 million euros in 2017 and related primarily to available-for-sale securities and various other smaller items. The figure for 2016 was 75 million euros (relating mainly to available-for-sale securities).

Income tax expense 7

Our income tax expense came to 1 093 million euros in 2017, compared to the year-earlier figure of 662 million euros. In addition to the higher taxable base (the result before tax rose by 578 million euros), this increase reflected the fact that the figure for 2017 included a one-off negative effect of 211 million euros in Belgium relating to the reform of corporation tax there (primarily the effect of the announced reduction in the corporation tax rate on deferred taxes recognised on the balance sheet). We expect this change in corporation tax to have a positive impact on our results in the years ahead and the one-off negative effect in 2017 to be offset in two to three years' time. More information in this regard is provided in Note 3.12 of the ‘Consolidated financial statements’ section.

Besides paying income tax, we pay special bank taxes (439 million euros in 2017, included under 'Operating expenses').

Net results per business unit 8

Our net result in 2017 breaks down as follows:

- Belgium Business Unit: 1 575 million euros (1 432 million euros in 2016).
- Czech Republic Business Unit: 702 million euros (596 million euros in 2016).
- International Markets Business Unit: 444 million euros (428 million euros in 2016).
- Group Centre: -146 million euros (-29 million euros in 2016).

A detailed analysis of the results for each business unit can be found in the relevant section of this annual report.

Analysis of the balance sheet in 2017

Total assets 1

At the end of 2017, our consolidated total assets came to 292 billion euros, up 6% year-on-year. Risk-weighted assets (Basel III, fully loaded) increased by 5% (4.6 billion euros) to 92 billion euros, due in part to the impact of the consolidation of UBB and Interlease. More information in this regard can be found in the 'How do we manage our capital?' section.

Loans and deposits 2

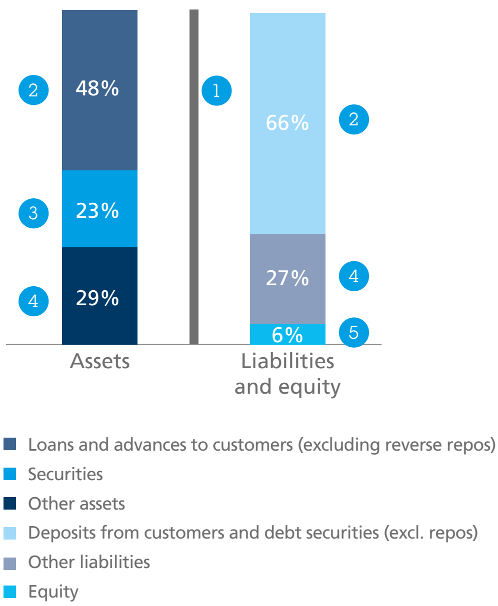
Our core banking business is to attract deposits and use them to provide loans. Indeed, this is reflected in the importance of the figure for loans and advances to customers on the assets side of our balance sheet (141 billion euros (excluding reverse repos) at year-end 2017). Loans and advances to customers rose by 5% for the group as a whole, with growth of 3% at the Belgium Business Unit, 8% at the Czech Republic Business Unit and 13% (or 4% without UBB/Interlease) at the International Markets Business Unit. As regards the latter unit, growth was recorded in all countries apart from Ireland, due to corporate lending being scaled back there. The main lending products at group level were again term loans at 62 billion euros and mortgage loans at 61 billion euros.

On the liabilities side, our customer deposits (deposits from customers and debt securities, excluding repos) grew by 8% to 194 billion euros. Deposits increased by 6% at the Belgium Business Unit, by 9% at the Czech Republic Business Unit and by 24% at the International Markets Business Unit (7% excluding UBB/Interlease), with growth in all countries. The main deposit products at group level (including repos) were again demand deposits (74 billion euros) and savings accounts (57 billion euros). Excluding UBB/Interlease, they were up 14% and 5%, respectively, on their level at the end of 2016.

Securities 3

We also hold a portfolio of securities at the bank and at the insurer (where it serves primarily as an investment in the insurance context, especially life insurance), which totalled roughly 68 billion euros at year-end 2017. Approximately 30% of the portfolio relates to the insurance activities and some 70% to the banking activities. The total securities portfolio comprised 3% shares and 97% bonds (with bonds decreasing by just over 6 billion euros in 2017 (excluding UBB/Interlease). Roughly 80% of these bonds at year-end 2017 consisted of government paper, the most important being Belgian, Czech, French, Spanish, Slovak, Hungarian and Italian. A detailed list of these bonds is provided in the 'How do we manage our risks?' section.

Balance sheet components
(year-end 2017)



Other assets and other liabilities 4

Other important items on the assets side of the balance sheet were loans and advances to credit institutions and investment firms (24 billion euros, up almost 8 billion euros year-on-year, due primarily to higher reverse repos), derivatives (positive mark-to-market valuation of 6 billion euros mainly for interest rate contracts, almost 3 billion euros less than a year earlier), investment-linked life insurance contracts (14 billion euros, up less than 1 billion euros year-on-year) and cash and cash balances with central banks and other demand deposits at credit institutions (30 billion euros, 9 billion euros more than at year-end 2016, owing to the placement of excess liquidity with central banks).

Other significant items on the liabilities side of the balance sheet were the technical provisions and liabilities under the insurer's investment contracts (an aggregate 32 billion euros, roughly the same year-on-year), derivatives (negative mark-to-market valuation of 7 billion euros mainly for interest rate contracts, down 2 billion euros year-on-year) and deposits from credit institutions and investment firms (33 billion euros, up 1 billion euros year-on-year).

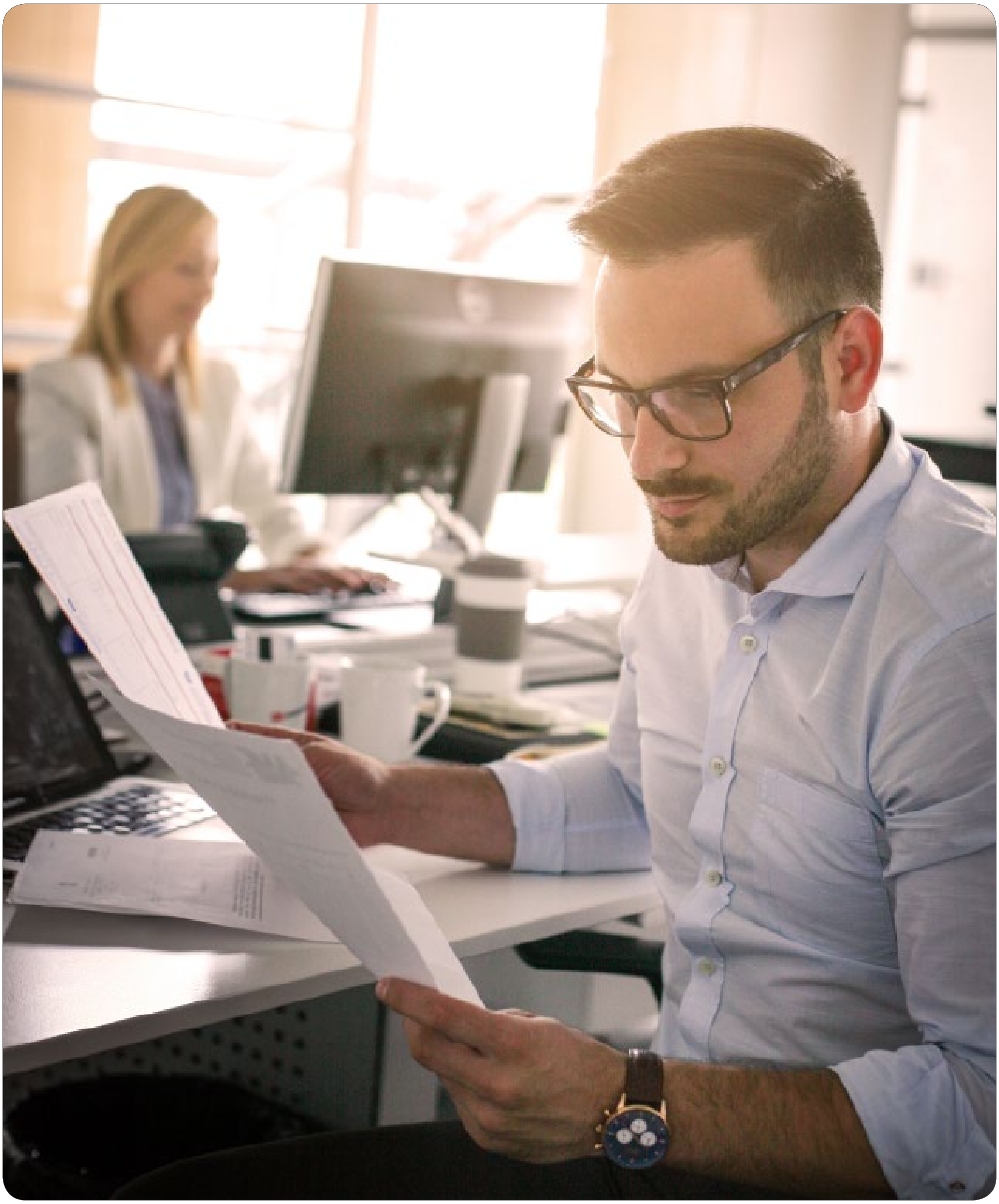
Equity 5

On 31 December 2017, our total equity came to 18.8 billion euros. This figure included 17.4 billion euros in parent shareholders' equity and 1.4 billion euros in additional tier-1 instruments. Total equity rose by 1.4 billion euros in 2017, with the most important components in this respect being the inclusion of the annual profit (+2.6 billion euros), the payment of a final dividend for 2016 in May 2017 (-0.8 billion euros) and the payment of an interim dividend in November 2017 (-0.4 billion euros, as an advance on the total dividend for 2017) and the remeasurement of defined benefit plans (+0.1 billion euros).

Our solvency position remained strong as a result, with a common equity ratio of 16.3% (fully loaded), according to the Danish compromise method and 15.1% (fully loaded) according to the FICOD method. Our leverage ratio came to an excellent 6.1%. Detailed calculations of our solvency indicators are given in the 'How do we manage our capital?' section. The group's liquidity position also remained excellent, as reflected in an LCR ratio of 139% and an NSFR ratio of 134%.

Additional information and guidance

- We review the consolidated results in this section of the annual report. A review of the non-consolidated results and balance sheet is provided in the 'Company annual accounts and additional information' section.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was – on balance – very limited.
- Information on financial instruments, hedge accounting and the use thereof is provided in the 'Consolidated financial statements' section (Notes 1.2, 3.3 and 4.1–4.10 among others) and in the 'How do we manage our risks?' section.
- For information on forecast economic growth in our core countries, see the 'Our business units' section.
- We believe that all our business units will perform solidly in 2018. We also expect the planned changes to the Belgian corporation tax system to have a recurring positive effect from 2018 onwards, and for funding costs to be lower on account of the contingent capital note of 1 billion US dollars being called in January 2018. For Ireland, we expect a net release of loan impairment charges of between 100 and 150 million euros to be recognised in 2018.
- We estimate that the first time application of IFRS (as of 1 January 2018) will reduce our fully loaded common equity ratio by approximately 41 basis points, due primarily to reclassifications in the banking portfolio. For more information on the first time application of IFRS 9, see Note 1.0 of the 'Consolidated financial statements'.
- We expect Basel IV to increase our risk-weighted assets by roughly 8 billion euros (a negative impact of about 1.3% on the common equity ratio), based on our current interpretation of Basel IV, a static balance sheet and the economic environment at year-end 2017, and excluding any action on the part of management. Account has not been taken of the Targeted Review of Internal Models (TRIM) exercise, the potential impact of the European Banking Authority's review of the IRB approach and the effect of pillar 2 requirements.
- As regards our dividend policy, see 'Our employees, capital, network and relationships' in the 'Our business model' section.
- For information on significant post-balance-sheet events, see Note 6.8 of the 'Consolidated financial statements'.



Our business units

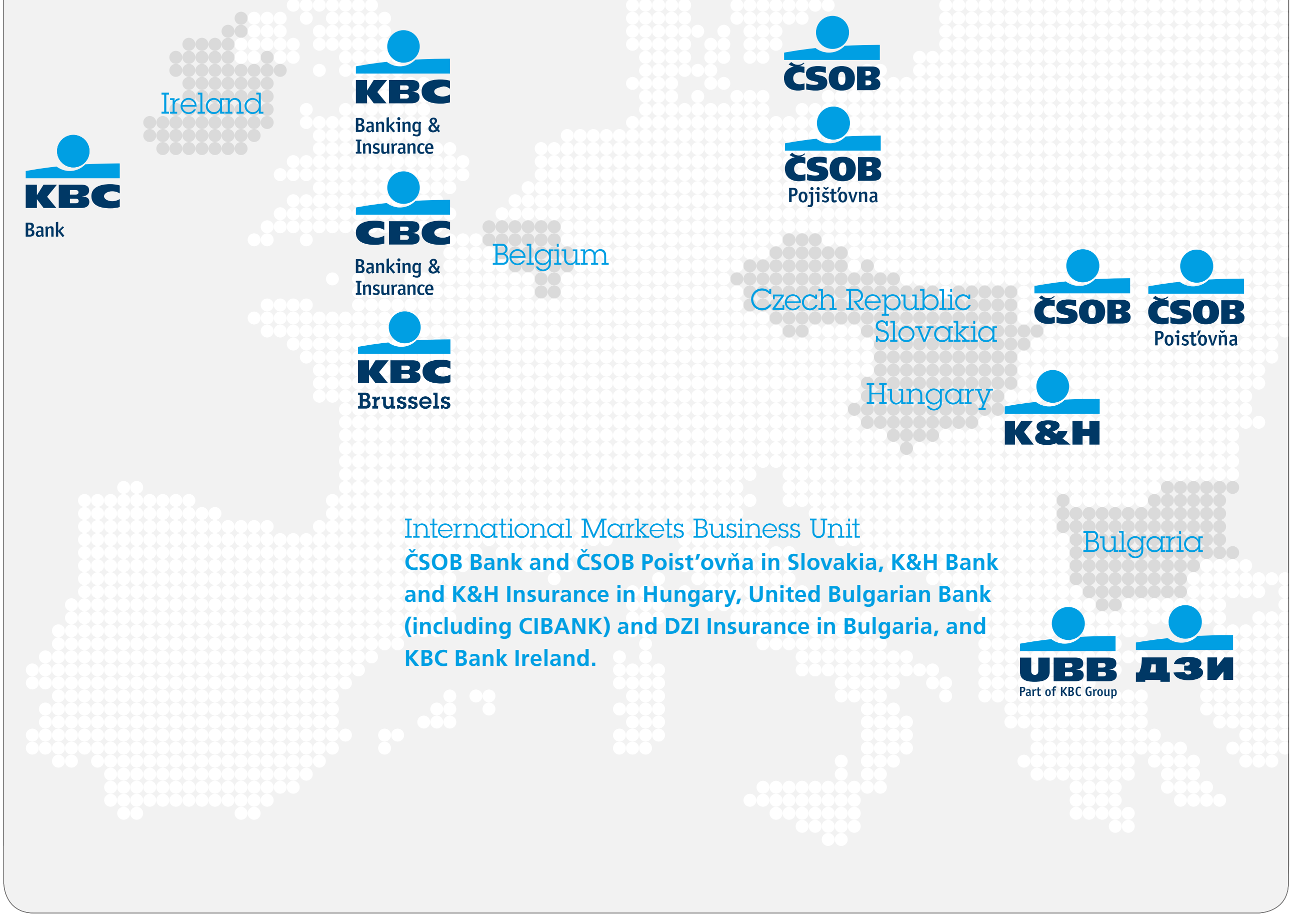
We have structured our group around three business units, namely 'Belgium', 'Czech Republic' and 'International Markets'. The latter unit is responsible for our operations in the other countries in Central and Eastern Europe (Slovakia, Hungary and Bulgaria) and in Ireland.

Czech Republic Business Unit

The ČSOB group (under the ČSOB Bank, Postal Savings Bank, Hypoteční banka, ČMSS and Patria brands), the insurer ČSOB Pojišt'ovna and ČSOB Asset Management.

Belgium Business Unit

KBC Bank NV and KBC Insurance NV, and their Belgian subsidiaries, which include CBC Banque, KBC Asset Management, KBC Lease Group and KBC Securities.



International Markets Business Unit

ČSOB Bank and ČSOB Poist'ovňa in Slovakia, K&H Bank and K&H Insurance in Hungary, United Bulgarian Bank (including CIBANK) and DZI Insurance in Bulgaria, and KBC Bank Ireland.

Where do we stand in each of our countries?

Market position in 2017[1]	Belgium	Czech Republic	Slovakia	Hungary	Bulgaria	Ireland
Main brands	KBC CBC KBC Brussels	ČSOB	ČSOB	K&H	UBB (incl. CIBANK) DZI	KBC Bank Ireland
Network	659 bank branches	270 bank branches[2]	122 bank branches	207 bank branches	236 bank branches	16 bank branches
	404 insurance agencies	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through partnerships
	Online channels	Online channels	Online channels	Online channels	Online channels	Online channels
Clients (millions, estimate)	3.5	3.7	0.6	1.8	1.4	0.3
Loan portfolio (in billions of EUR)	97.8	24.3	7.3	5.0	3.3	12.1
Deposits and debt securities (in billions of EUR)	132.9	30.2	6.1	7.3	3.9	5.4
Market share (estimate)						
- bank products	20%	20%	11%	11%	10%	8%[3]
- investment funds	33%	22%	7%	13%	13%	–
- life insurance	14%	8%	4%	3%	21%	–
- non-life insurance	9%	7%	3%	7%	11%	–
Main activities and target groups	We offer a wide range of loan, deposit, asset management, insurance and other financial products in virtually all our countries, where our focus is on private individuals, SMEs and high-net-worth clients. Services for corporate clients additionally include cash management, payments, trade finance, lease, money market activities, capital market products, stockbroking and corporate finance.					
Macroeconomic indicators for 2017[4]						
- GDP growth (real)	1.7%	4.4%	3.4%	3.9%	3.9%	6.5%
- Inflation (average annual increase in consumer prices)	2.2%	2.5%	1.4%	2.4%	1.3%	0.3%
- Unemployment (% of the labour force at year-end; Eurostat definition)	6.6%	2.3%	7.4%	3.8%	6.6%	6.2%
- Government budget balance (% of GDP)	-1.1%	0.3%	-1.4%	-2.1%	0.8%	-0.3%
- Public debt (% of GDP)	103.2%	34.7%	51.0%	72.4%	25.0%	68.0%

1 Market shares and client numbers: based on own estimates (when calculating the figure for client numbers, we took account of the estimated overlap between the various companies in the group). For traditional bank products: average estimated market share for loans and deposits. In Belgium, the life insurance market share is based on reserves; for the other countries, it is based on premiums. The share of the life insurance market in Bulgaria includes UBB-MetLife Insurance Company. The method used to calculate the number of clients in the Czech Republic now deals more effectively with the double-counting of those who are clients of several group companies. Loan portfolio: see 'How do we manage our risks?'. Deposits and debt securities: deposits from customers and debt securities (excluding repos). The number of bank branches does not include self-service branches. The Belgium Business Unit also includes the small network of 11 KBC Bank branches established in the rest of Europe, the US and Southeast Asia, which focus on activities and clients with links to KBC's core markets (not included in the number of branches in the table). Market shares are based in most instances on the latest available data (e.g., from the end of September 2017).

2 ČSOB bank branches and Postal Savings Bank financial centres and/or Era branches.

3 Retail segment (home loans and deposits for private individuals (excluding demand deposits)).

4 Data based on estimates made at the start of 2018.

Belgium

The macroeconomic context in Belgium

The Belgian economy continued in the same vein as in 2016, recording steady but modest growth in 2017. After a strong start to the year, the economic momentum eased in the second and third quarters against a backdrop of deteriorating business confidence, before taking a more optimistic turn once more towards the end of the year. On balance, real GDP grew by 1.7% in 2017, a slight firming on the previous year's 1.5%. This was the third year running, however, that Belgian economic growth fell short of the euro area average. Part of this gap is attributable to the surge in growth experienced by the group of countries that were worst hit by the crisis, which pushed up average growth in the euro area.

Belgium's generally favourable economic picture in 2017 was bolstered by low interest rates and the robust performance of the euro area economy. The improved competitiveness of Belgian businesses, driven by the policy of wage restraint in recent years, was a factor at domestic level. Wage restraint – in tandem with regional government measures to boost employment in recent years – also stimulated job creation, with a net increase of around 65 000 jobs in 2017. These favourable factors combined to enable household consumption, investment and net exports to make a positive contribution to GDP growth.

Unemployment in Belgium had declined to 6.6% by year-end 2017, down over two percentage points on its peak rate in the spring of 2015. Inflation rose to an average of 2.2% in 2017, due primarily to higher energy prices. The positive inflation gap with the euro area remained in place (0.7 percentage points), though it had narrowed sharply compared to 2016. On the property market, house prices rose more sharply once again: according to Eurostat's harmonised index, the price of Belgian homes increased by 4.0% in 2017. Both the absolute level of Belgian 10-year government bond yields and the spread with their German counterparts declined in 2017. Yields flirted with the 1% level for a while in the spring, but ended the year around 0.5%. The spread narrowed from over 50 basis points at the beginning of 2017 to about 20 points by the end of the year.

We expect GDP growth to accelerate in 2018 towards 1.9%. The favourable environmental factors that drove growth in 2017 will also support the ongoing recovery. Inflation is likely to ease considerably to a forecast average of 1.5% in 2018, chiefly because of the removal of a tax on electricity consumption (the 'Energy Fund Contribution') in the Flemish Region.

Specific objectives

- To focus on an omnichannel approach and invest in the seamless integration of our different distribution channels (branches, agencies, advisory centres, websites and mobile apps), while investing in the further digital development of our banking and insurance services. Where necessary, we collaborate with partners through 'eco-systems' that enable us to offer our clients comprehensive solutions.
- To exploit our potential in Brussels more efficiently via the separate new brand, *KBC Brussels*, which reflects the capital's specific cosmopolitan character and is designed to better meet the needs of the people living there.
- To grow bank-insurance further at CBC in specific market segments and to expand our presence and accessibility in Wallonia.
- To work tirelessly on the ongoing optimisation of our bank-insurance model in Belgium.
- To continue our pursuit of becoming the reference bank for SMEs and mid-cap enterprises based on our thorough knowledge of the client and our personal approach.
- To express our commitment to Belgian society by taking initiatives in areas including environmental awareness, financial literacy, entrepreneurship and demographic ageing, as well by actively participating in the mobility debate.

- *'Best Bank in Belgium'* (Euromoney)
- *'World's Best Bank Transformation'* and *'Best Bank Transformation in Western Europe'* (Euromoney)
- *'Best Trade Finance Provider in Belgium in 2017'* (Global Finance)
- *'Best Innovation in Retail Banking in Belgium'* (International Banker)
- KBC again among the best workplaces in Belgium (Great Place to Work®)
- Top spot in Belgium for the www.kbc.com corporate website (Webranking by Comprend)
- etc.

A few achievements in 2017

client centricity

We have invested heavily in the past few years to make our know-how available via a range of client contact points, including bank branches and insurance agencies, chat and video chat facilities via KBC Live, websites and mobile apps. Measures to further strengthen this omnichannel approach include expanding KBC Live – our regional contact centres – to offer enhanced chat and video chat facilities and more staff. We have also extended this successful service to entrepreneurs, the self-employed and members of the liberal professions. At the same time, we continued to expand and improve our digital systems, such as *KBC Touch*, *KBC Sign*, *KBC Mobile, KBC Invest, KBC Assist* and *K'Ching*.

We also offer a great many innovations that make our clients' lives easier by enhancing their domestic comfort, for instance. Examples include the launch of KBC SmartHome (which, among other things, can warn the user via an app if smoke or leaking water is detected at their residence), KBC Home Assistance (a policy that provides qualified technicians to deal with certain unforeseen problems in the home) and KBC Insurance Check (an easy way for clients to check whether they are properly insured).

Digital channels are constantly growing in importance. For example, no less than two-thirds of KBC clients in Flanders took out their home loans online in January 2018. It has also been possible to buy home insurance via the website (and KBC Mobile) since the middle of 2017. We view it as part of our job, moreover, to guide clients through the digitalisation process. Since April 2017, for instance, clients wanting to take their first steps towards digital banking have been welcome at KBC for a KBC Go Digital Intro. We also organise DigiWise info sessions.

sustainable profitable growth

For several years now, we have been active in Brussels under the separate *KBC Brussels* brand, which has a metropolitan, innovative image and a tailored network. We transferred all the relevant clients in 2017 to a dedicated KBC Brussels platform and continued to expand the branch and agency network. The KBC Brussels Live service has also gone down very well with our clientele in Brussels. This, together with a range of other initiatives, helped KBC Brussels attract over 10 000 new clients in 2017. We further implemented our growth strategy in Wallonia too, with the planned opening of our new head office in Namur set to go ahead in the first half of 2018. In mid-2017, lastly, we also opened a new KBC Bank branch in Italy to support corporate clients there from our home markets.

bank-insurance

Our bank-insurance concept continued to enjoy considerable success. At year-end 2017, for instance, roughly half of households that are clients of KBC Bank held at least one KBC Insurance product, while a fifth of households held at least three banking and three insurance products from KBC. To give another example, eight to nine of every ten KBC Bank clients with a home loan also took out a home insurance policy with our group.

role in society

We give concrete shape to our wider role in the community via initiatives relating to entrepreneurship, environmental awareness, financial literacy and demographic ageing. The KBC Service to Associations was launched to encourage involvement in clubs, societies and associations. The platform can be accessed via the KBC website and combines information and tools to help get clubs, societies and associations up and running. It is an ecosystem formed by KBC and four partners, which together provide a wide range of information and services to enable these bodies to be run efficiently.

Employees and businesses are looking for solutions that address their mobility needs more effectively and there is a strong focus right now on multi-mobility. In this context, KBC Autolease is placing ever more emphasis on the transition from a lease company to a mobility provider, by backing a variety of transport options, including bicycles with KBC Bike Lease, and by the steady 'greening' of its vehicle fleet.

A fine example in the area of financial literacy is the 'Get-a-Teacher' initiative in the Dutch-speaking part of Belgium. The initiative aims to further enhance financial knowledge, especially among young people. 'Get-a-Teacher' gives schools the opportunity to 'order' a teacher from KBC. He or she is a KBC employee who has been screened and selected for this role. The initiative is a free, no-obligation offer for both KBC and non-KBC clients, and is separated from the group's commercial communication.

Contribution to group result

1 575 Net result million euros (+10%)

Net interest income 2 394 million euros (-11%)	**Cost/income ratio** 52% (54%)
Technical insurance result* 379 million euros (+72%)	**Combined ratio** 86% (92%)
Net fee and commission income 1 290 million euros (+21%)	**Credit cost ratio** 0.09% (0.12%)
Operating expenses 2 452 million euros (+1%)	**Impaired loans ratio** 2.8% (3.3%)
Impairment on loans 87 million euros (-22%)	**Return on allocated capital** 26% (24%)

Figures for 2017 (the figures in brackets are for, or indicate the difference with, 2016). A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated annual accounts' section.

* Earned premiums - technical charges + ceded reinsurance result.

In 2017, our Belgium Business Unit recorded a net result of 1 575 million euros, compared with 1 432 million euros a year earlier.

Net interest income (2 394 million euros) declined by 11%, owing to a number of negative items, including low reinvestment yields, less interest income being generated by the dealing rooms, a reduction in early repayment penalties for home loans, lower interest income on the insurer's bond portfolio and pressure on credit margins. These negative items were partially offset by factors including the positive effect of lower funding costs and growth in the volume of credit. Our net interest margin in Belgium narrowed further from 1.80% in 2016 to 1.57% in 2017. The volume of loans and advances to customers (94 billion euros, excluding reverse repos) rose by 3% and deposits from customers and debt securities (133 billion euros, excluding repos) went up by 6%.

Our net fee and commission income (1 290 million euros) rose by 21%, primarily on account of the higher level of fee income from our asset management activities and, to a lesser extent, higher securities-related fees.

The technical result from our insurance activities in Belgium came to 379 million euros. In the non-life segment, premium income grew by 3% (in almost all classes) and claims fell by 10% (2016 had been affected by extreme weather and the Brussels terror attacks in March, whereas 2017 benefited from the one-off release of the indexation provision (26 million euros)). As a result, the combined ratio for our non-life insurance business came to a sound 86%. Our life insurance sales – including investment contracts without a discretionary participation feature, which are excluded from the IFRS figures – amounted to 1.5 billion euros, down 12% on the year-earlier figure, with lower sales of guaranteed-rate products (-23%) only partly offset by higher sales of unit-linked products (+12%). Certain provisions were also released in the life business (23 million euros for the flashing light reserve in the third quarter).

The other income items comprised gains realised on the sale of shares and bonds (123 million euros), dividends received on securities held in our portfolios (52 million euros), our trading and fair value income (539 million euros, well up on the figure for 2016, thanks to stronger dealing room results) and other income (174 million euros). Besides mainly the usual items (results from KBC Autolease, VAB, etc.), 'other income' also included a number of mostly smaller one-off items.

Our costs in Belgium rose by 1% to 2 452 million euros in 2017, due to various factors, the most notable of which were higher staff expenses (including pension costs) and ICT costs. The cost/income ratio for our banking activities came to 52%, compared with 54% in 2016.

As in 2016, loan loss provisioning was relatively limited (87 million euros, down a further 25 million euros on the year-earlier level). In terms of our overall loan portfolio, loan loss provisions amounted to 9 basis points, compared with 12 basis points in 2016. Loan quality improved once again. Approximately 2.8% of the business unit's loan portfolio at year-end 2017 was impaired (see 'Glossary of financial ratios and terms' for definition), compared with 3.3% a year earlier. Impaired loans that were more than 90 days past due accounted for 1.4% of the portfolio (1.7% in 2016).

Taxes in Belgium were negatively influenced by the up-front impact of the future reduction in the rate of corporation tax (85 million euros; also see the Group Centre).

Czech Republic

The macroeconomic context in the Czech Republic

The Czech economy enjoyed an excellent 2017. Real GDP growth came to 4.4%, unemployment fell to a new low of 2.3% at year-end (compared to 3.5% at year-end 2016), and the average annual inflation rate of 2.5% remained above the 2% target set by the Czech central bank (CNB).

This fact alone enabled the CNB in April to allow the Czech currency to float freely (after three and a half years of intervention) and to raise its key rate twice in the course of the year. The CNB's two-week repo rate rose as a result to 0.50% at the end of 2017. The foreign exchange intervention ended without any major shocks, and the Czech koruna gained roughly 6% against the euro in the two quarters that followed.

On the demand side, economic growth in the Czech Republic was underpinned by consumption and investment, as well as foreign trade. The supply side was dominated by manufacturing industry, but all sectors – including the banks – turned in a good performance.

We expect economic growth to ease somewhat in 2018 to 3%, which will still be above the EU average. The unemployment rate will remain low in this context, settling at around 2.3% by year-end 2018. With an average annual rate of 2.2%, inflation is likely to be above the CNB's target. Consequently, we expect the Czech central bank to raise its key rate a number of times in 2018 to 1.25% by the end of the year.

Specific objectives

- To move from largely channel-centric solutions to ones that are client-centric, based on an integrated model that brings together clients, third parties and our bank-insurer.
- To also offer new, innovative products and services by making use of digital opportunities and taking account of new trends, shifting client behaviour and new regulations.
- To continue to concentrate on simplifying products, IT capabilities, our organisation, our bank distribution network, our head office and branding, to achieve even greater cost efficiency.
- To expand our bank-insurance activities through steps like introducing a progressive and flexible pricing model, developing combined banking and insurance products, and strengthening our insurance sales teams.
- To keep growing in our traditionally strong fields, such as lending to businesses and providing home loans. We will also advance in areas – like SME and consumer loans – where we have yet to tap our full potential.
- To express our social commitment by focusing on environmental awareness, financial literacy, entrepreneurship and demographic ageing.

- ČSOB *'Bank of the Year in the Czech Republic'* (The Banker, Hospodářské noviny)
- ČSOB *'Best Private Bank in the Czech Republic'* (Euromoney, International Banker)
- ČSOB one of the best employers in the Czech Republic (Sodexo)
- Gold for ČSOB in the *'Top Responsible Large Company'* category (Business for Society)
- 'Good company' prize (Via Foundation)
- ČSOB *'Best Trade Finance Provider'* and *'Best FX Provider'* in the Czech Republic (Global Finance)
- ČSOB Pojišťovna *'Best Life Insurance Company'* (Hospodářské noviny)
- etc.

A few achievements in 2017

client centricity

As in previous years, we launched a variety of new products and services that respond to our clients' changing needs. For example, we worked on a new online banking experience for our retail clients and launched a new electronic banking platform for our corporate and SME clients, with simplified and intuitive interactive possibilities. The new Patria Mobile Trader app enables clients to carry out investment transactions anywhere and at any time. Insurance claims can now be registered and monitored online, too, using ČSOB Pojišt'ovna's *Klientská zóna* app. Postal Savings Bank clients, meanwhile, can also apply for a consumer loan online and access the funds within 15 minutes.

To obtain an even better understanding of the client experience, we now use 'Customer Journey Mapping' alongside traditional client satisfaction surveys. This approach (with direct input from clients) examines each step, starting from thinking about a financial service, through purchase and use, to even ending a contract. We are able as a result to improve and simplify our processes and product offering.

sustainable profitable growth

We once again achieved decent growth in the areas we targeted, such as consumer finance (+16% in 2017) and lending to SMEs (+5%). However, we also made progress in areas where we already have a sound track record, with for instance the volume of home loans expanding by no less than 11% in 2017. Overall, our lending activities increased by 8% in 2017 and clients also placed 9% more deposits with our group.

Česká pošta and ČSOB signed a ten-year agreement in 2017 to collaborate on banking and insurance services, building on a quarter of a century's mutual cooperation under the Poštovní spořitelna (Postal Savings Bank) brand. The agreement came into effect on 1 January 2018, as of which date ČSOB will be the sole partner for the supply of financial and insurance services.

bank-insurance

About six out of ten ČSOB clients who took out home loans with the bank in 2017 also purchased home insurance from the group, while approximately half of them also took out life insurance. The number of bank-insurance clients – i.e. clients with at least one banking and one insurance product from our group in their portfolio – increased by 13% in 2017, while the number of stable bank-insurance clients (holding at least two banking and two insurance products from our group) rose by more than 20%.

role in society

We took a number of initiatives in terms of our social engagement, focusing on environmental awareness, financial literacy, entrepreneurship and demographic ageing. In 2017, we sent over 200 ČSOB ambassadors to 50 primary and secondary schools to provide interactive and engaging lessons on subjects relating to financial literacy. Our Education Fund, meanwhile, has been supporting students in difficulty for many years. We view stimulating entrepreneurship as an important part of our sustainability strategy. In that regard, we help businesses get on their feet and support co-working centres and development hubs where start-ups can work and network in ideal conditions. We also offer financial support to the most promising start-ups through our InnovFin programme.

We want to support our clients throughout their lives and, therefore, pay particular attention to senior citizens. In collaboration with the Sue Ryder Home advisory centre, we launched the online portal 'Find your way through senior age', which provides elderly people with lots of practical information on legal matters, palliative care, subsidies and counselling. Environmental awareness naturally remains a top priority too. For instance, we have managed to reduce our energy consumption by over 20% in the past six years, and our head office in Prague now has a LEED (Leadership in Energy and Environmental Design) certificate. Voluntary work and collaboration with NGOs remain very important within our group. In 2017, over 1 100 colleagues worked for a day at various NGOs, not only helping them in their work but also sharing knowledge and experience.

Contribution to group result

702 **Net result** million euros (+18%)

Net interest income 888 million euros (+5%)	**Cost/income ratio** 42% (45%)
Technical insurance result* 130 million euros (+18%)	**Combined ratio** 97% (96%)
Net fee and commission income 192 million euros (+1%)	**Credit cost ratio** 0.02% (0.11%)
Operating expenses 646 million euros (+6%)	**Impaired loans ratio** 2.4% (2.8%)
Impairment on loans 5 million euros (-78%)	**Return on allocated capital** 43% (41%)

Figures for 2017 (the figures in brackets are for, or indicate the difference with, 2016). A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated annual accounts' section.
* Earned premiums - technical charges + ceded reinsurance result.

In 2017, the Czech Republic Business Unit recorded a net profit of 702 million euros, compared with 596 million euros a year earlier. The higher average exchange rate (+3%) of the Czech koruna accounted for roughly 18 million of the 106-million-euro increase.

On balance, net interest income in the Czech Republic (888 million euros) went up by 5%, as the negative impact of persistently low income generated by reinvestments and pressure on margins were offset by the positive impact of the higher exchange rate, an increase in the level of interest income being earned by the dealing room and volume growth of loans. As regards the latter, our loans and advances to customers (22 billion euros, excluding reverse repos) rose by 8% in 2017 (due in part to robust growth in home loans). Deposits from customers and debt securities (30 billion euros, excluding repos) grew by 9% year-on-year. The net interest margin in the Czech Republic widened a little from 2.94% in 2016 to 2.99% in 2017.

At 192 million euros, our net fee and commission income was slightly higher (up by 1%), due primarily to higher fees for asset management services and the exchange rate effect, though cancelled out in part by lower securities-related fees.

The technical result from our insurance activities in the Czech Republic came to 130 million euros. Non-life premium income grew by 14%, but there was also a 17% increase in technical charges. As a result, the combined ratio for our Czech non-life insurance business amounted to 97%. Sales of life insurance ended the year at 0.3 billion euros, 4% lower than the figure for 2016 owing to weaker sales of unit-linked products.

The other income items chiefly comprised gains realised on the sale of shares and bonds (17 million euros), trading and fair value income (222 million euros in 2017, as opposed to 117 million euros in 2016, due primarily to very strong dealing room results) and other income (40 million euros, positively influenced by the settlement of an old legal case).

Costs rose by 6% to 646 million euros in 2017, owing to a number of factors, including the higher exchange rate and various other items (including higher staff expenses and ICT costs). Consequently, the cost/income ratio for our banking activities amounted to a very solid 42%, compared with 45% in 2016.

As was the case in 2016, loan loss provisioning was very limited in 2017 (5 million euros, which was actually 18 million euros less than the year-earlier level). In terms of our overall loan portfolio, therefore, loan loss provisions amounted to just 2 basis points in 2017, compared with 11 basis points in 2016. Loan quality improved once again. Approximately 2.4% of the business unit's loan portfolio was impaired at year-end 2017, compared with 2.8% a year earlier. Impaired loans that were more than 90 days past due accounted for 1.6% of the portfolio (1.9% in 2016).

International Markets

The macroeconomic context in Slovakia, Hungary, Bulgaria and Ireland

Growth in Slovakia and Bulgaria slowed a little in 2017, but even so, their respective figures of 3.4% and 3.9% were still well above the average for the euro area as a whole. Like most economies in the region, growth was driven primarily by domestic demand (consumption and investment). Following a rather lacklustre performance in 2016, Hungarian growth rebounded to 3.9% in 2017, with domestic demand (consumption and investment) likewise being the most important driver. Robust economic growth also translated into favourable wage growth and employment, as a result of which, the unemployment rate at year-end 2017 was down 1.5 (Slovakia), 0.5 (Hungary) and 0.6 (Bulgaria) percentage points on its year-earlier levels.

Inflation in the three countries moved out of negative territory in 2017. Consumer prices in Slovakia and Bulgaria rose by an annual average of 1.4% and 1.3% respectively in 2017. Although Hungarian inflation jumped to 2.4%, it was still below the Hungarian National Bank's target, prompting the bank to maintain its highly expansive policy and even to relax it further in 2017.

We expect real GDP growth in Slovakia to accelerate a little in 2018 towards 3.8%. Real GDP growth in Bulgaria will continue to expand at a vigorous 3.9%. The Hungarian economy is also likely to expand by 3.8% in 2018, in line with the robust performance in the region.

With growth of 6.5%, the Irish economy was again one of the euro area's strongest performers in 2017. Irish inflation might have turned positive again in 2017, but the annual average rate nevertheless remained a mere 0.3%. Persistently robust economic growth ensured that Irish public debt declined further to 68% of GDP. We expect Irish economic growth in 2018 to slow down to 3.5%, which is still a full percentage point higher than the rate forecast for the euro area.

In June 2017, we organised an Investor Visit in Dublin. The participants were given a demonstration of a new mobile onboarding app in Ireland, in which the number of steps for becoming a client has been reduced from 26 to just five. They also got to see how DZI Insurance in Bulgaria actively uses drones to assess agricultural claims. There was a separate Innovation Zone too, at which KBC presented several other innovative, client-oriented solutions, including the unique invoice scanner in Slovakia, which automatically converts bills into payment instructions, and a Mobile Token (identification and authorisation) in Hungary.

Specific objectives

- To move from a branch-oriented distribution model to an omnichannel one in the Central European countries. We are fully committed to implementing a 'Digital First' strategy in Ireland (see below).
- To target income growth in Hungary through vigorous client acquisition in all banking segments and through more intensive cross-selling, in order to raise our market share and our profitability. We also aim to expand our insurance activities substantially, primarily through sales at bank branches and, for non-life insurance, via both online and traditional brokers. Simplifying products and processes is another key focus.
- To maintain our robust growth in strategic products in Slovakia (i.e. home loans, consumer finance, SME funding, leasing and insurance), partly through cross-selling to ČSOB group clients. As in Hungary, another key focus is the simplification of products and processes.
- To focus – as regards the banking business in Bulgaria – on substantially increasing our share of the lending market in all segments, while applying a strict risk framework. The acquisition of United Bulgarian Bank (UBB) in June 2017, which now gives us a 10% share of the market, should further support this growth. Our insurer, DZI, already commands a significant share of the market and our aim remains to grow faster than the market in both life and non-life insurance, via the bank channel (which is now much larger due to the acquisition of UBB) and other channels. In this regard, KBC signed an agreement at the end of 2017, under which the group acquired the remaining 40% stake in UBB-MetLife Insurance Company AD, roughly doubling its share of the life insurance market in the process.
- To implement a 'Digital First' strategy and create an outstanding client experience in Ireland, which became a fully fledged core country in 2017. We aim to differentiate ourselves through the instant and proactive delivery of products and services and through a high level of accessibility (including mobile and contact centre). 'Core country' status also means that we aim to achieve a market share of at least 10% in the retail and micro-SME segments and to focus fully on bank-insurance in the same way as we do in our other core markets. Insurance products are offered through partnerships and co-operation agreements.
- To implement a socially responsible approach in all countries, with a particular focus on environmental awareness, financial literacy, entrepreneurship and health.

A few achievements in 2017

client centricity

As in Belgium and the Czech Republic, we look constantly at how we can apply new technologies in order to further align the service we offer to meet the needs of our clients in Slovakia, Hungary, Bulgaria and Ireland. KBC Bank in Ireland, for instance, was the first bank to offer Apple Pay and Android Pay to its clients. In Bulgaria, Mastercard and CIBANK joined forces to launch the first ATM to accept cards and devices for contactless payments. And in Hungary, the Mobile Wallet app lets clients make payments via their mobile device. Client-centricity was also the starting point for the new digital strategy at KBC Bank Ireland, which is stepping up its efforts and investments in expertise and resources so that it can rapidly develop into a 'Digital First', client-oriented bank, while continuing to manage its legacy portfolio carefully and efficiently. The bank will facilitate 'always-on 24/7 accessibility' in terms of distribution and service. To digitalise and innovate faster, it will intensify its collaboration with KBC group entities and leverage proven innovations and learnings from other KBC core markets. What's more, the new core banking system with its open architecture will enable KBC Bank Ireland to collaborate with fintech firms and to provide services from and to other market participants. To increase commercial clout and strengthen future viability – and as a driver of cost containment, efficiency and effectiveness – all banks in the International Markets Business Unit have launched a programme to migrate to a shared core banking platform. Two of the four countries already use an important part of the architecture.

sustainable profitable growth

Our deposits continued to grow in all the Central European core countries. The same goes for lending, which also saw a further improvement in quality. This was reflected, for instance, by a reduction in the proportion of impaired loans in the portfolio. In Bulgaria, we took a major step forward by acquiring United Bulgarian Bank (UBB) and Interlease in mid-2017 and agreeing to buy the remaining stake in UBB-MetLife Insurance Company at year-end 2017. With these acquisitions, we aim to become the reference in bank-insurance in Bulgaria – a country with strong macroeconomic fundamentals and attractive opportunities for the further development of financial services. It also means that KBC is now active in leasing, asset management and factoring in Bulgaria too, enabling us to offer our clients a full range of financial services there. The total cost of the acquisition of UBB and Interlease was 0.6 billion euros. We also sold our limited asset management business in Poland (KBC TFI), as that country no longer belongs to our geographical core territory.

bank-insurance

The number of bank-insurance clients for the business unit as a whole – i.e. clients with at least one banking and one insurance product from our group in their portfolio – increased by 13% in 2017. The number of stable bank-insurance clients (holding at least two banking and two insurance products) rose by as much as 23%. Numerous commercial synergies were also achieved. For instance, group fire insurance was sold in conjunction with more than nine out ten new home loans taken out in Bulgaria and Slovakia, and more than seven out of ten such loans taken out in Hungary.

role in society

We link our social projects to financial literacy, environmental responsibility, entrepreneurship and health. For example, K&H in Hungary has supported the 'K&H MediMagic Programme' for 14 years now. This particular initiative provides financial and material help for sick children. The focus in 2017 was on the provision of medical equipment to treat children between the ages of 8 and 11. K&H also promotes financial literacy through the 'Ready, Steady Money' contest and the 'investor club' for young investors. In Slovakia, the ČSOB Foundation is committed to improving quality of life, with a particular focus on the safety and health of children. ČSOB also offers green loans to families wishing to make energy-saving improvements to their homes. In Bulgaria, CIBANK worked with several partners to launch 'eStore Solutions', a programme for developing web stores for SMEs and large companies. CIBANK is also committed to improving financial literacy via 'My Finances'. KBC Bank Ireland sponsored the 'KBC Bank Ireland Bright Ideas' initiative again, a unique platform where people can suggest ideas on how to improve their neighbourhood. This year also saw the launch of 'KBC Bank Ireland Bright Business Ideas' to support key social innovators and entrepreneurs.

Contribution to group result

444 Net result
million euros (+4%)

Slovakia
79 million euros (-14%)

Hungary
146 million euros (+13%)

Bulgaria
50 million euros (-)

Ireland
167 million euros (-9%)

Net interest income
837 million euros (+13%)

Technical insurance result*
117 million euros (+11%)

Net fee and commission income
232 million euros (+15%)

Operating expenses
837 million euros (+12%)

Impairment on loans
197-million-euro impairment reversal (42-million-euro reversal)

Cost/income ratio
72% (64%)

Combined ratio
93% (94%)

Credit cost ratio
-0.74% (-0.16%)

Impaired loans ratio
20% (25%)

Return on allocated capital
22% (22%)

Figures for 2017 (the figures in brackets are for, or indicate the difference with, 2016). A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated annual accounts' section.
* Earned premiums - technical charges + ceded reinsurance result.

- ČSOB in Slovakia and K&H Bank in Hungary: *'Best Trade Finance Provider 2017'* (Global Finance)
- ČSOB Poisťovňa in Slovakia: second place in *'Insurance Company of the Year'* (Trend)
- K&H Bank in Hungary: *'Socially Responsible Bank of the Year'* (Mastercard Awards) and 'Bank of the Year' (The Banker)
- *'Banking Transaction of the Year'* award for the acquisition of United Bulgarian Bank (Bulgarian Bank of the Year Association)
- KBC Bank Ireland: *'Best Value Current Account'*, *'Best Value First-Time Buyers Mortgage'* and *'Best Value Switcher Mortgage'* in 2017 (bonkers.ie awards)
- KBC Bank Ireland: award for *'Best Use of App for Mobile'* (Accenture Digital Media Award)
- etc.

In 2017, the net result at our International Markets Business Unit amounted to 444 million euros, as opposed to 428 million euros a year earlier. Hungary accounted for 146 million euros of this figure, Slovakia for 79 million euros, Bulgaria for 50 million euros and Ireland for 167 million euros. The results for the business unit as a whole and for Bulgaria also include the results recorded by United Bulgarian Bank and Interlease for the second half of 2017. Where 'on a comparable basis' appears in the text, we mean excluding the effect of this acquisition.

Net interest income for the business unit as a whole came to 837 million euros in 2017, up 13% year-on-year (+6% on a comparable basis), due primarily to lower funding and liquidity costs in Ireland. As regards volumes, loans and advances to customers for the business unit as a whole (24 billion euros, excluding reverse repos) rose by 13% in 2017, or by 4% on a comparable basis, with the decline in Ireland (-1%, mainly on account of the further scaling back of corporate lending) being more than offset by increases in Slovakia (+8%, due in part to home loans), Hungary (+11%) and Bulgaria (a three-fold increase with the inclusion of United Bulgarian Bank, or +11% on a comparable basis). Deposits from customers and debt securities at the business unit (23 billion euros, excluding repos) went up by almost 24%, or by 7% on a comparable basis. Deposits grew in all countries: in Ireland (+8%), Slovakia (+6%), Hungary (+7%) and Bulgaria (a five-fold increase with the inclusion of United Bulgarian Bank, or +14% on a comparable basis). The business unit's average net interest margin rose from 2.55% to 2.77%.

Net fee and commission income went up by 15% (4% on a comparable basis) to 232 million euros, which was chiefly attributable to fees charged for payments.

The business unit's insurance activities, which are confined to Hungary, Slovakia and Bulgaria (we work via partnerships in Ireland), generated a technical result of 117 million euros in 2017. In the non-life segment, premium income increased by 13% (with growth in all countries), claims incurred rose by 32% (primarily in Hungary and Bulgaria) and the ceded reinsurance result improved (in Bulgaria). As a result, the combined ratio for the business unit's non-life activities amounted to 93%. Sales of life insurance – including investment contracts without a discretionary participation feature, which are excluded from the IFRS figures – came to 120 million euros, down slightly on the figure for 2016, due mainly to lower sales of unit-linked life insurance products in Hungary.

The other income items chiefly comprised gains realised on the sale of shares and bonds (3 million euros), trading and fair value income (95 million euros), and other income (-112 million euros). The latter was significantly lower than in 2016, as it was negatively influenced in 2017 by a provision of 116 million euros being recognised for the sector-wide review of tracker mortgages originated in Ireland prior to 2009 (see Note 3.6 in the 'Consolidated annual accounts' section).

Costs rose by 12% to 837 million euros in 2017 (up 6% on a comparable basis). The increase occurred chiefly in Ireland (higher bank taxes, increased ICT costs, professional fees and staff expenses – the latter being driven by robust expansion). Consequently, the cost/income ratio for the banking activities came to 72%, as opposed to 64% in 2016.

There was a 197-million-euro net reversal of loan loss provisions in 2017 (with a positive impact on the results), compared to a net reversal of 42 million euros in 2016. The favourable trend in 2017 was mainly attributable to Ireland, where there was a net reversal of 215 million euros relating primarily to the rise in the nine-month average housing price index, an improvement in the portfolio of non-performing loans, and model-related changes. In terms of our overall loan portfolio, loan loss provisions for the business unit as a whole amounted to -74 basis points compared with -16 basis points in 2016 (a negative figure signifies a net reversal of impairment and hence a positive impact on the results). The figures per country were -170 basis points for Ireland, -22 basis points for Hungary, 16 basis points for Slovakia and 83 basis points for Bulgaria. Loan quality improved once again. Approximately 20% of the business unit's loan portfolio was impaired at year-end 2017, compared with 25% a year earlier. This still relatively high figure related chiefly to the elevated (but already significantly reduced) figure in Ireland (where impaired loans stood at 35% at year-end 2017, compared with 43% a year earlier). Impaired loans that were more than 90 days past due accounted for 11% of the business unit's portfolio (13% in 2016).

Group Centre

Besides financial reporting for three business units, we also report on a separate Group Centre. In 2017, it generated a net result of -146 million euros, compared with -29 million euros a year earlier. This consisted of:

- Traditional items, such as the operating expenses of our group's holding-company activities, certain costs related to capital and liquidity management and funding and other costs related to the holding of participating interests (-91 million euros in 2017 as opposed to -135 million euros in 2016).
- The results of the remaining companies scheduled for run-down, including the former Antwerp Diamond Bank, KBC Finance Ireland, etc. (91 million euros in 2017 compared with 33 million euros in 2016). It should be noted that the figure for 2017 was positively influenced by the recognition of 66 million euros in deferred tax assets in respect of the liquidation of IIB Finance.
- Other items (-147 million euros in 2017 compared with 74 million euros in 2016). The figure for 2017 includes -126 million euros relating to the change in the Belgian corporation tax system, primarily the up-front impact of the announced reduction in the rate of corporation tax on deferred taxes recognised on the balance sheet (see Note 3.12 in the 'Consolidated annual accounts' section; the portion related to the legacy business is charged to the Group Centre).

A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated annual accounts' section.

How do we manage our risks?

Mainly active in banking, insurance and asset management, we are exposed to a number of typical industry-specific risks such as credit risk, movements in interest rates and exchange rates, liquidity risk, insurance underwriting risk, operational risks, etc.

In this section, we focus on our risk governance model and the most material sector-specific risks we face. The general risks (relating to the macroeconomic situation, competition, regulations, etc.) are described in the 'Our business model' section.

Our statutory auditors have audited the information in this section that forms part of the IFRS financial statements, viz.:

- the 'Risk governance' section;
- parts of the 'Credit risk' section: the introduction, 'Managing credit risk at transactional level', 'Managing credit risk at portfolio level', the 'Loan and investment portfolio, banking' table, 'Forbearance measures', the 'Other credit exposure, banking' table, the 'Investment portfolio of KBC group insurance entities' table and the 'Credit exposure to (re) insurance companies by risk class' table;
- parts of the 'Market risk in trading activities' section: the introduction, 'Managing market risk' and 'Risk analysis and quantification';
- parts of the 'Market risk in non-trading activities' section: the introduction, 'Managing market risk in non-trading activities', 'Interest rate risk' (except for the 'Impact of a parallel 10-basis-point increase in the swap curve for the KBC group' table and the 'Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities' table), the 'Exposure to sovereign bonds' table and 'Foreign exchange risk';
- parts of the 'Liquidity risk' section: the introduction, 'Managing liquidity risk' and 'Maturity analysis';
- the 'Technical insurance risk' section.

Risk governance

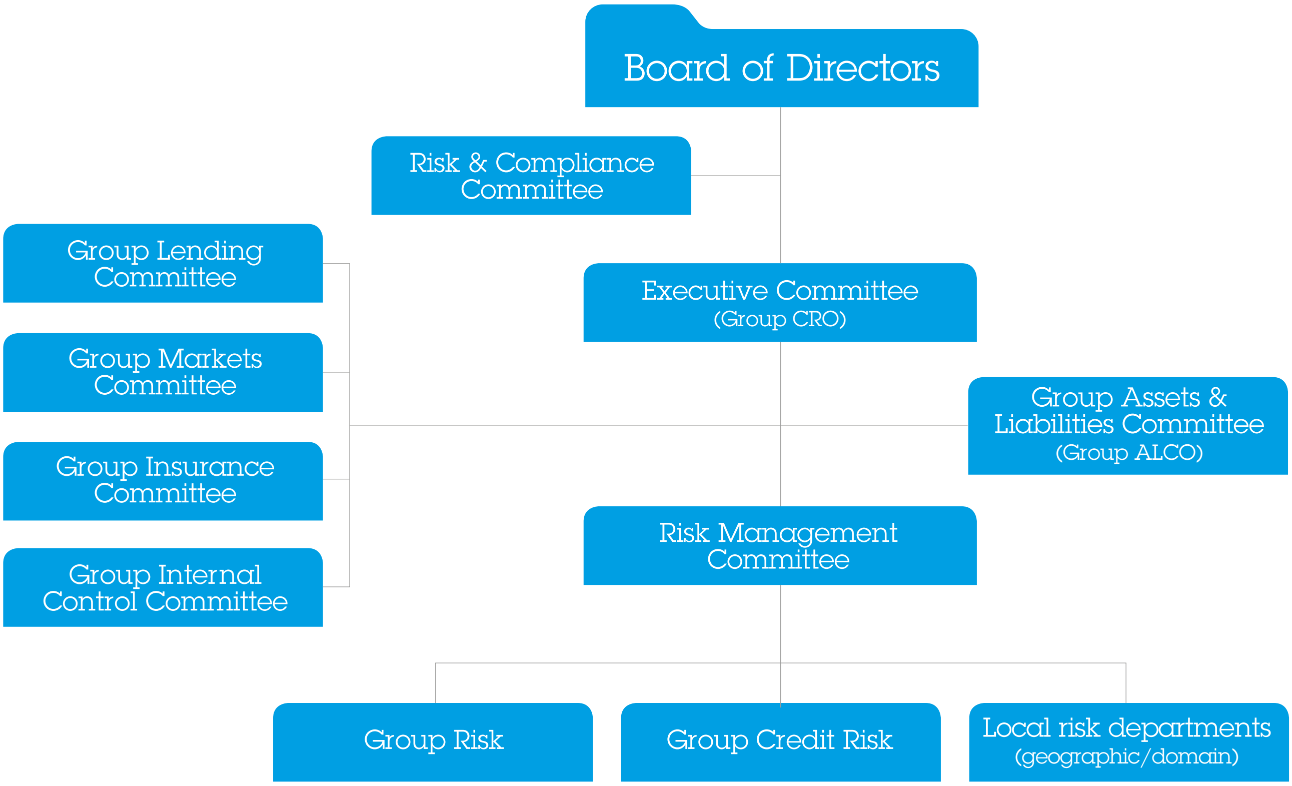
Main elements in our risk governance model:

- The Board of Directors, assisted by the Risk & Compliance Committee (RCC), which decides on and supervises the risk appetite – including the risk strategy – each year. It is also responsible for the development of a sound and consistent group-wide risk culture, based on a full understanding of the risks the group faces and how they are managed, taking into account the group risk appetite.
- An integrated approach centred on the Executive Committee that links risk appetite, strategy and performance goal setting.
- The Risk Management Committee and activity-based risk committees mandated by the Executive Committee.
- Risk-aware business people who act as the first line of defence for conducting sound risk management in the group.
- A single, independent risk function that comprises the Group Chief Risk Officer (Group CRO), local CROs, local risk functions and the group risk function. The risk function acts as (part of) the second line of defence, while Internal Audit is the third line.

Relevant risk management bodies and control functions:

- Executive Committee:
  - makes proposals to the Board of Directors about risk and capital strategy, risk appetite, and the general concept of the risk management framework;
  - decides on the integrated and risk-type-specific risk management frameworks and monitors their implementation throughout the group;
  - allocates capital to activities in order to maximise the risk-adjusted return;
  - acts as the leading risk committee, covering material issues that are channelled via the specific risk committees or the Group Assets & Liabilities Committee (Group ALCO);
  - monitors the group's major risk exposure to ensure conformity with the risk appetite.
- Group ALCO:
  - is a business committee that assists the Executive Committee in the domain of (integrated) balance sheet management at group level. It handles matters related to ALM and liquidity risk.
- Risk committees:
  - The Risk Management Committee supports the Executive Committee in assessing the adequacy of, and compliance with, the KBC Risk Management Framework and defines and implements the vision, mission and strategy for the CRO Services of the KBC group.
  - The activity-based Group Risk Committees (for lending, markets and insurance, respectively) support the Executive Committee in setting and monitoring limits for these activities at group level. Liquidity and ALM issues related to these activities are addressed by the Group ALCO.
  - The Group Internal Control Committee (GICC) supports the Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system.
- In order to strengthen the voice of the risk function and to ensure that the decision-making bodies of the business entities are appropriately challenged on matters of risk management and receive expert advice, KBC has deployed independent Chief Risk Officers (CROs) throughout the group according to a logical segmentation based on entity and/or business unit. Close collaboration with the business is assured since they take part in the local decision-making process and, if necessary, can exercise a veto. Independence of the CROs is achieved through a direct reporting line to the Group CRO.
- Group Risk and Group Credit Risk (known collectively as 'the Group risk function') have a number of responsibilities, including monitoring risks at an overarching group-wide level, developing risk and capital models (while business models are typically developed by business), performing independent validations of all risk and capital models, developing risk frameworks and advising/reporting on issues handled by the Executive Committee and the risk committees. When appropriate, dedicated working groups comprising risk and business-side representatives are set up to deal with emerging risks or unexpected developments in an integrated way (covering all risk types).

Performance is assessed on a yearly basis as part of the Internal Control Statement.



A simplified schematic of our risk governance model is shown above.

More information on risk management can be found in our Risk Report at www.kbc.com, under 'Investor Relations > Reports > risk reports'.

Risk appetite

The overall management responsibility of a financial institution can be defined as managing capital, liquidity, return (income versus costs) and risks, which in particular arise from the special situation of banks and insurers as risk transformers. Taking risks and transforming risks is an integral part – and hence an inevitable consequence of – the business of a financial institution. Therefore, KBC does not aim to eliminate all the risks involved (risk avoidance) but instead looks to identify, control and manage them in order to make optimal use of its available capital (i.e. risk-taking as a means of creating value).

How much risk KBC is prepared to assume and its tolerance for risk is captured in the notion of 'risk appetite'. It is a key instrument in the overall (risk) management function of the KBC group, as it helps us to better understand and manage risks by explicitly expressing – both qualitatively and quantitatively – how much and what kind of risk we want to take.

KBC defines risk appetite as the amount and type of risk that it is able and willing to accept in pursuit of its strategic objectives.

The ability to accept risk (also referred to as risk-taking capacity) is limited both by financial constraints (available capital, liquidity profile, etc.) and non-financial constraints (regulations, laws, etc.), whereas the willingness to accept risk depends on the interests of the various stakeholders (shareholders, creditors, employees, management, regulators, clients, etc.). A key component in defining risk appetite is therefore an understanding of the organisation's key stakeholders and their expectations.

Risk appetite within KBC is set out in a 'risk appetite statement', which is produced at both group and local level. The Risk Appetite Statement (RAS) reflects the view of the Board of Directors and top management on risk taking in general, and on the acceptable level and composition of risks that ensure coherence with the desired return. The statement is built on risk appetite objectives that are directly linked to corporate strategy and provides a qualitative description of the KBC group's playing field. These high level risk appetite objectives are further specified in qualitative and quantitative statements for each of the different risk types. The long-term risk appetite is determined as High (H), Medium (M) or Low (L) based on the metrics and thresholds stipulated in the 'risk appetite underpinning exercise' performed for the main risk types. The risk appetite specification and related thresholds per metric define the long-term upper boundary for KBC. The specific 2018 limits per risk type are consistent with the long-term upper boundary, but can be set lower. The limits are further cascaded down via (primary) limits imposed on the entities.

More information

in this regard is available in KBC's Risk Report at www.kbc.com.


Long-term planning & risk appetite setting
Corporate strategy
Risk appetite objectives
Risk-type specification of H/M/L
Metrics by risk type
H/M/L threshold per metric
Typically, metrics that reflect business as usual (e.g., Expected Loss) and stressed situations (e.g., Stressed Credit Loss, ICAAP/ORSA)
Following year's threshold
Long-term risk appetite linked to one-year limits
Following year's budget within long-term limits

Credit risk

What is it?

Credit risk is the potential negative deviation from the expected value of a financial instrument arising from the non-payment or non-performance by a contracting party (for instance a borrower), due to that party's insolvency, inability or lack of willingness to pay or perform, or to events or measures taken by the political or monetary authorities of a particular country (country risk). Credit risk thus encompasses default risk and country risk, but also includes migration risk, which is the risk for adverse changes in credit ratings.

We manage our credit risk at both transactional and portfolio level. Managing credit risk at the transactional level means that we have sound practices, processes and tools in place to identify and measure the risks before and after accepting individual credit exposures. Limits and delegations are set to determine the maximum credit exposure allowed and the level at which acceptance decisions are taken. Managing the risk at portfolio level encompasses, *inter alia*, periodic measuring and analysing of risk embedded in the consolidated loan and investment portfolios and reporting on it, monitoring limit discipline, conducting stress tests under different scenarios and taking risk mitigating measures.

We have sound acceptance policies and procedures in place for all kinds of credit risk exposure. We are limiting our description below to exposures related to traditional loans to businesses and to lending to individuals, as these account for the largest part of the group's credit risk exposure.

Managing credit risk at transactional level

Lending to individuals (e.g., mortgages) is subject to a standardised process, during which the output of scoring models plays an important role in the acceptance procedure. Lending to businesses is subject to an acceptance process in which relationship management, credit acceptance committees and model-generated output are taken into account.

We review loans to large corporations at least once a year, with the internal rating being updated as a minimum. If ratings are not updated in time, a capital add-on is imposed. Loans to small and medium-sized enterprises and to private individuals are reviewed periodically, with account being taken of any new information that is available (such as arrears, financial data, or a significant change in the risk class). This monthly exercise can trigger a more in-depth review or may result in measures being taken for the client.

Managing credit risk at portfolio level

We also monitor credit risk on a portfolio basis, *inter alia* by means of monthly and/or quarterly reports on the consolidated credit portfolio in order to ensure that lending policy and limits are being respected. In addition, we monitor the largest risk concentrations via periodic and *ad hoc* reports. Limits are in place at borrower/guarantor, issuer or counterparty level, at sector level and for specific activities or geographic areas. Moreover, we perform stress tests on certain types of credit, as well as on the full scope of credit risk.

Whereas some limits are in notional terms, we also use measures such as 'expected loss' and 'loss given default'. Together with 'probability of default' and 'exposure at default', these concepts form the building blocks for calculating the regulatory capital requirements for credit risk, as KBC has opted to use the Internal Ratings Based (IRB) approach. By the end of 2017, the main group entities and some smaller entities had adopted the IRB Advanced approach, apart from CIBANK/ United Bulgarian Bank in Bulgaria (Standardised approach) and ČSOB in Slovakia (IRB Foundation approach). 'Non-material' entities will continue to adopt the Standardised approach.

Risk modelling

For most types of credit risk exposure, monitoring is determined primarily by the *risk class*, with a distinction being made based on the Probability of Default (PD) and the Loss Given Default (LGD). The latter reflects the estimated loss that would be incurred if an obligor defaults.

In order to determine the risk class, we have developed various rating models for measuring how creditworthy borrowers are and for estimating the expected loss of various types of transactions. A number of uniform models throughout the group (models for governments, banks, large companies, etc.) are in place, while others have been designed for specific geographic markets (SMEs, private individuals, etc.) or types of transaction. We use the same internal rating scale throughout the group.

We use the output generated by these models to split the non-defaulted loan portfolio into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk) for the PD. We assign an internal rating ranging from PD 10 to PD 12 to a defaulted obligor. PD class 12 is assigned when either one of the obligor's credit facilities is terminated by the bank, or when a court order is passed instructing repossession of the collateral. PD class 11 groups obligors that are more than 90 days past due (in arrears or overdrawn), but that do not meet PD 12 criteria. PD class 10 is assigned to obligors for which there is reason to believe that they are unlikely to pay (on time), but that do not meet the criteria for classification as PD 11 or PD 12. 'Defaulted' status is fully aligned with the 'non-performing' and 'impaired' statuses. Obligors in PD classes 10, 11 and 12 are therefore referred to as 'defaulted' and 'impaired'. Likewise, 'performing' status is fully aligned with the 'non-defaulted' and 'non-impaired' statuses.

For credit linked to defaulted borrowers in PD classes 10, 11 and 12, we record impairment losses based on an estimate of the net present value of the recoverable amount. This is done on a case-by-case basis, and on a statistical basis for smaller credit facilities. In addition, for non-defaulted credit in PD classes 1 to 9, we record impairment losses on a 'portfolio basis', using a formula based on the Internal Ratings Based (IRB) Advanced models used internally, or an alternative method if a suitable IRB Advanced model is not yet available.

As of 2018, impairment losses will be recorded according to IFRS 9 requirements (calculated on a lifetime expected credit loss (ECL) basis for defaulted borrowers and on a 12-month or lifetime ECL basis for non-defaulted borrowers, depending on whether there has been a credit risk deterioration and a corresponding shift from 'Stage 1' to 'Stage 2'). Specific IFRS 9 models will be used for this purpose.

Credit risk exposure in the banking activities

In the following sections, we take a closer look at the credit risk exposure of the entities of the KBC group.

Credit risk arises in both the banking and insurance activities of the group. Looking at the banking activities first, the main source of credit risk is the loan and investment portfolio. This portfolio has been built up mainly through what can be considered as pure, traditional lending activities. It includes all retail lending such as mortgage loans and consumer loans, all corporate lending such as (committed and uncommitted) working capital credit lines, investment credit, guarantee credit and credit derivatives (protection sold) and all non-government debt securities in the investment books of the group's bank entities. The table excludes other credit risks, such as trading exposure (issuer risk), counterparty risk associated with

2017

154	97%	6%	-0.06%
billion-euro portfolio of outstanding loans	in Europe	in impaired loans	credit cost ratio

interprofessional transactions, international trade finance (documentary credit, etc.) and government bonds. We describe these items separately below.

The loan and investment portfolio as defined in this section differs significantly from 'Loans and advances to customers' in Note 4.1 of the 'Consolidated financial statements' section. For more information, please refer to the 'Glossary of financial ratios and terms'.

Loan and investment portfolio, banking	31-12-2017	31-12-2016
Total loan portfolio (in billions of EUR)		
Amount granted	191	181
Amount outstanding	154	148
Loan portfolio breakdown by business unit (as a % of the portfolio of credit outstanding)[1]		
Belgium	63%	65%
Czech Republic	16%	15%
International Markets	18%	17%
Group Centre	3%	3%
Total	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit outstanding)[1]		
Private individuals	42%	42%
Finance and insurance	5%	6%
Governments	3%	3%
Corporates	50%	49%
Services	12%	12%
Distribution	8%	8%
Real estate	7%	7%
Building and construction	4%	4%
Agriculture, farming, fishing	3%	3%
Automotive	2%	2%
Other[2]	14%	14%
Total	100%	100%
Loan portfolio breakdown by region (as a % of the portfolio of credit outstanding)[1, 6]		
Western Europe	71%	73%
Central and Eastern Europe	26%	23%
North America	1%	2%
Other	2%	2%
Total	100%	100%
Loan portfolio breakdown by risk class (part of the portfolio, as a % of the portfolio of credit outstanding)[1, 3]		
PD 1 (lowest risk, default probability ranging from 0.00% up to, but not including, 0.10%)	29%	30%
PD 2 (0.10% – 0.20%)	9%	9%
PD 3 (0.20% – 0.40%)	18%	17%
PD 4 (0.40% – 0.80%)	15%	14%
PD 5 (0.80% – 1.60%)	12%	12%
PD 6 (1.60% – 3.20%)	8%	9%
PD 7 (3.20% – 6.40%)	4%	5%
PD 8 (6.40% – 12.80%)	2%	2%
PD 9 (highest risk, ≥ 12.80%)	2%	2%
Total	100%	100%

Loan and investment portfolio, banking	31-12-2017	31-12-2016
Impaired loans[4] (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans[5]	9 186	10 583
Specific impairment	4 039	4 874
Portfolio-based impairment (i.e. based on PD 1 to 9)	237	288
Credit cost ratio		
Belgium Business Unit	0.09%	0.12%
Czech Republic Business Unit	0.02%	0.11%
International Markets Business Unit	-0.74%	-0.16%
Ireland	-1.70%	-0.33%
Slovakia	0.16%	0.24%
Hungary	-0.22%	-0.33%
Bulgaria	0.83%	0.32%
Group Centre	0.40%	0.67%
Total	-0.06%	0.09%
Impaired loans ratio		
Belgium Business Unit	2.8%	3.3%
Czech Republic Business Unit	2.4%	2.8%
International Markets Business Unit	19.7%	25.4%
Group Centre	9.8%	8.8%
Total	6.0%	7.2%
Impaired loans that are more than 90 days past due (PD 11 + 12; in millions of EUR or %)		
Impaired loans that are more than 90 days past due	5 242	5 711
Specific impairment for impaired loans that are more than 90 days past due	3 361	3 603
Ratio of impaired loans that are more than 90 days past due		
Belgium Business Unit	1.4%	1.7%
Czech Republic Business Unit	1.6%	1.9%
International Markets Business Unit	11.3%	13.4%
Group Centre	7.3%	5.8%
Total	3.4%	3.9%
Cover ratio [Specific loan loss impairment]/[impaired loans]		
Total	44%	46%
Total (excluding mortgage loans)	54%	54%

The Belgium Business Unit also includes the small network of 11 KBC Bank branches established in the rest of Europe, the US and Southeast Asia. These branches, which focus on activities and clients with links to KBC's core markets, have a total loan portfolio of approximately 6 billion euros.

1 Unaudited figures.

2 Individual sector shares not exceeding 3%.

3 Internal rating scale.

4 Figures differ from those appearing in Note 4.2 of the 'Consolidated financial statements' section, due to differences in scope.

5 Breakdown of year-end figures: the decline of 1 397 million euros between 2016 and 2017 was due to this category of loan decreasing by 393 million euros at the Belgium Business Unit, by 41 million euros at the Czech Republic Business Unit and by 982 million euros at the International Markets Business Unit (1 433 million euros of which in Ireland), and by an increase of 19 million euros at the Group Centre.

6 A more detailed breakdown by country is available in KBC's Quarterly Report – 4Q2017 at www.kbc.com.

We have provided the following additional information for the loan and investment portfolio in Ireland and Bulgaria.

Details for the loan and investment portfolio of KBC Bank Ireland*	**31-12-2017**	**31-12-2016**
Total portfolio (outstanding, in billions of EUR)	12	13
Breakdown by loan type		
Home loans and other loans to private individuals	90%	86%
SME & corporate loans	5%	7%
Real estate investment and real estate development	5%	7%
Breakdown by risk class		
Normal (PD 1–9)	65%	57%
Impaired (PD 10)	18%	22%
Impaired (PD 11+12)	17%	21%
Credit cost ratio	-1.70%	-0.33%
Cover ratio	36%	43%
Details for the loan and investment portfolio of United Bulgarian Bank (as of 2017) and CIBANK*	**31-12-2017**	**31-12-2016**
Total portfolio (outstanding, in billions of EUR)	3.3	0.9
Breakdown by loan type		
Home loans and other loans to private individuals	39%	38%
SME & corporate loans	55%	54%
Real estate investment and real estate development	6%	8%
Breakdown by risk class		
Normal (PD 1–9)	78%	84%
Impaired (PD 10)	3%	3%
Impaired (PD 11+12)	19%	13%
Credit cost ratio	0.83%	0.32%
Cover ratio	57%	41%

* For a definition, see 'Credit risk exposure in the banking activities' (i.e. excluding *inter alia* government bonds).

Forbearance measures

In order to avoid a situation where an obligor facing financial difficulties ends up defaulting, we can decide to renegotiate its loans and grant forbearance measures in accordance with internal policy guidelines.

Forbearance measures consist of concessions towards a borrower facing, or about to face, financial difficulties. They may involve:

- lowering or postponing interest or fee payments;
- extending the term of the loan to ease the repayment schedule;
- capitalising arrears;
- declaring a moratorium (temporary principal and/or interest payment holidays);
- providing debt forgiveness.

After a forbearance measure has been decided upon, a forbearance tag is attached to the file in the credit systems for identification, monitoring and reporting purposes.

A client with a forborne loan will in principle be assigned a PD class that is higher than the one it had before the forbearance measure was granted, given the higher risk of the client. In accordance with IFRS 9 requirements and with effect from 1 January 2018, a facility tagged as 'forborne' will always be allocated to 'Stage 2' (please note that this only applies to non-defaulted clients, since defaulted clients are always classified in 'Stage 3').

If a client/facility has been assigned 'defaulted' status (before or at the time forbearance measures are granted), the client/forborne facility (depending on whether defaulted status is assigned at client or facility level) must remain defaulted for at least one year. Only upon strict conditions can the client/

facility be reclassified as 'non-defaulted'. A forborne facility with a 'non-defaulted' status will be tagged as 'forborne' for at least two years after the forbearance measure has been granted, or after the client/facility becomes non-defaulted, and can only be removed when strict extra criteria have been met (non-defaulted, regular payments, etc.).

As forbearance measures constitute an objective indicator (i.e. impairment trigger) that requires assessing whether impairment is needed, all forbearance measures are subject to an impairment test.

At the end of 2017, forborne loans accounted for some 4% of our total loan portfolio. Compared to the end of 2016, the forborne loan exposure decreased by 17.5%, mainly resulting from cures, and to a lesser extent from repayments and write-offs. In Ireland, this type of exposure fell by 24.8%.

On-balance-sheet exposures with forbearance measures (in millions of EUR) – **movements between opening and closing balances**

Gross carrying value	Opening balance	Movements					Closing balance
		Loans which have become forborne	Loans which are no longer considered to be forborne	Repayments	Write-offs	Other[1]	
2017							
Total	7 083	954	-1 677	-375	-478	335	5 841
Of which KBC Bank Ireland	5 083	167	-787	-220	-419	0	3 824
2016							
Total	7 794	1 379	-1 054	-861	-192	17	7 083
Of which KBC Bank Ireland	5 383	320	-201	-296	-123	0	5 083
Impairment	**Opening balance**	**Movements**					**Closing balance**
		Existing impairment on loans which have become forborne	Decrease in impairment because loans are no longer forborne	Increase in impairment on forborne loans	Decrease in impairment on forborne loans	Other[2]	
2017							
Total	1 967	75	-586	222	-284	28	1 422
Of which KBC Bank Ireland	1 511	0	-537	92	-227	0	838
2016							
Total	2 203	213	-427	292	-276	-38	1 967
Of which KBC Bank Ireland	1 607	0	-134	228	-190	0	1 511

1 Includes foreign-exchange effects for loans granted in currencies other than the local currency, changes in the drawn/undrawn portion of facilities, increases in the gross carrying value of existing forborne loans and additions or disposals through business combinations.

2 Includes the use of impairment in respect of write-offs and additions or disposals through business combinations.

Forborne loans	As a % of the outstanding portfolio	Breakdown by PD class (as a % of the entity's portfolio of forborne loans)			
		PD 1–8	PD 9	PD 10 (impaired, less than 90 days past due)	PD 11–12 (impaired, 90 days and more past due)
31-12-2017					
Total	4%	9%	13%	49%	28%
Of which KBC Bank Ireland	32%	0%	18%	55%	27%
By client segment[1]					
Private individuals[2]	6%	8%	18%	53%	21%
SMEs	1%	25%	11%	32%	32%
Corporations[3]	3%	8%	4%	47%	42%
31-12-2016					
Total	5%	9%	13%	52%	26%
Of which KBC Bank Ireland	39%	1%	16%	56%	27%
By client segment[1]					
Private individuals[2]	8%	9%	18%	54%	19%
SMEs	1%	32%	10%	36%	21%
Corporations[3]	4%	4%	5%	50%	41%

1 Unaudited.
2 99% of the forborne loans total relates to mortgage loans in 2017 (99% in 2016).
3 47% of the forborne loans relates to commercial real estate loans in 2017 (47% in 2016).

Other credit risks in the banking activities

The main sources of other credit risk in the banking activities are:

Short-term commercial transactions. This involves export or import finance (documentary credit, pre-export and post-import finance, etc.) and mainly entails exposure to financial institutions. We manage risks associated with this activity by setting limits per financial institution and per country or group of countries.

Trading book securities. These securities carry an issuer risk (potential loss on default by the issuer). We measure exposure to this type of risk on the basis of the market value of the securities. Issuer risk is curtailed through the use of limits both per issuer and per rating category.

Interprofessional transactions (deposits with professional counterparties and derivatives trading). These transactions result in counterparty risk. The amounts shown in the table are the group's pre-settlement risks, measured as the sum of the (positive) current replacement value ('mark-to-market' value) of a transaction and the applicable add-on. Risks are curtailed by setting limits per counterparty. We also use close-out netting and collateral techniques. Financial collateral is only taken into account if the assets concerned are considered eligible risk-mitigants for regulatory capital calculations.

Other credit exposure, banking (in billions of EUR)	31-12-2017	31-12-2016
Short-term commercial transactions	3.0	3.3
Issuer risk[1]	0.2	0.1
Counterparty risk in interprofessional transactions[2]	8.3	9.6

1 Excluding a nominative list of central governments, and all exposure to EU institutions and multilateral development banks.
2 After deduction of collateral received and netting benefits.

Government securities in the investment portfolio of banking entities. We measure exposure to governments in terms of nominal value and book value. Such exposure relates mainly to EU states (particularly Belgium, France and the Czech Republic). We have put in place limiting caps for both non-core and core country sovereign bond exposure. Details on the exposure of the combined banking and insurance activities to government bonds are provided in a separate section below.

Credit risk exposure in the insurance activities

For the insurance activities, credit exposure exists primarily in the investment portfolio (towards issuers of debt instruments) and towards reinsurance companies. We have guidelines in place for the purpose of controlling credit risk within the investment portfolio with regard to, for instance, portfolio composition and ratings.

Investment portfolio of KBC group insurance entities

(in millions of EUR, market value)[1]	31-12-2017	31-12-2016
Per balance sheet item		
Securities	20 697	22 211
Bonds and other fixed-income securities	19 259	20 890
Held to maturity	6 140	6 550
Available for sale	13 064	14 286
At fair value through profit or loss and held for trading	2	5
As loans and receivables	53	48
Shares and other variable-yield securities	1 437	1 321
Available for sale	1 434	1 317
At fair value through profit or loss and held for trading	4	3
Other	0	0
Property and equipment and investment property	352	332
Investment contracts, unit-linked[2]	14 421	13 693
Other	2 246	1 831
Total	37 715	38 066
Details for bonds and other fixed-income securities		
By external rating[3]		
Investment grade	98%	96%
Non-investment grade	2%	4%
Unrated	0%	0%
By sector[3]		
Governments	63%	61%
Financial[4]	23%	25%
Other	14%	14%
By remaining term to maturity[3]		
Not more than 1 year	11%	12%
Between 1 and 3 years	19%	19%
Between 3 and 5 years	14%	15%
Between 5 and 10 years	31%	31%
More than 10 years	25%	23%

1 The total carrying value amounted to 36 540 million euros at year-end 2017 and to 36 619 million euros at year-end 2016.

2 Representing the assets side of unit-linked (class 23) products and completely balanced on the liabilities side. No credit risk involved for KBC Insurance.

3 Excluding investments for unit-linked life insurance. In certain cases, based on extrapolations and estimates.

4 Including covered bonds and non-bank financial companies.

We are also exposed to a credit risk in respect of (re)insurance companies, since they could default on their commitments under (re)insurance contracts concluded with us. We measure this particular type of credit risk by means of a nominal approach (the maximum loss) and expected loss, among other techniques. Name concentration limits apply. PD – and by extension – expected loss is calculated using internal or external ratings. We determine the exposure at default by adding up the net loss reserves and the premiums, and the loss given default percentage is fixed at 50%.

Credit exposure to (re)insurance companies by risk class[1]: Exposure at Default (EAD) and Expected Loss (EL)[2] (in millions of EUR)	**EAD 2017**	**EL 2017**	**EAD 2016**	**EL 2016**
AAA up to and including A-	191	0.08	186	0.08
BBB+ up to and including BB-	14	0.02	12	0.02
Below BB-	0	0	0	0
Unrated	2	0.04	2	0.04
Total	**206**	**0.13**	**200**	**0.13**

1 Based on internal ratings.
2 EAD figures are audited, whereas EL figures are unaudited.

Exposure to sovereign bonds (banking and insurance portfolios combined)

We hold a significant portfolio of government bonds, primarily as a result of our considerable excess liquidity position and for the reinvestment of insurance reserves into fixed instruments. A breakdown per country, together with the economic impact of a 100-basis-point upward shift in the spread, is provided under 'Credit spread risk' in the 'Market risk in non-trading activities' section.

Structured credit exposure (banking and insurance portfolios)

At 1.0 billion euros, the total net portfolio (i.e. excluding de-risked positions) of structured credit products (consisting primarily of European residential mortgage-backed securities (RMBS)) was down 0.4 billion euros on its level at year-end 2016, due to redemptions. No new investments have been made in 2017.

Regulatory capital

Under the phased-in approach, the regulatory capital requirements for credit risk increased from 5 944 million euros at the end of 2016 to 6 213 million euros at the end of 2017. Under the fully loaded approach, these requirements increased from 6 017 million euros at the end of 2016 to 6 248 million euros at the end of 2017. This increase in weighted credit risks during 2017 was driven largely by the acquisition of United Bulgarian Bank. For more details, please see the 'Credit risk' section in KBC's Risk Report, which is available at www.kbc.com.

Market risk in trading activities

What is it?

We define market risk as the potential negative deviation from the expected value of a financial instrument (or portfolio of such instruments) due to changes in the level or in the volatility of market prices, e.g., interest rates, exchange rates and equity or commodity prices. The interest rate, foreign exchange and equity risks of the non-trading positions in the banking book and of the insurer's positions are all included in ALM exposure.

We are exposed to market risk via the trading books of our dealing rooms in Belgium, the Czech Republic, Slovakia and Hungary, as well as via a minor presence in the UK and Asia. Limited trading activities are also carried out at the recently acquired United Bulgarian Bank (UBB) in Bulgaria (regulatory capital charges for market risk amounted to 6 million euros at the end of 2017). The dealing rooms, with Belgium accounting for the lion's share of the limits and risks, focus on trading in interest rate instruments, while activity on the foreign exchange markets has traditionally been limited. All dealing rooms focus on providing customer service in money and capital market products and on funding the bank activities.

As regards the legacy CDO business, the remaining small positions were completely closed out in April 2017, which resulted in the definitive and complete closure of this business line. The reverse mortgages and insurance derivatives legacy business lines have been transferred from KBC Investments Limited to KBC Bank NV, as only a small quantity of contracts remain (accounting for about 1% of the total regulatory capital charges for market risk set out in the table at the end of this section). The fund derivatives legacy business line has been almost completely wound down, which means that KBC Investments Limited will be dissolved in the near future.

Managing market risk

The objective of our market risk management is to measure, report and advise on the market risk of the aggregate trading position at group level, with due account being taken of the main risk factors and specific risk, to ensure that activities are consistent with the group's risk appetite. This function includes pro-active and re-active aspects. In its pro-active role, the risk function analyses the results of value and risk calculations, market developments, industry trends, new modelling insights, changes in regulations, etc. and draws up advice for the Group Markets Committee (GMC) with a view to changing or refining measurement methods, limits, hedging methods or positions. The re-active role involves compiling the necessary external and internal reports, issuing advice on business proposals and monitoring and advising on the risks attached to the positions.

We monitor and manage the risks of the positions by means of:

- a risk limit framework consisting of a hierarchy of limits and early warning indicators;
- a comprehensive stress test framework;
- day-to-day and month-to-day stop loss limits at both desk and trader level;
- internal assessments;
- a large variety of controls (including parameter reviews, daily reconciliation processes, and analyses of the material impact of proxies).

As regards the risk framework, the principal tool we use for measuring and monitoring market risk exposures in the trading book is the Historical Value-at-Risk (HVaR) method. VaR is defined as an estimate of the amount of economic value that might be lost on a given portfolio due to market risk over a defined holding period, with a given confidence level. The measurement takes account of the market risk of the current portfolio. We use the historical simulation method, observing the relevant CRD IV standards (99% one-sided confidence interval, ten-day holding period, historical data going back at least 250 working days, for which – after analysis – we choose to use 500 working days of historical data). This means that the HVaR used for managing market exposure uses the same holding period and confidence level as the HVaR used for the approved internal models referred to in the 'Regulatory capital' sub-section below. The HVaR method does not rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years. The HVaR is calculated and monitored at desk and entity level, as well as at KBC group level.

As with any model, there are a certain number of uncertainties/deficiencies. However, the model is subject to regular review and improvements. During 2017, several minor improvements were implemented to increase the accuracy of the HVaR model calculations, but the total impact on the HVaR result was limited. The modelling department also devoted its attention to preparing for the future regulatory demands and quality standards that will be necessary once the requirements stipulated in the *Fundamental Review of the Trading Book* come into effect.

Certain composite and/or illiquid instruments that cannot be modelled in an HVaR context are subject to nominal and/or scenario limits.

We monitor risk concentrations via a series of secondary limits, including equity concentration limits, FX concentration limits and basis-point-value limits for interest rate risk and basis risk. The specific risk associated with a particular issuer or country is also subject to concentration limits. There are also scenario analysis limits and – where deemed appropriate – stress scenario limits involving multiple shifts of underlying risk factors. In addition, secondary limits are in place to monitor the risks inherent in options (the so-called 'greeks').

In addition to the risk limit framework, we conduct extensive stress tests. Whereas the HVaR model captures potential losses under normal market conditions, stress tests show the impact of exceptional circumstances and events with a low degree of probability. The historical and hypothetical stress-test scenarios incorporate both market risk and the liquidity aspects of disruptions in the market. During 2017, the Group Markets Committee (GMC) approved the addition of an interest rate volatility factor to the existing hypothetical interest rate stress tests, as well as new hypothetical FX stress tests to give a better insight into currency depegging scenarios. These stress tests have been added to GMC reporting and are discussed – together with the other stress tests – at GMC meetings to enable the members to gain an insight into potential weaknesses in the positions held by the group. For more details about stress testing, please refer to the relevant sub-section of the 'Market risk' section in KBC's Risk Report, which is available at www.kbc.com.

One of the building blocks of sound risk management is prudent valuation. We perform a daily independent middle-office valuation of front-office positions. Whenever the independent nature or the reliability of the valuation process is not guaranteed, we perform a monthly parameter review. Where applicable, we make adjustments to the fair value to reflect close-out costs, mark-to-model-related valuation adjustments, counterparty risk and liquidity risk.

In addition to the parameter review, we perform periodic risk controls, including all checks that do not entail parameter or P&L testing as carried out in the parameter review, but that are necessary for sound risk management. Moreover, we set up a business case for every new product or activity in order to analyse the risks and the way in which they will be managed.

Risk analysis and quantification

The table below shows KBC's Historical Value-at-Risk model (HVaR; 99% confidence interval, ten-day holding period, historical simulation) used for the linear and non-linear exposure of all the dealing rooms of the KBC group.

Market risk (HVaR) (in millions of EUR)

Holding period: 10 days	**2017**	**2016**
Average for 1Q	19	16
Average for 2Q	26	15
Average for 3Q	27	15
Average for 4Q	22	14
As at 31 December	18	20
Maximum in year	31	20
Minimum in year	15	11

A breakdown of the risk factors (averaged) in KBC's HVaR model is shown in the table below. Please note that the equity risk stems from the European equity derivatives business, and also from KBC Securities.

Breakdown by risk factor of trading HVaR for the KBC group (in millions of EUR)	**Average for 2017**	**Average for 2016**
Interest rate risk	23.8	15.2
FX risk	2.2	2.0
FX options risk	0.9	1.1
Equity risk	1.0	1.9
Diversification effect	-4.2	-4.8
Total HVaR	23.6	15.3

We test the reliability of the VaR model daily via a back-test, which compares the one-day VaR figure to daily P&L figures. This is done both at the top level and at the level of the different entities and desks. For more details about back-testing, please refer to the relevant sub-section of the 'Market risk' section in KBC's Risk Report, which is available at www.kbc.com.

We have provided an overview of the derivative products under Note 4.10 in the 'Consolidated financial statements' section.

Regulatory capital

As shown in the table, approximately 90% of the regulatory capital requirements are calculated using Approved Internal Models (AIMs). In previous years, this used to be the sum of the regulatory capital requirements calculated using the AIMs of KBC Bank NV, KBC Investments Limited – both models were authorised by the Belgian regulator – and ČSOB in the Czech Republic, whose model was authorised by the Czech Republic regulator. In June 2017, the ECB approved the integration of the European equity derivatives trading activities (the only trading activity in KBC Investments Limited's AIM) into KBC Bank's AIM, thus resulting in two AIMs instead of three (cutting costs and reducing complexity). The two AIMs are also used for the calculation of Stressed VaR (SVaR), which is one of the CRD III Regulatory Capital charges that entered into effect at year-end 2011. The calculation of an SVaR measure is based on the normal VaR calculations and follows the same methodological assumptions, but is constructed as if the relevant market factors were experiencing a period of stress. The period of stress is calibrated at least once a year by determining which 250-day period between 2006 and the (then) present day produces the severest losses for the relevant positions.

The resulting capital requirements for trading risk at year-ends 2016 and 2017 are shown in the table below. It shows the regulatory capital requirements by risk type, as assessed by the internal model. The regulatory capital requirements for the trading risk of local KBC entities (where – for reasons of materiality – approval was not sought from the regulator to use an internal model for capital calculations), as well as the business lines not included in the VaR calculations, are measured according to the Standardised approach and likewise shown by risk type.

Trading regulatory capital requirements by risk type (in millions of EUR)		Interest rate risk	Equity risk	FX risk	Commo-dity risk	Resecuri-tisation	Total
31-12-2017							
Market risks assessed by internal model	HVaR SVaR	77 129	3 7	5 14	– –	–	235
Market risks assessed by the Standardised approach		18	6	9	0	0	33
Total		225	16	28	0	0	269
31-12-2016							
Market risks assessed by internal model	HVaR SVaR	57 74	2 2	7 14	– –	–	156
Market risks assessed by the Standardised approach		18	4	13	0	1	37
Total		150	8	34	0	1	193

The total capital requirement at year-end 2017 was 76 million euros higher than a year earlier. Almost all of the increase was due to the higher, internal model-based capital requirements for ČSOB. Rather than position increases, most of the increase was due to more volatile scenarios in the HVaR and SVaR windows used for calculating risk weighted asset requirements. The capital requirements assessed by the Standardised approach were more stable, with the FX risk decreasing as a result of the HVaR model being refined in 2017, which enabled all trading book FX and FX options risks to be captured by the HVaR model. For more details, please see the 'Market risk' section in KBC's Risk Report, which is available at www.kbc.com.

Non-financial risks

Operational risk

What is it?

Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems, human error or sudden external events, whether man-made or natural. Operational risks include non-financial risks such as information and compliance risks, but exclude business, strategic and reputational risks.

Managing operational risk
We have a single, global framework for managing operational risk across the entire group.

The Group risk function is primarily responsible for defining the operational risk management framework. The development and implementation of this framework is supported by an extensive operational risk governance model covering all entities of the group.

The main tasks of the Competence Centre for Operational Risk are to:

- plan and perform independent challenges of internal controls on behalf of senior management;
- provide oversight and reasonable assurance on the effectiveness of controls executed to reduce operational risk;
- inform senior management and oversight committees on the operational risk profile;
- define the operational risk management framework and approach for the group;
- create an environment where risk specialists (in various areas, including information risk management, business continuity and disaster recovery, compliance, anti-fraud, legal, tax and accounting matters) can work together (setting priorities, using the same language and tools, uniform reporting, etc.). It is assisted by the local risk management units, which are likewise independent of the business.

The building blocks for managing operational risks

Since 2011, specific attention has been given to the structured set-up of process-based Group Key Controls and Zero Tolerances (which are non-negotiable). These top-down basic control objectives are used to mitigate key and killer risks inherent in the processes of KBC entities. As such, they are an essential building block of both the operational risk management framework and the internal control system. The current set of Group Key Controls covers the complete process universe of the group. Structural risk-based review cycles are installed to manage the process universe, close gaps, eliminate overlap and optimise group-wide risks and controls. Besides this minimum level of controls, additional key controls are operational in the entities for managing other local risks or strengthening the control environment.

The business and (local) control functions assess the Group Key Controls. The risk self-assessments are consolidated at the Group Risk function and ensure that there is a consistent relationship between (i) processes, (ii) risks, (iii) control activities and (iv) assessment scores. A group-wide tool has been put in place to document, assess and report on the internal control environment in all material entities and processes, and to benchmark across entities. It includes all operational risk information across the business, risk, compliance and audit functions.

In line with the other risk types, a number of group-wide building blocks are defined to ensure proper management of operational risks:

- Risk identification: identifying operational risks involves following up legislation, as well as using the New and Active Product Process, risk scans, key risk indicators, deep dives and risk signals.
- Risk measurement: as operational risk is embedded in all aspects of the organisation, group measurement standards are in place to support quantification of the risk profile of an entity, process and individual operational risks within the process. A group-wide uniform scale is used for assessing the degree of implementation of individual operational controls. Single or aggregated loss events are captured and measured for any failing or non-existent control.
- Setting and cascading risk appetite: the risk appetite for operational risk is set in line with the overall requirements as defined in our overarching risk management framework.
  - Reporting: the quality of the internal control environment and related risk exposure is reported to KBC's senior management via a management dashboard and to the National Bank of Belgium and the FSMA via the annual Internal Control Statement.
  - Risk response and follow-up: a uniform approach, strongly based on first-line of defence accountability and challenges by the second and third lines of defence, is in place with risk-based follow up at both local and group level.
- Stress testing: an annual stress test is performed to assess the adequacy of pillar 1 operational risk capital.

Regulatory capital requirements

We use the Standardised approach for operational risk under Basel III. Operational risk capital at KBC group level totalled 812 million euros at the end of 2016 and 876 million euros at the end of 2017. The increase was due mainly to the acquisition of United Bulgarian Bank.

Additional focus on information risk management

The Group Competence Centre For Information Risk Management (IRM) focuses on information security and IT-related risks, especially risks caused by cybercrime.

Information Risk Management, including the Group Information Security Officer function, has been fully embedded in the Group Competence Centre, under the Senior General Manager of Group Risk (the second line of defence), thus assuring independent challenges and opinion. It focuses on information risks, such as information security, cybercrime, operational risks for IT, vendors and third parties, the cloud, etc. It shapes the information risk framework, provides oversight, enables risk governance and helps the group's entities to strengthen their risk capabilities.

Reputational risk

What is it?

Reputational risk is the risk arising from the negative perception on the part of clients, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a financial institution's ability to maintain existing, or establish new business relationships and to have continued access to sources of funding (for instance, through the interbank or securitisation markets).

Reputational risk is mostly a secondary or derivative risk since it is usually connected to and will materialise together with another risk.

The Reputational Risk Management Framework is in line with the overarching KBC Risk Management Framework. The pro-active and re-active management of reputational risk is the responsibility of the business, supported by many specialist units (including Group Communication and Group Compliance).

Under the pillar 2 approach to capital, the impact of reputational risk on the current business is covered in the first place by the capital charge for primary risks (including credit or operational risk).

Business and strategic risks

What is it?

Business risk is the risk arising from changes in external factors (the macroeconomic environment, regulations, client behaviour, competitive landscape, socio-demographic environment, etc.) that impact the demand for and/or profitability of our products and services. Strategic risk is the risk caused by not taking a strategic decision, by taking a strategic decision that does not have the intended effect or by not adequately implementing strategic decisions.

The world is constantly changing. As KBC pursues market opportunities, it must also prepare for potential risks arising from changing client behaviour, the quickly evolving competitive landscape, as well as from climate change and broader natural capital depletion. The latter are considered significant new game changers not only for banks, but also their clients. Consequently, emerging business risks are regularly screened and new ones actively scanned and analysed.

Business and strategic risks are assessed as part of the strategic planning process, starting with a structured risk scan that identifies the top financial and non-financial risks. Exposure to the identified business and strategic risks is monitored on an ongoing basis. Besides the risk scan, business and strategic risks are continually monitored by means of risk signals being reported to top management. In addition, these risks are discussed during the aligned planning process and are quantified under different stress test scenarios and long-term earnings assessments.

Under the pillar 2 approach to capital, business risk is incorporated by performing a one-year stress test on profit or loss.

As far as emerging climate-related risks are concerned, KBC is actively engaged in the transition to a low-carbon economy. Among the climate-related risks for a bank-insurer are the ability to respond to changing product preferences of clients, reporting and stakeholder pressure, exposure to litigation, the impact of more extreme weather conditions on the insurance business and changing legislation.

We already disclose climate-related issues under the *Carbon Disclosure Project* and have a good oversight of the impact of our operations on climate. We have strict policies in place to limit the environmental impact of our lending, investment and insurance activities. An even better understanding of our exposure to climate-related risks will be gained when a project on sustainable finance is launched in 2018.

Information on legal disputes is provided in Note 5.7 of the 'Consolidated financial statements' section.

Market risk in non-trading activities

What is it?

The process of managing our structural exposure to market risks (including interest rate risk, equity risk, real estate risk, foreign exchange risk and inflation risk) is also known as Asset/Liability Management (ALM).
'Structural exposure' encompasses all exposure inherent in our commercial activity or in our long-term positions (banking and insurance). Trading activities are consequently not included. Structural exposure can also be described as a combination of:

- mismatches in the banking activities linked to the branch network's acquisition of working funds and the use of those funds (via lending, among other things);
- mismatches in the insurance activities between liabilities in the non-life and life businesses and the cover for these liabilities present in the investment portfolios held for this purpose;
- the risks associated with holding an investment portfolio for the purpose of reinvesting shareholders' equity (the so-called strategic position);
- the structural currency exposure stemming from the activities abroad (investments in foreign currency, results posted at branches or subsidiaries abroad, foreign exchange risk linked to the currency mismatch between the insurer's liabilities and its investments).

Managing market risk in non-trading activities

Management of the ALM risk strategy at KBC is the responsibility of the Group Executive Committee, assisted by the Group ALCO, which has representatives from both the business side and the risk function.

Managing the ALM risk on a daily basis starts with risk awareness at Group Treasury and the local treasury functions. The treasury departments measure and manage interest rate risk on a playing field defined by the risk appetite. They take into account measurement of prepayment and other option risks in KBC's banking book, and manage a balanced investment portfolio. KBC's ALM limits are approved at two levels. Primary limits for interest rate risk, equity risk, and real estate risk for the consolidated entities are approved by the Board of Directors. Secondary limits for interest rate risk, equity risk, real estate risk and foreign exchange risk are approved for each entity by the Executive Committee. Together this forms the playing field for KBC's solid first line of defence for ALM risk.

KBC's second line of defence is the responsibility of Group Risk and the local risk departments. Their main task is to measure ALM risks and flag current and future risk positions. A common rulebook and shared group measurement infrastructure ensures that these risks are measured consistently throughout the group. The ALM Risk Rulebook has been drawn up by Group Risk.

The main building blocks of KBC's ALM Risk Management Framework are:

- a broad range of risk measurement methods such as Basis-Point-Value (BPV), gap analysis and economic sensitivities;
- net interest income simulations performed under a variety of market scenarios. Simulations over a multi-year period are used in budgeting and risk processes;
- capital sensitivities arising from banking book positions that impact available regulatory capital (e.g., available-for-sale bonds);
- stress testing and sensitivity analysis.

Interest rate risk

The main technique used to measure interest rate risks is the 10 BPV method, which measures the extent to which the value of the portfolio would change if interest rates were to go up by ten basis points across the entire swap curve (negative figures indicate a decrease in the value of the portfolio). We also use other techniques such as gap analysis, the duration approach, scenario analysis and stress testing (both from a regulatory capital perspective and from a net income perspective).

Impact of a parallel 10-basis-point increase in the swap[2] curve for the KBC group
(in millions of EUR)

	Impact on value[1] 2017	2016
Banking	-76	-83
Insurance	12	5
Total	-64	-79

1 Full market value, regardless of accounting classification or impairment rules.
2 In accordance with changing market standards, sensitivity figures are based on a risk-free curve (swap curve).

We manage the ALM interest rate positions of the banking entities via a system of market-oriented internal pricing for products with a fixed maturity date, and via a replicating portfolio technique for products without a fixed maturity date (e.g., current and savings accounts).

The bank takes interest rate positions mainly through government bonds, with a view to acquiring interest income, both in a bond portfolio used for reinvesting equity and in a bond portfolio financed with short-term funds. The table shows the bank's exposure to interest rate risk in terms of 10 BPV.

Swap BPV (10 basis points) of the ALM book, banking activities*
(in millions of EUR)

	2017	2016
Average for 1Q	-79	-24
Average for 2Q	-74	-35
Average for 3Q	-73	-50
Average for 4Q	-76	-83
As at 31 December	-76	-83
Maximum in year	-79	-83
Minimum in year	-73	-24

* Unaudited figures, except for those 'As at 31 December'.

In line with the Basel guidelines, we conduct a 200-basis-point stress test at regular intervals. It sets off the total interest rate risk in the banking book (given a 2% parallel shift in interest rates) against total capital and reserves. For the banking book at KBC group level, this risk came to 1.97% of total capital and reserves at year-end 2017. This is well below the 20% threshold, which is monitored by the National Bank of Belgium.

The following table shows the interest sensitivity gap of the ALM banking book. In order to determine the sensitivity gap, we break down the carrying value of assets (positive amount) and liabilities (negative amount) according to either the contractual repricing date or the maturity date, whichever is earlier, in order to obtain the length of time for which interest rates are fixed. We include derivative financial instruments, mainly to reduce exposure to interest rate movements, on the basis of their notional amount and repricing date.

Interest sensitivity gap of the ALM book (including derivatives), banking activities
(in millions of EUR)

	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2017	-624	-7 114	4 165	5 656	4 540	2 120	-8 743	0
31-12-2016	-3 218	-2 698	7 941	6 631	7 421	2 780	-18 856	0

The interest sensitivity gap shows our overall long position in interest rate risk. Generally, assets reprice over a longer term than liabilities, which means that KBC's net interest income benefits from a normal yield curve. The economic value of the KBC group is sensitive primarily to movements at the long-term end of the yield curve.

An analysis of net interest income is performed by measuring the impact of a one percent upward shock to interest rates over a one-year period, assuming a constant balance sheet. For the banking activities, the analysis shows that net interest income would remain under pressure over the next year due to the low rate environment. If rates increased by 1%, we could expect net interest income to improve by between 1.5% and 2%.

Where the group's insurance activities are concerned, the fixed-income investments for the non-life reserves are invested with the aim of matching the projected payout patterns for claims, based on extensive actuarial analysis.

The non-unit-linked life activities (class 21) combine a guaranteed interest rate with a discretionary participation feature (DPF) fixed by the insurer. The main risks to which the insurer is exposed as a result of such activities are a low-interest-rate risk (the risk that return on investments will drop below the guaranteed level) and a risk that the investment return will not be sufficient to give customers a competitive profit-sharing rate. The risk of low interest rates is managed via a cashflow-matching policy, which is applied to that portion of the life insurance portfolios covered by fixed-income securities. Unit-linked life insurance investments (class 23) are not dealt with here, since this activity does not entail any market risk for KBC.

In the table below, we have summarised the exposure to interest rate risk in our life insurance activities. The life insurance assets and liabilities relating to business offering guaranteed rates are grouped according to the expected timing of cashflows.

Expected cashflows (not discounted), life insurance activities (in millions of EUR)	**0–5 years**	**5–10 years**	**10–15 years**	**15–20 years**	**> 20 years**	**Total**
31-12-2017						
Fixed-income assets backing liabilities, guaranteed component	8 118	4 943	2 548	1 766	1 079	18 453
Liabilities, guaranteed component	7 675	3 800	2 385	1 799	2 841	18 500
Difference in expected cashflows	443	1 143	163	-33	-1 763	-47
Mean duration of assets						6.57 years
Mean duration of liabilities						7.92 years
31-12-2016						
Fixed-income assets backing liabilities, guaranteed component	9 248	5 097	2 340	1 560	1 147	19 391
Liabilities, guaranteed component	8 832	3 836	2 316	1 767	2 818	19 570
Difference in expected cashflows	416	1 260	24	-207	-1 672	-179
Mean duration of assets						6.50 years
Mean duration of liabilities						7.90 years

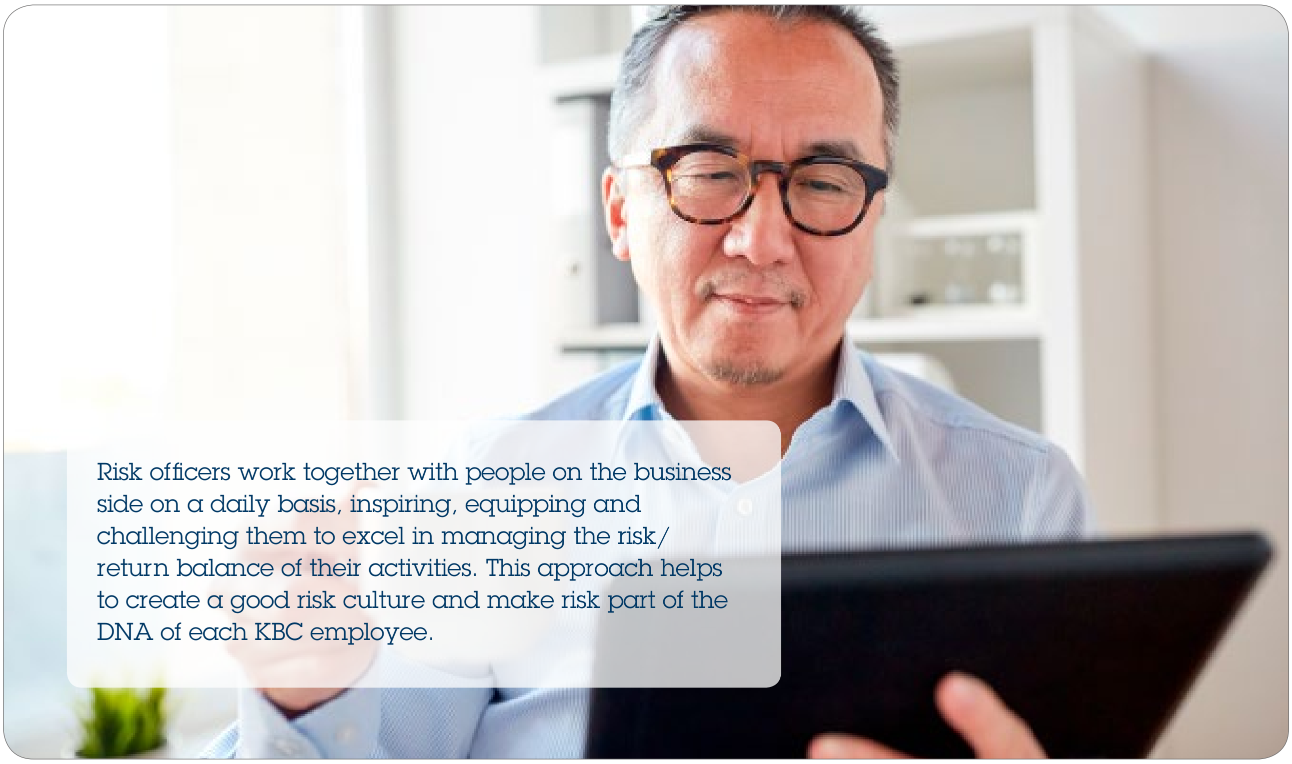
As mentioned above, the main interest rate risk for the insurer is a downside one. We adopt a liability driven ALM approach focused on mitigating the interest rate risk in accordance with KBC's risk appetite. For the remaining interest rate risk, we adhere to a policy that takes into account the possible negative consequences of a sustained decline in interest rates, and have built up adequate supplementary reserves.

Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities	31-12-2017	31-12-2016
5.00% and higher[1]	3%	2%
More than 4.25% up to and including 4.99%	9%	9%
More than 3.50% up to and including 4.25%	5%	5%
More than 3.00% up to and including 3.50%	10%	9%
More than 2.50% up to and including 3.00%	10%	19%
2.50% and lower[2]	60%	52%
0.00%	2%	2%
Total	100%	100%

1 Contracts in Central and Eastern Europe.
2 Starting from 2016, future returns on specific insurance contracts under Belgian law have been indexed to the market (with a threshold at 1.75%).

Credit spread risk

We manage the credit spread risk for, *inter alia*, the sovereign portfolio by monitoring the extent to which the value of the sovereign bonds would change if credit spreads were to go up by 100 basis points across the entire curve. This economic sensitivity is illustrated in the table below, together with a breakdown per country.



Exposure to sovereign bonds at year-end 2017, carrying value[1] (in millions of EUR)

Total (by portfolio)

	Available for sale	Held to maturity	Designated at fair value through profit or loss	Loans and receivables	Held for trading	Total	*For comparison purposes: total at year-end 2016*	Economic impact of +100 basis points[3]
KBC core countries								
Belgium	5 227	11 889	0	0	357	17 474	*20 886*	-935
Czech Republic	1 992	4 697	0	6	42	6 737	*7 543*	-354
Hungary	752	1 415	0	46	193	2 406	*2 358*	-97
Slovakia	1 239	1 643	0	0	0	2 881	*2 953*	-178
Bulgaria	782	117	0	0	260	1 159	*487*	-72
Ireland	448	838	0	0	0	1 286	*1 207*	-62
Southern Europe								
Greece	0	0	0	0	0	0	*0*	0
Portugal	360	36	0	0	0	396	*359*	-22
Spain	2 708	249	0	0	0	2 957	*3 017*	-157
Italy	2 066	111	0	0	1	2 178	*2 250*	-116
Other countries								
France	2 500	3 779	0	0	0	6 280	*6 924*	-471
Poland	1 290	407	0	0	10	1 707	*1 515*	-82
Germany	352	584	0	0	1	936	*850*	-47
Austria	342	460	0	0	0	803	*796*	-51
Netherlands	116	371	0	0	1	488	*502*	-27
US	0	976	0	0	0	976	772	-40
Rest[2]	2 133	1 523	0	0	90	3 746	*3 470*	-94
Total carrying value	22 307	29 096	0	52	955	52 410	*55 889*	–
Total nominal value	19 633	27 625	0	52	913	48 223	*51 048*	–

1 The carrying amount refers to the amount at which an asset or a liability is recognised in the company's books, i.e. the fair value amount for instruments categorised as available for sale, designated at fair value through profit or loss and held for trading and the amortised cost amount for instruments categorised as held to maturity. The table excludes exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.

2 Sum of countries whose individual exposure is less than 0.5 billion euros at year-end 2017.

3 Theoretical economic impact in fair value terms of a parallel 100-basis-point upward shift in the spread over the entire maturity structure (in millions of euros). Only a portion of this impact is reflected in profit or loss and/or equity. Figures relate to non-trading positions in sovereign bonds for the banking and insurance businesses (impact on trading book exposure was very limited and amounted to -10 million euros at year-end 2017).

Main changes in 2017:

- The carrying value of the total sovereign bond exposure decreased by 3.5 billion euros. There was a significant increase in exposure to bonds issued by Bulgaria (+0.7 billion euros), but a decrease in exposure to Belgium (-3.4 billion euros), the Czech Republic (-0.8 billion euros) and France (-0.6 billion euros).

Revaluation reserve for available-for-sale assets at year-end 2017:

- The carrying value of the total available-for-sale government bond portfolio incorporated a revaluation reserve of 1.5 billion euros, before tax (424 million euros for Belgium, 180 million euros for Italy, 167 million euros for Spain, 163 million euros for France, and 582 million euros for the other countries combined).

Portfolio of Belgian government bonds:

- Belgian sovereign bonds accounted for 33% of our total government bond portfolio at the end of 2017, reflecting the importance to KBC of Belgium, the group's primary core market. The importance of Belgium, in general, is also reflected in the 'Loan and investment portfolio' table at the start of the 'Credit risk' section, in the contribution that Belgium makes to group profit and in the various components of the result (see 'Notes on segment reporting' under 'Consolidated financial statements').
- At year-end 2017, the credit ratings assigned to Belgium by the three main international agencies were 'Aa3' from Moody's, 'AA' from Standard & Poor's and 'AA-' from Fitch. More information on Belgium's macroeconomic performance is provided in the separate section dealing with Belgium. For more information, please refer to the rating agencies' websites.
- Apart from interest rate risk, the main risk to our holdings of Belgian sovereign bonds is a widening of the credit spread. The potential impact of a 100-basis-point upward shift in the spread (by year-end 2017) can be broken down as follows:
  - Theoretical full economic impact (see previous table): the impact on IFRS profit or loss is very limited since the lion's share of the portfolio of Belgian sovereign bonds was classified as 'Available For Sale' (30%; impact only upon realisation) and 'Held To Maturity' (68%; no impact on profit or loss); the impact on IFRS unrealised gains on available-for-sale assets is -207 million euros (after tax) for an increase of 100 basis points.
  - Impact on liquidity: a widening credit spread affects the liquidity coverage ratio (LCR), but the group has a sufficiently large liquidity buffer.

In addition to the sovereign portfolio, the KBC group holds a non-sovereign bond portfolio (banks, corporations, supranational bodies). The sensitivity of the value of this portfolio to a 100-basis-point change in the credit spread is shown in the following table.

Exposure to non-sovereign bonds at year-end, by rating: economic impact of +100 basis points

(in millions of EUR)	31-12-2017	31-12-2016
Bonds rated AAA	-158	-191
Bonds rated AA+, AA, AA-	-161	-196
Bonds rated A+, A, A-	-140	-156
Bonds rated BBB+, BBB, BBB-	-80	-100
Non-investment grade and non-rated bonds	-82	-53
Total carrying value	13 168	15 220
Total nominal value	12 921	14 582

Equity risk

The main exposure to equity is within our insurance business, where the ALM strategies are based on a risk-return evaluation, account taken of the market risk attached to open equity positions. Please note that a large part of the equity portfolio is held for the DPF of insurance liabilities (especially profit-sharing in the Belgian market). Apart from the insurance entities, smaller equity portfolios are also held by other group entities, e.g., KBC Bank and KBC Asset Management. We have provided more information on total non-trading equity exposures at KBC in the tables below.

Equity portfolio of the KBC group (breakdown by sector, in %)	**Banking activities**		**Insurance activities**		**Group**	
	31-12-2017	**31-12-2016**	**31-12-2017**	**31-12-2016**	**31-12-2017**	**31-12-2016**
Financials	47%	60%	24%	21%	27%	28%
Consumer non-cyclical	0%	0%	8%	13%	7%	11%
Communication	0%	0%	2%	2%	2%	1%
Energy	0%	0%	6%	7%	5%	6%
Industrials	37%	26%	39%	34%	38%	33%
Utilities	0%	0%	1%	2%	1%	2%
Consumer cyclical	8%	5%	15%	15%	14%	13%
Materials	0%	0%	6%	6%	5%	5%
Other and not specified	8%	9%	0%	1%	1%	2%
Total	100%	100%	100%	100%	100%	100%
In billions of EUR	0.25	0.26	1.47	1.35	1.72*	1.6
of which unlisted	0.2	0.1	0.0	0.0	0.2	0.1

* The main differences between the 1.72 billion euros in this table and the 2.2 billion euros for 'Equity instruments' in the table appearing in Note 4.1 of the 'Consolidated financial statements' section – besides a number of minor differences in the scope of consolidation – are that:
(a) Shares in the trading book (0.5 billion euros) are excluded above, but are included in the table in Note 4.1.
(b) Real estate participations that are not consolidated are classified as 'investments in building' in this table, but classified as 'shares' in the table in Note 4.1 (as they are not consolidated).
(c) Most 'investments in funds' are treated on a 'look-through' basis (according to the underlying asset mix of the fund and therefore also partially classified as 'fixed-income instruments'), whereas they are classified as 'shares' in the table in Note 4.1.

Impact of a 25% drop in equity prices (in millions of EUR)	**Impact on value**	
	2017	**2016**
Banking activities	-69	-64
Insurance activities	-366	-329
Total	-436	-393

Non-trading equity exposure (in millions of EUR)	**Net realised gains (in income statement)**		**Net unrealised gains on year-end exposure (in equity)**	
	31-12-2017	**31-12-2016**	**31-12-2017**	**31-12-2016**
Banking activities	89	113	60	123
Insurance activities	81	53	401	375
Total*	170	165	468	503

* The total figure includes gains from some equity positions directly attributable to the KBC group.

Real estate risk

The groups' real estate businesses hold a limited real estate investment portfolio. KBC Insurance also holds a diversified real estate portfolio, which is held as an investment for non-life reserves and long-term life activities. The real estate exposure is viewed as a long-term hedge against inflation risks and as a way of optimising the risk/return profile of these portfolios. The table provides an overview of the sensitivity of economic value to fluctuations in the property markets.

Impact of a 25% drop in real estate prices (in millions of EUR)	**Impact on value**	
	2017	**2016**
Bank portfolios	-100	-92
Insurance portfolios	-67	-55
Total	-167	-146

Inflation risk

Inflation – as an econometric parameter – indirectly affects the life of companies in many respects, in much the same way as other parameters do (for instance, economic growth or the rate of unemployment). It is not easily quantifiable as a market risk concept. However, certain financial products or instruments have a direct link with inflation and their value is directly impacted by a change in market expectations. At KBC, it relates specifically to workmen's compensation insurance, where particularly in the case of permanent or long-term disabilities, an annuity benefit is paid to the insured person (with the annuity being linked to inflation by law). KBC Insurance partly mitigates the risks by investing in inflation-linked bonds so that any increase in liabilities arising from mounting inflation is offset by an increase in the value of the bonds. However, these liabilities are long-dated and significantly exceed the investment horizon of such index-linked bonds. Therefore, KBC Insurance complements its inflation hedging programme by investing in real estate and shares, as these assets are traditionally correlated with inflation and do not have a maturity date.

In 2017, the undiscounted value of the inflation-sensitive cashflows was estimated at 607 million euros, against which a 401-million-euro portfolio of indexed bonds was held. In the years ahead, investments in inflation-linked bonds will be increased further. The banking activities are not exposed to a significant inflation risk.

Foreign exchange risk

We pursue a prudent policy as regards our structural currency exposure, essentially seeking to avoid currency risk. Foreign exchange exposures in the ALM books of banking entities with a trading book are transferred to the trading book where they are managed within the allocated trading limits. The foreign exchange exposure of banking entities without a trading book, of the insurance entities and of other entities has to be hedged, if material. Equity holdings in non-euro currencies that are part of the investment portfolio do not need to be hedged. Participating interests in foreign currency are in principle funded by borrowing an amount in the relevant currency equal to the value of the net assets excluding goodwill.

Impact of a 10% decrease in currency value* (in millions of EUR)	31-12-2017	Impact on value Banking 31-12-2016	31-12-2017	Impact on value Insurance 31-12-2016
USD	-0.63	-1.37	-30.35	-33.39
GBP	0.14	-0.01	-14.52	-14.42
CZK	-0.96	-0.68	0.21	0.30
CHF	0.02	0.01	-6.46	-7.87
DKK	-0.01	-0.00	-1.17	-0.95
RON	-5.13	-2.08	0.00	-0.00
SEK	0.00	0.03	-2.23	-1.83

* Exposure for currencies where the impact on one sector activity exceeds 0.5 million euros.

Capital sensitivity to market movements

The available capital is impacted when the market is stressed. Stress can be triggered by a number of market parameters, including by swap rates or bond spreads that increase or by equity prices that fall. At KBC, we use this capital sensitivity as a common denominator to measure the vulnerability of the banking book to different market risk shocks.

Common equity tier-1 (CET1) capital is most sensitive to a parallel increase in bond spreads. This sensitivity is caused by investments in sovereign and corporate bonds whose spread component has not been hedged. The loss in available capital in the event of a fall in equity prices is caused primarily by positions in pension funds that would be hit by such a shock.

CET1 sensitivity to main market drivers (under Danish compromise), KBC group (as % of CET1)

IFRS impact caused by	31-12-2017	31-12-2016
+100-basis-point parallel shift in interest rates	-0.2%	-0.2%
+100-basis-point parallel shift in spread	-0.7%	-0.9%
-25% in equity prices	-0.2%	-0.3%
Joint scenario	-1.2%	-1.3%

Liquidity risk

What is it?

Liquidity risk is the risk that an organisation will be unable to meet its liabilities and obligations as they come due, without incurring higher-than-expected costs.

The principal objective of our liquidity management is to be able to fund the group and to enable the core business activities of the group to continue to generate revenue, even under adverse circumstances. Since the financial crisis, there has been a greater focus on liquidity risk management throughout the industry, and this has been intensified by the minimum liquidity standards defined by the Basel Committee, which have been transposed into European law through CRR/ CRD IV.

Managing liquidity risk

A group-wide 'liquidity risk management framework' is in place to define the risk playing field.

Liquidity management itself is organised within the Group Treasury function, which acts as a first line of defence and is responsible for the overall liquidity and funding management of the KBC group. The Group Treasury function monitors and steers the liquidity profile on a daily basis and sets the policies and steering mechanisms for funding management (intra-group funding, funds transfer pricing). These policies ensure that local management has an incentive to work towards a sound funding profile. It also actively monitors its collateral on a group-wide basis and is responsible for drafting the liquidity contingency plan that sets out the strategies for addressing liquidity shortfalls in emergency situations.

Our liquidity risk management framework is based on the following pillars:

- *Contingency liquidity risk*. This risk is assessed on the basis of liquidity stress tests, which measure how the liquidity buffer of the group's bank entities changes under extreme stressed scenarios. This buffer is based on assumptions regarding liquidity outflows (retail customer behaviour, professional client behaviour, drawing of committed credit lines, etc.) and liquidity inflows resulting from actions to increase liquidity ('repoing' the bond portfolio, reducing unsecured interbank lending, etc.). The liquidity buffer has to be sufficient to cover liquidity needs (net cash and collateral outflows) over (i) a period that is required to restore market confidence in the group following a KBC-specific event, (ii) a period that is required for markets to stabilise after a general market event and (iii) a combined scenario, which takes a KBC-specific event and a general market event into account. The overall aim of the liquidity framework is to remain sufficiently liquid in stress situations, without resorting to liquidity-enhancing actions which would entail significant costs or which would interfere with the core banking business of the group.
- *Structural liquidity risk*. We manage our funding structure so as to maintain substantial diversification, to minimise funding concentrations in time buckets, and to limit the level of reliance on short-term wholesale funding. We manage the structural funding position as part of the integrated strategic planning process, where funding – in addition to capital, profits and risks – is one of the key elements. At present, our strategic aim is to maintain sufficiently high buffers in terms of LCR and NSFR via a funding management framework, which sets clear funding targets for the subsidiaries (own funding, reliance on intra-group funding) and provides further incentives via a system of intra-group pricing to the extent subsidiaries run a funding mismatch. In the table below, we have illustrated the structural liquidity risk by grouping the assets and liabilities according to the remaining term to maturity (contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net funding gap'. At year-end 2017, KBC had attracted 34 billion euros' worth of funding on a gross basis from the professional interbank and repo markets.
- *Operational liquidity risk*. Operational liquidity management is conducted in the treasury departments, based on estimated funding requirements. Group-wide trends in funding liquidity and funding needs are monitored on a daily basis by the Group Treasury function, ensuring that a sufficient buffer is available at all times to deal with extreme liquidity events in which no wholesale funding can be rolled over.

Maturity analysis

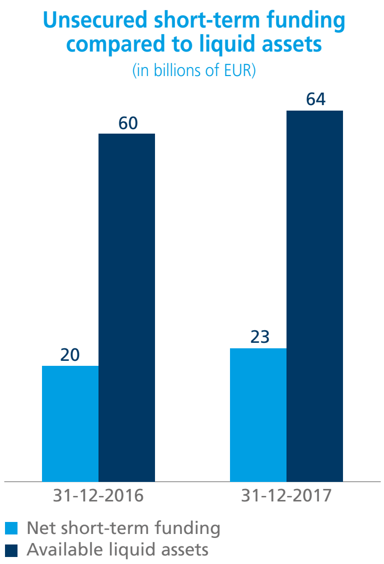
Liquidity risk (excluding intercompany deals)* (in billions of EUR)	<= 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	On demand	Not defined	Total
31-12-2017									
Total inflows	34	13	17	65	46	32	28	22	256
Total outflows	45	18	8	41	7	1	112	25	256
Professional funding	18	8	1	5	0	0	1	0	34
Customer funding	21	9	4	8	1	0	111	0	153
Debt certificates	3	1	3	28	6	1	0	0	41
Other	3	–	–	–	–	–	–	25	28
Liquidity gap (excl. undrawn commitments)	-12	-5	10	24	39	31	-84	-3	0
Undrawn commitments	–	–	–	–	–	–	–	-36	–
Financial guarantees	–	–	–	–	–	–	–	-10	–
Net funding gap (incl. undrawn commitments)	-12	-5	10	24	39	31	-84	-50	-46
31-12-2016									
Total inflows	22	8	19	56	50	33	19	32	239
Total outflows	39	12	14	31	14	1	103	26	239
Professional funding	17	7	1	6	1	0	0	0	32
Customer funding	19	5	6	9	1	0	102	0	143
Debt certificates	1	0	6	16	11	1	0	0	36
Other	3	–	–	–	–	–	–	26	29
Liquidity gap (excl. undrawn commitments)	-18	-4	5	26	37	32	-84	7	0
Undrawn commitments	–	–	–	–	–	–	–	-34	–
Financial guarantees	–	–	–	–	–	–	–	-10	–
Net funding gap (incl. undrawn commitments)	-18	-4	5	26	37	32	-84	-38	-44

* Cashflows exclude interest rate flows consistent with internal and regulatory liquidity reporting. Inflows/outflows that arise from margin calls posted/received for MtM positions in derivatives are reported in the 'not defined' bucket. Professional funding' includes all deposits from credit institutions and investment firms, as well as all repos. Instruments are classified on the basis of their first callable date. Some instruments are reported at fair value (on a discounted basis), whereas others are reported on an undiscounted basis (in order to reconcile them with Note 4.1 of the 'Consolidated financial statements' section). Due to the uncertain nature of the maturity profile of undrawn commitments and financial guarantees, these instruments are reported in the 'Not defined' bucket. The 'Other' category under 'Total outflows' contains own equity, short positions, provisions for risks and charges, tax liabilities and other liabilities.

Typical for the banking operations of a bank-insurance group, funding sources generally have a shorter maturity than the assets that are funded, leading to a negative net liquidity gap in the shorter time buckets and positive net liquidity gap in the longer term buckets. This creates liquidity risk if we would be unable to renew maturing short-term funding. Our liquidity framework imposes a funding strategy to ensure that the liquidity risk remains within the group's risk appetite.

Liquid asset buffer

We have a solid liquidity position. At year-end 2017, the KBC group had 64 billion euros' worth of unencumbered central bank eligible assets, 54 billion euros of which in the form of liquid government bonds (84%). The remaining available liquid assets were mainly other ECB/FED eligible bonds (15%) and pledgeable credit claims (1%). Most of the liquid assets are expressed in euros, Czech koruna and Hungarian forint (all home market currencies). Available liquid assets were almost three times the amount of net short-term wholesale funding, while funding from non-wholesale markets was accounted for by stable funding from core customer segments in our core markets.



Funding information

We have a strong retail/mid-cap deposit base in our core markets, resulting in a stable funding mix. A significant portion of the funding is attracted from core customer segments and markets.

The KBC group's funding mix (at 31 December 2017) can be broken down as follows:

- Funding from customers (circa 156 billion euros, 70% of the total figure), consisting of demand deposits, time deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network. Some 59% of the funding from customers relates to private individuals and SMEs.
- Debt issues placed with institutional investors (15 billion euros, 7% of the total figure), mainly comprising IFIMA debt issues (2.3 billion euros), covered bonds (6.6 billion euros), the contingent capital notes issued in January 2013 (1 billion US dollars), tier-2 issues (2 billion euros) and KBC Group NV senior debt (3.5 billion euros).
- Net unsecured interbank funding (22.8 billion euros, 10% of the total figure).
- Net secured funding (-14.3 billion euros in repo funding, -6% of the total figure) and certificates of deposit (22.6 billion euros, 10% of the total figure). Net secured funding was negative at year-end 2017 due to the fact that KBC carried out more reverse repo transactions than repo transactions.
- Total equity (18.8 billion euros, 9% of the total figure, including an additional tier-1 issue of 1.4 billion euros).

Please note that:

- In November 2012, we announced our 10-billion-euro Belgian residential mortgage covered bonds programme. This programme gives KBC access to the covered bond market, allowing it to diversify its funding structure and reduce the cost of long-term funding. Since then, we have issued covered bonds each year (including 0.5 billion euros' worth in 2017).
- In 2016 and 2017, we borrowed 4.2 billion euros and 2.3 billion euros, respectively, from the ECB under the targeted long-term refinancing operations (TLTRO II).
- The contingent capital notes (issued in January 2013 and with an original maturity date of 25 January 2023) are still included in the end-of-year figures, but were called on 25 January 2018.

LCR and NSFR

Both the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are defined in the 'Glossary of financial ratios and terms'. At year-end 2017, our NSFR stood at 134% while our average LCR for 2017 came to 139%.
The LCR is based on the Delegated Act requirements. As from 31 December 2017, KBC will start disclosing its 12-month average LCR in accordance with the European Banking Authority's guidelines on LCR disclosure. The NSFR is calculated based on the latest proposal for a regulation amending the CRR (Regulation (EU) No 575/2013).

Technical insurance risk

What is it?

Technical insurance risks stem from uncertainty regarding the frequency of insured losses and how extensive they will be. All these risks are kept under control through appropriate underwriting, pricing, claims reserving, reinsurance and claims handling policies of line management and through independent insurance risk management.

Managing technical insurance risk

The Group risk function develops and rolls out a group-wide framework for managing insurance risks. It is responsible for providing support for local implementation and for the functional direction of the insurance risk management process of the insurance subsidiaries.

The insurance risk management framework is designed primarily around the following building blocks:

- Adequate identification and analysis of material insurance risks by, *inter alia*, analysing new emerging risks, concentration or accumulation risks, and developing early warning signals.
- Appropriate risk measurements and use of these measurements to develop applications aimed at guiding the company towards creating maximum shareholder value. Examples include best estimate valuations of insurance liabilities, *ex post* economic profitability analyses, natural catastrophe and other life, non-life and health exposure modelling, stress testing and required internal capital calculations.
- Determination of insurance risk limits and conducting compliance checks, as well as providing advice on reinsurance programmes.

Risk modelling

We develop models from the bottom up for all material group-wide insurance liabilities, i.e. (i) future claims that will occur over a predefined time horizon, as well as the claims settlement pattern, (ii) the future settlement of claims (whether already reported to the insurer or not) that have occurred in the past but have not yet been fully settled, and (iii) the impact of the reinsurance programme on these claims. We use these models to steer the group's insurance entities towards creating more shareholder value, by means of applications to calculate the internal capital (ICM model), support decisions on reinsurance, calculate the *ex post* profitability of specific sub-portfolios and set off internal capital requirements against the relevant return in pricing insurance policies.

Reinsurance

The insurance portfolios are protected against the impact of large claims or the accumulation of losses (due, for instance, to a concentration of insured risks) by means of reinsurance. We divide these reinsurance programmes into three main groups, i.e. property insurance, liability insurance and personal insurance, and we re-evaluate and renegotiate them every year.

Most of our reinsurance contracts are concluded on a non-proportional basis, which provides cover against the impact of large claims or loss events. The independent insurance risk management function is also responsible for advising on the restructuring of the reinsurance programmes. This approach has resulted in optimising the retention of the KBC group particularly in respect of its exposure to natural catastrophe risk, but also in respect of other lines of business.

Adequacy of technical provisions

As part of its mission to independently monitor insurance risks, the Group risk function regularly carries out in-depth studies. These confirm that there is a high degree of probability that the non-life technical provisions at subsidiary level are adequate. In addition, various group companies conduct Liability Adequacy Tests (LAT) that meet local and IFRS requirements for the life technical provisions. We make calculations using prospective methods (cashflow projections that take account of lapse rates and a discount rate that is set for each insurance entity based on local macroeconomic conditions and regulations), and build in extra market-value margins to deal with the factor of uncertainty in a number of parameters. Since no deficiencies were identified by year-end 2017, there was no need for a deficiency reserve to be set aside within the KBC group.

The table shows claims settlement figures in the non-life business over the past few years and includes KBC Insurance NV, ČSOB Pojišťovna (Czech Republic), ČSOB Poisťovňa (Slovakia), DZI Insurance, K&H Insurance, and KBC Group Re. All provisions for claims to be paid at the close of 2017 have been included. The claims-settlement figures incorporate all amounts that can be allocated to individual claims, including the Incurred But Not Reported (IBNR) and Incurred But Not Enough Reserved (IBNER) provisions, and the external claims handling expenses, but do not include internal claims settlement expenses and provisions for amounts expected to be recovered. The provision figures included are before reinsurance and have not been adjusted to eliminate intercompany amounts. The first row in the table shows the total claims burden (claims paid plus provisions) for the claims that occurred during a particular year, as estimated at the end of the year of occurrence. The following rows indicate the situation at the end of the subsequent calendar years. We restated the amounts to reflect exchange rates at year-end 2017.

Loss triangles, KBC Insurance (in millions of EUR)	**Year of occurrence 2008**	**Year of occurrence 2009**	**Year of occurrence 2010**	**Year of occurrence 2011**	**Year of occurrence 2012**	**Year of occurrence 2013**	**Year of occurrence 2014**	**Year of occurrence 2015**	**Year of occurrence 2016**	**Year of occurrence 2017**
Estimate at the end of the year of occurrence	800	830	879	816	856	923	1 001	957	1 056	1 010
1 year later	761	726	781	716	748	777	890	810	921	–
2 years later	731	674	729	660	712	706	835	763	–	–
3 years later	718	656	726	641	687	683	815	–	–	–
4 years later	713	639	720	629	673	679	–	–	–	–
5 years later	706	631	711	622	667	–	–	–	–	–
6 years later	680	624	705	619	–	–	–	–	–	–
7 years later	676	621	705	–	–	–	–	–	–	–
8 years later	669	613	–	–	–	–	–	–	–	–
9 years later	660	–	–	–	–	–	–	–	–	–
Current estimate	660	613	705	619	667	679	815	763	921	1 010
Cumulative payments	613	544	624	537	551	569	656	553	564	384
Current provisions	47	69	81	82	116	110	159	210	356	627

Actuarial function

The Actuarial function is one of the key control functions that is defined in the Solvency II regulatory framework. Solvency II requires an Actuarial function to be installed in each insurance entity and at insurance group level. Basically, the task of such a function is to ensure that the company's Board of Directors or Supervisory Board is fully informed in an independent manner. It does this, for example, by:

- advising on the calculation of the technical provisions (including appropriateness of methodologies, appropriateness and quality of data used, and experience analysis);
- expressing an opinion on the overall underwriting policy;
- expressing an opinion on the adequacy of reinsurance arrangements;
- contributing to the effective implementation of the risk management system (risk modelling underlying solvency capital requirement calculations, assisting with the internal model, contributing to the ORSA process);
- reporting and giving recommendations to the supervisory body of the entity.

Solvency II results

Solvency II results and more detailed information on how all the ratios developed in 2017 are provided under 'Solvency of KBC Bank and KBC Insurance separately' in the 'How do we manage our capital?' section.

Brexit

The initial phase of negotiations between the UK and its EU partners has recently been concluded, without any material decisions being made about the terms on which the UK will leave the EU. The risk remains that the European economy could be impacted by Brexit in the longer run. For KBC's most important risk types (i.e. credit risk and ALM risk), the impact proved to be minimal in 2017. A similar outcome is expected for 2018.

There remains a high degree of uncertainty about the precise nature of the UK's future relationship with the EU and, consequently, it is almost impossible to predict the precise impact of Brexit on Ireland. However, the open nature of the Irish economy and its close links to the UK underpin the consensus view that, on balance, the impact is likely to be negative. Effects across the economy may vary widely, i.e. the potential positive and negative consequences of Brexit are uncertain and spread unevenly across various Irish sectors and geographical regions. Even so, KBC Ireland has yet to experience any material impact on its activities.

KBC has already screened the portfolios of its corporate banking entities (groupwide) to assess the secondary effects on non-UK companies that are highly dependent on UK imports or exports. The outcome of the study showed that KBC's corporate portfolio is exposed to only a very minor extent.

KBC received the necessary guidance from the Prudential Regulation Authority (PRA) at the end of 2017 on how to proceed with its activities in the UK. As such, the KBC Bank London branch is expected to move from a 'Passported Incoming European Economic Area Branch' to a 'Third Country Branch' directly authorised by the PRA and the Financial Conduct Authority. This is similar to the situation for branches of US or Asian banks operating in the UK.

Quarterly updates on the impact of Brexit are provided to the Executive Committee via the Integrated Risk Report.

Specific information on the insurance activities of the group can be found in Notes 3.7 and 5.6 in the 'Consolidated financial statements' section. We have provided a breakdown by business unit of earned premiums and technical charges in the notes dealing with segment reporting.

How do we manage our capital?

Capital adequacy (or solvency) risk is the risk that the capital base of the group, the bank or the insurer might fall below an acceptable level.

Solvency at KBC group level

We report the solvency of the group, the bank and the insurance company based on IFRS data and according to the rules imposed by the regulator. For the KBC group, this implies that we calculate our solvency ratios based on CRR/CRD IV. This regulation entered gradually into force on 1 January 2014, and will be fully implemented by 1 January 2022.

The minimum solvency ratios required under CRR/CRD IV are 4.5% for the common equity tier-1 (CET1) ratio, 6% for the tier-1 capital ratio and 8% for the total capital ratio (i.e. pillar 1 minimum ratios).

As a result of its supervisory review and evaluation process (SREP), the competent supervisory authority (in KBC's case, the ECB) can require that higher minimum ratios be maintained (= pillar 2 requirements) because, for instance, not all risks are properly reflected in the regulatory pillar 1 calculations. Following the SREP for 2017, the ECB formally notified KBC of its decision (applicable from 1 January 2018) to maintain the pillar 2 requirement (P2R) at 1.75% CET1 and the pillar 2 guidance (P2G) at 1% CET1.

The overall capital requirement for KBC is determined not only by the ECB, but also by the decisions of the local competent authorities in its core markets. The decision taken by the relevant Czech and Slovak authorities to gradually increase the countercyclical buffer requirement to 1.25% corresponds with an additional CET1 requirement of 0.2% at KBC group level (bringing the countercyclical buffer at KBC group level to around 0.35%).

For Belgian systemic financial institutions, the National Bank of Belgium (NBB) had already announced its systemic capital buffers at an earlier date. For the KBC group, this means that an additional capital buffer of 1.5% of CET1 is required for 2018. Lastly, the conservation buffer currently stands at 1.875% for 2018, and is to increase to 2.5% in 2019.

Altogether, this brings the fully loaded CET1 requirement (under the Danish compromise) to 10.6% (4.5% (pillar 1) + 1.75% (P2R) + 2.5% (conservation buffer) + 1.5% (systemic buffer) + 0.35% (countercyclical buffer)), with an additional P2G of 1%. KBC clearly exceeds this requirement: at year-end 2017, the fully loaded CET1 ratio came to 16.3%, which represented a capital buffer of 5 309 million euros relative to the minimum requirement of 10.6%. Furthermore, since part of the capital requirements is to be gradually built up by 2019, the relevant requirement (under the Danish compromise) for 2018 on a phased-in basis amounts to 9.875% of CET1 (4.5% (pillar 1) + 1.75% (P2R) + 1.875% (conservation buffer) + 1.5% (systemic buffer) + 0.25% (countercyclical buffer)). The regulatory minimum solvency targets were also amply exceeded throughout the entire financial year.

The general rule under CRR/CRD IV for insurance participations is that an insurance participation is deducted from common equity at group level, unless the competent authority grants permission to apply a risk weighting instead (Danish compromise). KBC received such permission from the supervisory authority and hence reports its solvency on the basis of a 370% risk weighting being applied to the holdings of own fund instruments of the insurance company (= 2 469 million euros), after having deconsolidated KBC Insurance from the group figures.

In addition to the solvency ratios under CRD IV, KBC – as a financial conglomerate – also has to disclose its solvency position as calculated in accordance with the Financial Conglomerate Directive (FICOD; 2002/87/EC). This implies that available capital will be calculated on the basis of the consolidated position of the group and the eligible items recognised as such under the prevailing sectoral rules, which are CRD IV for the banking business and Solvency II for the insurance business. The resulting available capital is to be compared with a capital requirement expressed as a risk weighted asset amount. For this latter figure, the capital requirements for the insurance business (based on Solvency II) are multiplied by 12.5 to obtain a risk weighted asset equivalent (instead of the 370% risk weighting applied to the participation in the insurance company under the Danish compromise). At year-end 2017, the phased common equity ratio (under FICOD) was 15.2%.

KBC aims to be one of the better capitalised financial institutions in Europe. Each year, therefore, we assess the common equity ratios of a peer group of European banks that are active in the retail, SME, and corporate client segments, and then position ourselves relative to the median fully loaded CET1 ratio of that peer group. We reflect this capital policy in an 'own capital target', which amounts to 14% of common equity. On top of this, KBC wants to maintain a flexible additional buffer of up to 2% common equity for potential add-on mergers and acquisitions in our core markets. Any M&A opportunity will be assessed subject to very strict financial and strategic criteria. This buffer is additional to the 'own capital target' of the KBC group. Together they form the reference capital position, which stands at 16%.

A detailed calculation of the KBC group's solvency ratios under the Danish compromise method is given below, with summary calculations provided for the FICOD and deduction methods.

Solvency at group level (consolidated; under CRR/CRD IV, Danish compromise method) (in millions of EUR)	31-12-2017 Phased-in	31-12-2017 Fully loaded	31-12-2016 Phased-in	31-12-2016 Fully loaded
Total regulatory capital, after profit appropriation	**18 725**	**18 706**	**17 887**	**17 571**
Tier-1 capital	**16 549**	**16 504**	**15 473**	**15 286**
Common equity[1]	**15 131**	**15 104**	**14 033**	**13 886**
Parent shareholders' equity (after deconsolidating KBC Insurance)	16 841	16 841	15 500	15 500
Intangible fixed assets, incl. deferred tax impact (-)	-475	-475	-400	-400
Goodwill on consolidation, incl. deferred tax impact (-)	-604	-604	-483	-483
Minority interests	0	0	0	0
Available-for-sale revaluation reserves (-)[2]	-117	–	-206	–
Hedging reserve, cashflow hedges (-)	1 339	1 339	1 356	1 356
Valuation differences in financial liabilities at fair value – own credit risk (-)	-1	-1	-18	-18
Value adjustment due to requirements for prudent valuation (-)[3]	-111	-124	-109	-140
Dividend payout (-)	-837	-837	-753	-753
Coupon on AT1 instruments (-)	-2	-2	-2	-2
Deduction with regard to financing provided to shareholders (-)	-91	-91	-91	-91
IRB provision shortfall (-)	-268	-268	-203	-203
Deferred tax assets on losses carried forward (-)	-542	-672	-557	-879
Additional going concern capital	**1 418**	**1 400**	**1 440**	**1 400**
Grandfathered innovative hybrid tier-1 instruments	18	0	40	0
Grandfathered non-innovative hybrid tier-1 instruments	0	0	0	0
CRR-compliant AT1 instruments	1 400	1 400	1 400	1 400
Minority interests to be included in additional going concern capital	0	0	0	0
Tier-2 capital	**2 176**	**2 202**	**2 414**	**2 285**
IRB provision excess (+)	316	316	362	367
Subordinated liabilities	1 860	1 886	2 053	1 918
Subordinated loans to non-consolidated financial sector entities (-)	0	0	0	0
Minority interests to be included in tier-2 capital	0	0	0	0
Total weighted risk volume	**91 972**	**92 410**	**86 878**	**87 782**
Banking	82 679	83 117	77 579	78 482
Insurance	9 133	9 133	9 133	9 133
Holding-company activities	202	202	198	198
Elimination of intercompany transactions	-43	-43	-32	-32
Solvency ratios				
Common equity ratio	16.5%	16.3%	16.2%	15.8%
Tier-1 ratio	18.0%	17.9%	17.8%	17.4%
Total capital ratio	20.4%	20.2%	20.6%	20.0%

1 Audited figures (excluding 'IRB provision shortfall' and 'Value adjustment due to requirements for prudent valuation').

2 Relates to the prudential filter for positive revaluation reserves from equity.

3 CRR ensures that prudent valuation is reflected in the calculation of available capital. This means that the fair value of all assets measured at fair value and impacting the available capital (by means of fair value changes in P&L or equity) need to be brought back to their prudent value. The difference between the fair value and the prudent value (also called the 'additional value adjustment' or AVA) must be deducted from the CET1 ratio.

Solvency at group level (consolidated; FICOD method) (in millions of EUR)	31-12-2017 Phased-in	31-12-2017 Fully loaded	31-12-2016 Phased-in	31-12-2016 Fully loaded
Common equity	16 015	15 988	14 794	14 647
Total weighted risk volume	105 625	106 062	100 136	101 039
Common equity ratio	15.2%	15.1%	14.8%	14.5%

Solvency at group level (consolidated; CRR/CRD IV, deduction method) (in millions of EUR)	31-12-2017 Fully loaded	31-12-2016 Fully loaded
Common equity	14 146	12 806
Total weighted risk volume	87 052	82 120
Common equity ratio	16.3%	15.6%

Additional information concerning the calculation of solvency according to CRR/CRD IV (Danish compromise method, fully loaded):

- Parent shareholders' equity: see 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section.
- Impact of the first time application of IFRS 9: see Note 1.1 in the 'Consolidated Financial statements' section.
- CRR-compliant additional tier-1 instruments: includes a CRR-compliant additional tier-1 instrument issued in 2014 for 1.4 billion euros.
- The 1 billion-US-dollar contingent capital note (CoCo) was called in January 2018 and, consequently, the capital value of the CoCo has already been excluded from tier-2 capital. The impact of calling the CoCo was largely offset by the successful issue of a 500-million-euro tier-2 benchmark in September 2017.
- Total weighted risk volume: since its implementation in 2008, the Internal Rating Based (IRB) approach has primarily been used by KBC to calculate its risk weighted assets. Based on a full application of all the CRR/CRD IV rules, it is used for approximately 92% of the weighted credit risks, approximately 86% of which are calculated according to the Advanced approach and roughly 6% according to the Foundation approach. The remaining weighted credit risks (about 8%) are calculated according to the Standardised approach. The increase in weighted risks in 2017 was largely driven by the first time consolidation of United Bulgarian Bank and Interlease in Bulgaria and by volume increases in other core countries, among other things.

At year-end 2017, our fully loaded leverage ratio at group level stood at 6.1% (see table below), unchanged year-on-year, as the higher total exposure was fully offset by a higher level of tier-1 capital. More details, including a description of the processes used to manage the risk of excessive leverage, can be found in KBC's Risk Report, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor).

Leverage ratio at group level (consolidated; under CRR/CRD IV, Danish compromise method) (in millions of EUR)	31-12-2017 Fully loaded	31-12-2016 Fully loaded
Tier-1 capital	16 504	15 286
Total exposure	272 373	251 891
Total assets	292 342	275 200
Deconsolidation of KBC Insurance	-32 802	-32 678
Adjustment for derivatives	-3 908	-5 784
Adjustment for regulatory corrections in determining tier-1 capital	-2 235	-2 197
Adjustment for securities financing transaction exposures	816	1 094
Off-balance sheet exposures	18 160	16 256
Leverage ratio	6.1%	6.1%

Besides the ECB and NBB, which supervise KBC on a going concern basis, KBC is also subject to requirements set by the Single Resolution Board (SRB). The SRB is developing resolution plans for the major banks in the euro area. Such a plan describes how the resolution authorities will approach the resolution of a bank that is failing (or likely to fail) in a way that protects its critical functions, government funds and financial stability. It takes account of the specific features of the bank and is tailor-made. A key feature of the resolution plan is deciding at which level the competent resolution authorities will intervene. A choice has to be made between a single resolution authority that resolves the group as a whole (Single Point of Entry or 'SPE') or different authorities that separately resolve those parts of the group that fall within their jurisdiction (Multiple Point of Entry or 'MPE').

KBC indicated its preference for a SPE approach at group level with 'bail-in' as the primary resolution tool. Bail-in implies a recapitalisation and stabilisation of the bank by writing down certain unsecured liabilities and issuing new shares to former creditors as compensation. We prefer a SPE approach at group level because our business model relies heavily on integration, both commercially (e.g., banking and insurance) and organisationally (e.g., risk, finance, treasury, etc.). Debt instruments that are positioned for bail-in will be issued by KBC Group NV. This approach keeps the group intact in resolution and safeguards the bank-insurance model in going concern.

It is crucial that there are adequate liabilities eligible for bail-in. This is measured by the minimum requirement for own funds and eligible liabilities (MREL). At year-end 2017, the MREL ratio based on instruments issued by KBC Group NV stood at 24% of risk weighted assets ('point of entry' view).

MREL: based on instruments issued by KBC Group NV (in millions of EUR)	**31-12-2017 Fully loaded**	**31-12-2016 Fully loaded**
Own funds and eligible liabilities	22 207	18 467
CET1 capital (consolidated, CRR/CRD IV, Danish compromise method)	15 104	13 886
AT1 instruments	1 400	1 400
T2 instruments (nominal amount, remaining maturity > 1 year)	2 182	1 681
Senior debt (nominal amount, remaining maturity > 1 year)	3 521	1 500
Risk weighted assets (consolidated, CRR/CRD IV, Danish compromise method)	92 410	87 782
MREL ratio	24.0%	21.0%

This above approach is more restrictive than the MREL definition currently applied by the SRB, which also includes certain other instruments issued at lower levels within the group ('consolidated view').

Solvency of KBC Bank and KBC Insurance separately

In the table below, we have provided certain solvency information for KBC Bank and KBC Insurance, separately. More detailed information can be found in their consolidated financial statements and in KBC's Risk Report, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor).

As is the case for the KBC group, the solvency of KBC Bank is calculated based on CRR/CRD IV. The solvency of KBC Insurance is calculated on the basis of Solvency II.

Solvency, KBC Bank

(CRR/CRDIV, fully loaded, in millions of EUR)	31-12-2017	31-12-2016
Total regulatory capital, after profit appropriation	15 756	16 229
Tier-1 capital	13 484	12 625
Of which common equity	12 077	11 219
Tier-2 capital	2 273	3 604
Total weighted risks	83 117	78 482
Common equity ratio	14.5%	14.3%
Tier-1 ratio	16.2%	16.1%
Total capital ratio	19.0%	20.7%

Solvency, KBC Insurance (incl. volatility adjustment)

(Solvency II, in millions of EUR)	31-12-2017	31-12-2016
Own funds	3 865	3 637
Tier-1	3 365	3 137
IFRS parent shareholders' equity	3 051	2 936
Dividend payout	-8	-103
Deduction of intangible assets and goodwill (after tax)	-128	-123
Valuation differences (after tax)	403	349
Volatility adjustment	43	120
Other	3	-42
Tier-2	500	500
Subordinated liabilities	500	500
Solvency capital requirement (SCR)	1 823	1 791
Solvency II ratio	212%	203%
Solvency surplus above SCR	2 042	1 846

ICAAP and ORSA

KBC's ICAAP (Internal Capital Adequacy Assessment Process) consists of numerous business and risk processes that together contribute to the objective of assessing and ensuring at all times that we are adequately capitalised in view of our risk profile and the quality of our risk management and control environment. For this purpose, we also have an internal capital model in place to complement the existing regulatory capital models. This model is used, for example, to measure risk adjusted performance, to underpin and set risk limits and to assess capital adequacy. It is complemented by a framework for assessing earnings that aims to reveal vulnerabilities in terms of the longer term sustainability of our business model.

A backbone process in our ICAAP is the Alignment of Planning Cycles (APC). This yearly process aims to create an integrated three-year plan in which the strategy, finance, treasury and risk perspectives are collectively taken into account. In this process, the risk appetite of the group is set and cascaded by setting risk limits at entity level.
The APC is not only about planning, it is also about closely monitoring the execution of the plan in all its aspects (P&L, risk weighted assets, liquidity). Such monitoring is reflected in dedicated reports drawn up by the various Group functions.

In addition to the integrated approach at group level, KBC Insurance and its insurance and reinsurance subsidiaries have conducted an Own Risk and Solvency Assessment (ORSA) on a regular basis, in accordance with Solvency II requirements. Similar to ICAAP, the aim of the ORSA is to monitor and ensure that business is managed in a sound and prudent way and that the KBC Insurance group is adequately capitalised in view of its risk profile and the quality of its risk management and control environment. The ORSA process draws to a large extent on the same 'core processes' as the ICAAP and includes APC, risk appetite setting and ongoing business, risk and capital management processes. Where necessary, these processes are enhanced to take account of the specific nature of the (re)insurance activities and to comply with Solvency II requirements.

Stress testing

Stress testing is an important risk management tool that adds value both to strategic processes and to day-to-day risk management (risk identification, risk appetite and limit setting, etc.). As such, stress testing is an integral part of our risk management framework, and an important building block of our ICAAP and ORSA.

We define stress testing as a management decision supporting process that encompasses various techniques which are used to evaluate the potential negative impact on KBC's (financial) condition, caused by specific event(s) and/or movement(s) in risk factors ranging from plausible to extreme, exceptional or implausible.

As such, it is an important tool in identifying sources of vulnerability and hence in assessing whether our capital is adequate to cover the risks we face. That is why the APC also includes sensitivities to critical assumptions used in the base case plan. In addition, APC is complemented by a dedicated integrated stress test that is run in parallel. These sensitivities and stress tests are designed to provide assurance that:

- the decisions regarding the financial plan and regarding risk appetite and limit setting are not only founded on a base case, but that they also take account of the impact of more severe macroeconomic and financial market assumptions;
- capital and liquidity at group level remain acceptable under severe conditions.

The resulting capital ratios are compared to internal and regulatory capital targets.

Even more severe scenarios and sensitivities are calculated in the context of the recovery plan. These scenarios focus on events that lead to a breach of the regulatory capital requirements. As such, the recovery plan provides another insight into key vulnerabilities of the group and the mitigating actions that management could implement should the defined stress materialise.

Numerous other stress tests are run within KBC that provide valuable information for assessing the capital adequacy of the group. They include regulatory stress tests, *ad hoc* integrated and risk-type or portfolio-specific stress tests at group and local level. Relevant stress test impacts are valuable inputs for defining sensitivities in APC planning.

It is our strong believe that risk management frameworks and policies are only effective if supported by a proper risk culture in which risk issues are proactively addressed and policy breaches receive appropriate attention.

Corporate governance statement

The main aspects of our corporate governance policy are set out in the *Corporate Governance Charter* of KBC Group NV (the 'Charter', which is published at www.kbc.com).
We have adopted the 2009 version of the Belgian *Corporate Governance Code* (the 'Code') as our benchmark.
This Code can be downloaded at www.corporategovernancecommittee.be.
More factual information regarding corporate governance and on the application of certain statutory provisions is contained in this corporate governance statement.

Unless otherwise indicated, the period dealt with runs from 1 January 2017 to 31 December 2017.

A number of terms have been abbreviated as follows in this section of the annual report: Board of Directors: Board; Executive Committee: EC; Audit Committee: AC; Risk & Compliance Committee: RCC.

Composition of the Board and its committees

The following table shows the members of the Board and its committees on 31 December 2017*. A list of the external offices held by all members of the Board is provided at www.kbc.com, as is a brief CV for each director. The number of meetings attended is shown in the columns relating to the committees.

Name	Primary responsibility	Period served on the Board in 2017	Expiry date of current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors	EC	AC	RCC	Nomination Committee	Remuneration Committee
Number of meetings in 2017				10					6	9	3	4
Thomas Leysen	Chairman of the Board	Full year	2019	10	■		■				3 (c)	4 (c)
Philippe Vlerick	Deputy Chairman of the Board CEO, Vlerick Group	Full year	2021	10	■	■					2	4
Johan Thijs	President of the EC and Executive Director, KBC	Full year	2020	10				■ (c)				
Alain Bostoen	CEO, Christeyns Group	Full year	2019	9	■	■						
Katelijn Callewaert	Managing Director, Cera and KBC Ancora	Full year	2021	10	■	■						
Sonja De Becker	Chairperson, MRBB	Full year	2020	9	■	■					3	
Franky Depickere	Managing Director/CEO, Cera and KBC Ancora	Full year	2019	10	■	■				9 (c)	3	
Frank Donck	Managing Director, 3D	Full year	2019	9	■	■			5	8		
Júlia Király	Professor, International Business School of Budapest	Full year	2018	10	■		■		6			4
Walter Nonneman	Professor Emeritus in Economics at the University of Antwerp, Director, Cera	Full year	2021	10	■	■						
Vladimira Papirnik	Retired Partner, Squire Patton Boggs (US) LLP	Full year	2020	10	■		■		6	9	3	
Theodoros Roussis	CEO, Ravago Group	Full year	2020	8	■	■						
Hendrik (Rik) Scheerlinck	Executive Director, KBC	From 5 May 2017	2021	6				■				
Christine Van Rijsseghem	Executive Director, KBC	Full year	2018	10				■				
Matthieu Vanhove	Director and Senior Manager, Cera	Full year	2021	10	■	■						
Marc Wittemans	Managing Director/CEO, MRBB	Full year	2018	10	■	■			6 (c)	9		

Statutory auditor: PricewaterhouseCoopers (PwC), represented by Roland Jeanquart and Tom Meuleman.
Secretary to the Board of Directors: Johan Tyteca.
* Luc Popelier, who was an executive director up to and including 4 May 2017, attended four meetings.
(c) Chairman of this committee.

Changes in the composition of the Board in 2017

- At the General Meeting of 4 May 2017, Philippe Vlerick was re-appointed as a director for a new four-year term of office, Katelijn Callewaert, Walter Nonneman and Matthieu Vanhove were definitively appointed as directors for a period of four years, and Hendrik Scheerlinck was appointed as a director for a period of four years (following his appointment as a member of the EC, he became an executive director, replacing Luc Popelier who resigned from that position).

Changes in the composition of the Board proposed to the General Meeting on 3 May 2018

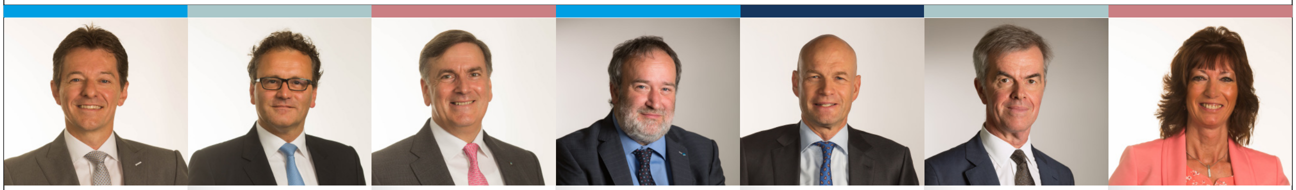
- On the advice of the Nomination Committee, the Board will propose that Júlia Király be re-appointed as an independent director for a new four-year term of office and that Marc Wittemans and Christine Van Rijsseghem be re-appointed as directors.

Like to know more?

The corporate governance charter can be found under 'Corporate Governance' at www.kbc.com.
The agenda for the General Meeting of 3 May 2018 is available at www.kbc.com.

The Group Executive Committee (EC)

Composition of the EC at the end of 2017



Johan Thijs	Daniel Falque	John Hollows	Erik Luts	Luc Popelier	Hendrik Scheerlinck	Christine Van Rijsseghem
°1965	°1963	°1956	°1960	°1964	°1956	°1962
Belgian	Belgian	British	Belgian	Belgian	Belgian	Belgian
Master's Degree in Science (Applied Mathematics) and Actuarial Sciences (KU Leuven)	Master's Degree in International Relations (Université catholique de Louvain)	Master's Degree in Law and Economics (Cambridge University)	Master's Degree in Pedagogy (KU Leuven)	Master's Degree in Applied Economics (UFSIA Antwerp)	Master's Degree in Law (KU Leuven)	Master's Degree in Law (UGent)
Joined company in 1988*	Joined company in 2009*	Joined company in 1996*	Joined company in 1988*	Joined company in 1988*	Joined company in 1984*	Joined company in 1987*
Group CEO (Chief Executive Officer)	CEO of the Belgium Business Unit	CEO of the Czech Republic Business Unit	CIO (Chief Innovation Officer)	CEO of the International Markets Business Unit	CFO (Chief Financial Officer)	CRO (Chief Risk Officer)

* 'Joined company in …' refers to KBC Group NV, group companies or pre-merger entities (Kredietbank, Cera, ABB, etc.).

The following changes in the composition of the EC were made with effect from 5 May 2017:

- Luc Gijsens resigned from the EC, and the Board appointed Hendrik Scheerlinck and Erik Luts as new members.
- Hendrik Scheerlinck became CFO, Erik Luts became Chief Innovation Officer and Luc Popelier became CEO of the International Markets Business Unit.

More information about the members of the EC – including CVs – is provided at www.kbc.com.

Diversity policy

The Board has drawn up a policy regarding the desired amount of diversity in the composition of the Board itself and in the EC. The primary aim of this policy is to guarantee diversity in terms of know-how, experience, gender and geographical background. It aims to ensure that both the Board and the EC can fall back on a broad base of relevant competences and know-how and that they receive diverse opinions and input for their decision-making process.

The policy stipulates that the Board should have a balanced composition to ensure that it – as a whole – has suitable expertise in the area of banking and insurance, the requisite experience in executive management and a broad awareness of societal and technological developments.

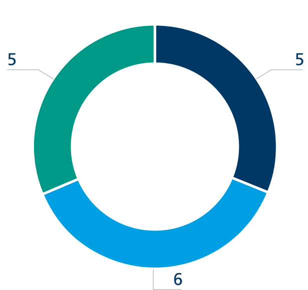
The policy also stipulates that:
- at least one-third of the Board's members must be of a different gender than the other members;
- the members of the Board must be of different nationalities, with due account being taken of the different geographical areas where KBC is active;
- at least three directors must be independent within the meaning of and in line with the criteria set out in Article 526*ter* of the Belgian Companies Code;
- three members of the EC must also sit on the Board (in accordance with the Belgian Act on the status and supervision of credit institutions).

When selecting the members of the Board, account is taken of the specific shareholder structure and, in particular, of the presence of the core shareholders.

The policy also stipulates that the EC should have a balanced composition to ensure that it – as a whole – has suitable expertise regarding the financial sector and, in particular, the requisite know-how relating to all areas in which KBC operates.

Composition of the Board of Directors

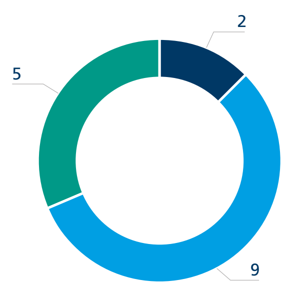
number of years on the Board



- 0-2 years
- 3-10 years
- more than 10 years

(average: 7 years)

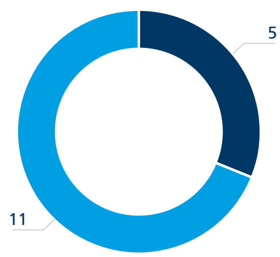
age



- 41-50 years of age
- 51-60 years of age
- older than 60 years of age

(average: 57 years of age)

gender



- female
- male

The policy also stipulates that:

- at least one member of the EC must be of a different gender than the other members;
- the EC should strive towards achieving diversity in terms of the nationality and age of its members;
- all members of the EC must have the necessary financial knowledge, professional integrity and management experience, but have followed different career paths.

On the advice of the Nomination Committee, the Board will see to it that this diversity policy is applied properly, when deciding on the profile of a new director or a new member of the EC (if a vacancy arises) and when nominating someone for appointment to the Board.

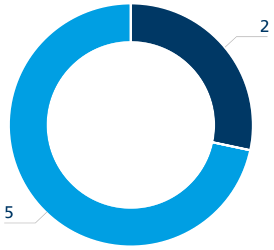
The Nomination Committee regularly checked to see whether this policy was being applied in practice and established that this was the case in 2017. Our aim in the years ahead is to further increase diversity in the composition of the EC. As far as the Board is concerned, it should be noted that the Board of Directors of KBC Group NV meets regularly with the Boards of Directors of KBC Bank and KBC Insurance. The two additional independent directors on each of these two boards provide extra expertise and diversity.

A complete CV for each member of the Board and the EC is provided at www.kbc.com > Corporate Governance > Leadership. An overview of the qualifications held by the members of the Board is provided in a bar chart in the 'Our business model' section.

The following nationalities (apart from Belgian) are represented on the Boards of KBC Group NV, KBC Bank and KBC Insurance: Hungarian, Czech/American, Irish, British, Swedish, Danish and French.

Composition of the Executive Committee

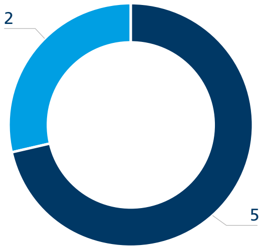
number of years on the EC



- 0-2 years
- 3-10 years

(average: 5 years)

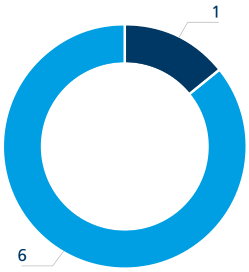
age



- 51-60 years of age
- older than 60 years of age

(average: 56 years of age)

gender



- female
- male

AC: application of Article 96 § 1 9° of the Companies Code

On 31 December 2017, the AC had two independent directors within the meaning of and in line with the criteria set out in Article 526*ter* of the Companies Code and in the Code.

- Vladimira Papirnik (independent director), who holds a Juris Doctor Degree (Northwestern University (US), 1982). She was a senior partner in the law firm of Squire Patton Boggs and – until June 2017 – worked in both Prague and Chicago. Ms Papirnik continues to work on projects for the firm and its clients. She focuses her international business practice on banking, project finance and corporate law (mergers and acquisitions, corporate governance).
- Júlia Király (independent director), who is a graduate of the Budapest University of Economics (1980) and holds a Ph.D in Economics from the Hungarian Academy of Sciences. She was Associate Professor of Finance at the Corvinus University of Budapest for 15 years, specialising in risk management, risk measurement, Basel principles in theory and practice, capital budgeting and bank financial management. She was also responsible for risk management at the Hungarian Central Bank. At present, Ms Király is Head of Department at the International Business School of Budapest and Research Associate at the Centre for Economic and Regional Studies of the Hungarian Academy of Sciences.

The other members of the AC are:

- Marc Wittemans (non-executive director), who holds a Master's Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences. He is Managing Director of MRBB CVBA, the holding company of the Boerenbond (farmers' union), and is the Chairman of the AC.
- Frank Donck (non-executive director), who holds a Master's Degree in Law (UGent) and a Master's Degree in Finance (Vlerick Business School). He is Managing Director of 3D NV, Chairman of Atenor Group NV and Tele Columbus AG, and independent director at Barco NV and Elia System Operator NV.

It can be concluded on the basis of the profiles and competences of the members of the AC that the committee is constructed and has the requisite skills and experience in accordance with the requirements of the Charter and of Article 526*bis*, § 2 of the Companies Code.

RCC: application of section 6.3.6 of the Charter

On 31 December 2017, the RCC of KBC Group NV had one independent director within the meaning of and in line with the criteria set out in Article 526*ter* of the Companies Code and in the Code:

- Vladimira Papirnik (see CV above).

The other members of the RCC are:

- Franky Depickere (non-executive director), who holds Master's Degrees in Trade & Finance (UFSIA Antwerp) and in Financial Management (VLEKHO Business School). He was internal auditor at CERA Bank and has held positions and offices in various financial institutions. He is currently Managing Director at Cera and KBC Ancora. Mr Depickere is the Chairman of the RCC.
- Frank Donck (see CV above).
- Marc Wittemans (see CV above).

It can be concluded on the basis of the profiles and competences of the members of the RCC that each individual member and the committee as a whole possess the requisite skills and experience.

Non-compliance with the Corporate Governance Code

The corporate governance statement included in the annual report must indicate whether any provisions of the Corporate Governance Code have not been complied with and state the reasons for non-compliance (the 'comply-or-explain' principle). This information is provided below.

Provision 5.2./4 of Appendix C to the Corporate Governance Code specifies that at least a majority of the members of the audit committee should be independent. Provision 5.3./1 of Appendix D to the Corporate Governance Code stipulates that the Board should set up a nomination committee composed of a majority of independent non-executive directors.

At year-end 2017, the AC was composed of four non-executive directors, two of whom were independent and two who represented the core shareholders. Independent directors were, therefore, in the minority on this committee.

On 31 December 2017, the Nomination Committee was composed of five directors, one of whom was the Chairman of the Board (who is also an independent director), a second independent director, and three who represented the core shareholders. Two independent directors now sit on this committee. Furthermore, an independent director of KBC Bank is invited to attend every meeting of the Nomination Committee. In this way, three independent directors are involved in its activities.

When selecting the members of the AC and Nomination Committee – as is also the case with the Board – the group takes account of the specific shareholder structure and, in particular, of the presence of the core shareholders. Given their long-term engagement, the Board considered it appropriate to involve them in a suitable manner in the activities of the committees via their representatives on the Board.

Statutory auditor

The statutory auditor, PricewaterhouseCoopers (PwC), was represented by Messrs Roland Jeanquart and Tom Meuleman.

Details of the statutory auditor's remuneration are provided in Note 6.4 of the 'Consolidated financial statements' section.

Report on the activities of the Board and its committees in 2017

Board of Directors (Board)

Besides carrying out the activities required under the Companies Code, reviewing the quarterly results and the activities of the AC, RCC, Nomination Committee and Remuneration Committee, and handling and taking decisions on the dossiers submitted by these committees, the Board also dealt with the following matters:

- KBC's strategy;
- the strategy for Ireland;
- the insurance strategy;
- the strategy and operations in the Czech Republic, Belgium and Slovakia;
- the impact of digitalisation;
- the HR policy;
- the ICAAP-ILAAP Report for 2017;
- the Risk Appetite Statement;
- the risk reports;
- the KBC Group Recovery Plan for 2017;
- the Group Compliance Annual Report.

The EC also reported monthly on the trend in the results and the general course of business at the group's various business units. It also paid regular attention to the strategy and specific challenges for the different areas of activity.

Implementation of the 'Sustainable KBC' strategy is tracked using the KBC Corporate Sustainability Scorecard, which contains sustainability parameters to enable the situation within the KBC group to be monitored and adjustments to be made, where necessary. The Board assesses the performance of these parameters twice a year.

Audit Committee (AC)

The AC is tasked with a number of responsibilities, including advising the Board on the integrity of financial reporting and the effectiveness of the internal control process and risk management. It provides guidance to the internal audit function and oversees the external auditor.

The AC met in the presence of the President of the EC, the Group CRO, the Group CFO, the internal auditor, the compliance officer and the statutory auditors. Besides reviewing the company and consolidated financial statements, the annual report, the half-year and quarterly figures, approving the relevant press releases and discussing the auditor's findings, it also discussed the quarterly reports drawn up by the internal auditor.

The AC also examined:

- the Statement of effective management with regard to the assessment of internal control systems and the monitoring of the resulting action plans;
- intra-group conflicts of interest;
- KBC's outsourcing policy;
- implementation of IFRS 9;
- the results of inspections performed by the supervisory authorities and the action plans drawn up by management.

Risk & Compliance Committee (RCC)

The RCC advises the Board on current and future risk tolerance and on risk strategy, and assists it in supervising how the EC implements this strategy. It ensures that the prices of assets and liabilities and of categories of off-balance-sheet products that are offered to clients, factor in the risks run by the institution, with due account taken of its business model and risk strategy, viz. risks – especially reputational risks – that might arise from the types of product offered to clients. The RCC monitors the risk and compliance functions.

The RCC met in the presence of the President of the EC, the Group CRO, the Group CFO, the internal auditor, the compliance officer and the statutory auditors. Besides discussing the periodic reports from the risk function and the compliance officer (including the annual reports), it also examined the reports drawn up by the legal, tax and branch inspection departments.

In addition, the following special reports were dealt with:

- the Statement of effective management with regard to the assessment of internal control systems and the monitoring of the resulting action plans;
- the ICAAP-ILAAP Report for 2017;
- the KBC ORSA Report for 2017;
- the KBC Recovery Plan for 2017;
- the Risk Appetite Statement;
- Anti-Money-Laundering Risk Appetite;
- Information Security and Cyber Risk;
- implementation of the General Data Protection Regulation (GDPR);
- the risk-related elements of remuneration policy and the pricing of products offered to clients;
- the results of inspections performed by the supervisory authorities and the action plans drawn up by management.

Nomination Committee

Please note that the Nomination Committee of KBC Group NV acts in the same capacity for KBC Insurance and KBC Bank.

The main matters dealt with were:

- appointments and re-appointments to the Board;
- the composition of the Board and the advisory committees;
- the diversity policy.

Remuneration Committee

The Remuneration Committee met each time in the presence of the Chairman of the RCC, with the President of the EC often in attendance too. Please note that the Remuneration Committee of KBC Group NV acts in the same capacity for KBC Insurance and KBC Bank.
The main matters dealt with were:

- the assessment of the criteria for evaluating the EC in 2016;
- the criteria for evaluating the EC in 2017;
- the annual remuneration review;
- the remuneration paid to the non-executive directors on the Related Party Lending Committee;
- the pension paid to Luc Gijsens and the remuneration package awarded to new members of the EC;
- a number of individual severance payments and/or retention payments;
- the remuneration paid to members of the EC.

For a general description of how the Board and its committees function, see sections 5 and 6 of the Charter of KBC Group NV (at www.kbc.com).

Principal features of the evaluation process for the Board, its committees and its members

With a view to constantly improving its own effectiveness, the Board – led by its Chairman – evaluates a number of elements each year, including the composition of the Board, the selection, appointment and training of its members, practical operations (relating to the agenda, meetings, chairmanship, secretariat), reporting to the Board, the type of culture within the Board, the performance of its duties, remuneration, the working relationship with the EC, the shareholders and other stakeholders, the Board's committees, proposed agenda items and training proposals.

On the initiative of the Chairman of the Board, directors who are nominated for re-appointment are subject to an individual evaluation that focuses on their efforts and effectiveness within the Board and – where appropriate – their performance as chairman or member of a committee of the Board. This evaluation is performed by the Chairman. The Board evaluates the Chairman who must not be present when the evaluation is being performed.

Once a year, non-executive directors assess how they interact with the executive management. To that end, they meet at least once a year without the executive directors.

Each Board committee regularly carries out an evaluation of its own composition and workings, before reporting its findings and, where necessary, making proposals to the Board.

On the initiative of the President of the EC, the full EC discusses its objectives and assesses its performance once a year. Each year, the President of the EC evaluates each member of the EC individually. The individual evaluation of the President is performed by the Chairman of the Board.

Policy regarding transactions between the company and its directors, not covered by the statutory regulations governing conflicts of interest

The Board worked out an arrangement regarding transactions and other contractual ties between the company (including its affiliated companies) and its directors, not covered by the conflict of interest rule set out in Articles 523 or 524*ter* of the Companies Code. It has been incorporated into the Charter. There were no transactions that required this arrangement to be applied during the 2017 financial year.

Measures regarding insider dealing and market manipulation

The Dealing Code requires a list of key employees to be drawn up, annual blocking periods to be set, and transactions by persons with managerial responsibility and with persons connected with them to be reported to the Belgian Financial Services and Markets Authority (FSMA).

Conflicts of interest that fall within the scope of Article 523, 524 or 524*ter* of the Companies Code

There were no conflicts of interest during the 2017 financial year that required the application of Article 523 or 524*ter* of the Companies Code.

The committee comprising three independent directors took a decision in January 2017 to apply the framework decision (taken by the Board on 24 November 2005, in compliance with the full procedure set out in Article 524 of the Companies Code), authorising it to investigate *a priori* all future transactions between KBC Group NV affiliated companies that

– at the consolidated level – are neutral (under property law), and to decide whether it is necessary to repeat the procedure described in Article 524 of the Companies Code. In this particular case, the committee assessed the transaction in which CBC Banque SA would acquire part of a portfolio of movable property leases from KBC Lease Belgium NV. The committee was of the view that the valuation methods were in line with the market and that the transaction was not detrimental to KBC Group NV. It decided that it was not necessary to repeat the procedure in Article 524 of the Companies Code and that simple notification of the transaction to the Board was sufficient. The Board was informed of this matter at its meeting of 19 January 2017.

Main features of the internal control and risk management systems

Part 1: Description of the main features of the internal control and risk management systems at KBC

A clear strategy, organisational structure and division of responsibilities set the framework for the proper performance of business activities

We examine the strategy and organisational structure of the KBC group in the 'Our business model' and 'Our strategy' sections of this annual report.

The KBC group has a dual governance structure based on the Belgian model:

- The Board is responsible for defining general strategy and policy. It exercises all the responsibilities and activities reserved to it under the Companies Code and – based on a proposal by the EC – decides on the overall risk appetite.
- The EC is responsible for the operational management of the company within the confines of the general strategy and policy approved by the Board. To assume its specific responsibility towards financial policy and risk management, the EC appoints a chief financial officer (CFO) and a chief risk officer (CRO) from among its ranks.

The Charter describes the mutual responsibilities of both management bodies, their composition and activities, as well as the qualification requirements for their members. Their composition and activities are dealt with in more detail elsewhere in this section.

Corporate culture and integrity policy

Ethical behaviour and integrity are essential components of corporate social responsibility. Honesty, correctness, transparency and confidentiality, together with sound risk management, are part of the high ethical standards that KBC stands for – both in the spirit and the letter of the applicable regulations. Therefore, KBC treats its clients in a fair, reasonable, honest and professional manner.

These principles are set out in the integrity policy, as well as in specific codes, instructions and codes of conduct. They are also incorporated into specific training courses and campaigns for staff. The main policy guidelines and codes of conduct are communicated in a fully transparent manner under 'Corporate Sustainability' at www.kbc.com.

One of the topics covered by the integrity policy is 'conduct risk', a relatively recent concept that identifies the risk arising from the inappropriate provision of financial services. To address this matter, KBC has drawn up a comprehensive policy that includes prevention, monitoring and reporting. Extensive, group-wide communication campaigns and dilemma training ensure that the necessary awareness of this risk is in place. The integrity policy was updated in 2017 to bring it into line with new regulatory developments (money laundering, data protection) and new developments in the digital world, without losing sight of our values, including client centricity.

KBC's Integrity Policy focuses primarily on the following areas, for which – where appropriate – specific group-wide compliance rules have been issued, i.e. for:

- combating money laundering and the funding of terrorism, and observing embargoes;
- preventing fiscal irregularities including special mechanisms for tax evasion;
- protecting the investor by, for instance, complying with relevant codes of conduct for investment services and the distribution of financial services, preventing conflicts of interest (MiFID) and market abuse, including insider trading;
- protecting privacy, confidentiality of information and the professional duty of discretion;
- protecting insurance policyholders;

- respecting rules on market practices and consumer protection;
- respecting the governance aspects of CRD IV, Solvency II and/or local laws, including incompatibility of offices, remuneration policy, 'Fit & Proper' requirements, conflicts of interest and the provision of advice on outsourcing.

The integrity policy also maintains a strong and comprehensive focus on ethics and combating fraud:

- By running focused campaigns and training courses, KBC proactively ensures that this ethical attitude is ingrained in the DNA of each employee. The elements of this policy are firmly embedded in the code of conduct and various other policy guidelines referred to in this section.
- Various departments such as Compliance, Inspection, Internal Audit – as well as KBC's business side – engage in the prevention and detection of fraud. For complex fraud cases and/or incidents with an impact at group level, investigations are conducted and/or co-ordinated by Group Compliance in its capacity as the group competence centre for fraud.
- The 'Policy for the Protection of Whistleblowers in the KBC group' ensures that employees who act in good faith to report fraud and gross malpractice are protected (see below).
- In line with the UK's Modern Slavery Act, KBC has published a 'Modern Slavery Act Statement' in which it resolves to combat every form of 'modern slavery' in its business activities.

The 'Code of Conduct for KBC Group Employees' is a generalised document based on a set of group values that outlines how all members of staff should conduct themselves. It forms the basis for developing specialised codes of conduct for specific target groups and for drawing up policy guidelines at group level. It is also the source of inspiration for awareness-raising campaigns and training courses.

Combating corruption and bribery

The 'KBC Anti-Corruption & Bribery Policy' affirms KBC's position in the fight against and its resolve to prevent corruption in its activities and operations, while setting out the measures that have been or will be taken to achieve this. It applies to all KBC employees, entities, business activities and transactions, as well as to KBC's counterparties and suppliers. Consequently, it covers all transactions carried out by KBC staff and by all persons or entities performing activities on behalf of KBC or who represent KBC in any capacity.

The main risks associated with corruption and bribery include potential manipulation, conflicts of interest, non-objective pricing and subjective awarding of contracts. Given the potential consequences of these risks and especially the impact on the group's reputation, KBC pursues a policy of zero-tolerance towards fraud and gross malpractice.

Combating corruption and avoiding conflicts of interest, in general, are dealt with as part of an authoritative training course, which 338 employees in Belgium attended in 2017. This topic is also covered by an e-learning course, which was taken by more than 1 000 members of staff in Belgium in the same period. At the group's Central European entities, anti-corruption and anti-bribery courses are integrated into compliance training and provided face-to-face or via e-learning. All employees have to take these courses at three banks (more than 7 000 staff followed e-learning courses at ČSOB Bank in the Czech Republic, as did over 2 000 staff at ČSOB Bank in Slovakia, and roughly 4 000 staff at K&H Bank in Hungary). At CIBANK/United Bulgarian Bank, courses were provided to new and existing employees. In Ireland, this training formed part of the compliance ethics e-learning course, which is provided each year (almost 1 200 staff members took the course).

Another element of the Anti-Corruption & Bribery Policy is the 'policy on gifts, donations and sponsorship' through which KBC endeavours to protect its employees and the other parties involved by means of criteria that have been drawn up to foster transparent and reasonable behaviour. This policy states that gifts, donations or invitations, whose equivalent value exceeds a certain sum (on an annual basis), must be reported to and approved by management. In 2017, 16 incidents of this kind were reported in Belgium. In Central Europe, too, gifts and donations above a certain value have to be reported (58 such incidents were reported in the Czech Republic, 8 in Hungary and none in Slovakia and Bulgaria).

KBC has a policy in place regarding whistleblowers. It expects staff going about their work to look out for signs of crime, any serious infringements of rules or regulations, or other malpractice on the part of employees and clients. Every member of staff has a basic moral duty to report any suspicions of such conduct. KBC encourages all its employees to use the customary reporting lines and to discuss any specific concerns with line management first. If that is not possible, they can resort to one of the reporting channels specified in the policy for the protection of whistleblowers. Under that

policy, KBC guarantees to protect the identity of the whistleblowers and to protect them against any detrimental consequences of acting in good faith to voice their suspicions in the way set out in the internal rules. In accordance with these principles, KBC likewise protects and respects the rights of the person about whom concerns are reported. Group Compliance oversees how this policy is implemented in practice.
In principle, the local compliance function is the entity where all the reports and files are centralised. It has to inform the Group Compliance's Ethics & Fraud Unit about every whistleblowing file. The whistleblower policy is required to be published internally and externally (the 'Policy for the Protection of Whistleblowers in the KBC group' is available under 'Corporate Sustainability' at www.kbc.com).

The 'Three Lines of Defence' model arms KBC against risks that could prevent targets from being achieved

To arm itself against the risks that it is exposed to in achieving its mission, the EC – under its responsibility and the supervision of the Board – has implemented a multi-layered internal control system. This system is commonly known as the 'Three Lines of Defence' model.

1 The business side assumes responsibility for managing its own risks

The business operations side is fully responsible for all the risks in its area of activity and has to ensure that effective controls are in place. In so doing, it ensures that the right controls are performed in the right way, that self-assessment of the business side is of a sufficiently high standard, that there is adequate awareness of risk and that sufficient priority/capacity is allocated to risk themes.

2 As independent control functions, the Group risk function and Compliance, and – for certain matters – Finance, Legal, Tax and Information Risk Security, constitute the second line of defence

Independent of the business side, the second-line risk and control functions formulate their own opinion regarding the risks confronting KBC. In this way, they provide an adequate degree of certainty that the first-line control function is keeping these risks under control, without taking over primary responsibility from the first line. In this regard, the second-line functions are tasked to identify, measure and report risks. The risk function has a veto right to ensure that it is respected. The second-line risk and control functions also support the consistent implementation of the risk policy, the risk framework, etc., throughout the group, and supervise how they are applied.

Compliance is an independent function within the KBC group, protected by its modified status (as described in the Compliance Charter), its place in the organisation chart (hierarchically under the CRO with a functional reporting line to the President of the EC) and its reporting lines (reporting to the RCC as the highest body and even to the Board in certain cases). Its prime objective is to prevent KBC from running a compliance risk or from incurring loss/damage – regardless of its nature – due to non-compliance with applicable laws, regulations or internal rules that fall either within the scope of the compliance function or within the areas assigned to it by the EC. Hence, the compliance function devotes particular attention to adherence to the integrity policy.

3 As independent third line of defence, Internal Audit provides support to the EC, AC and RCC in monitoring the effectiveness and efficiency of the internal control and risk management system

Internal Audit is responsible for the quality control of the existing internal audit processes. It performs risk-based and general audits to ensure that the internal control and risk management system, including corporate governance and risk policy, are effective and efficient, and to ensure that policy measures and processes are in place and consistently applied within the group to guarantee the continuity of operations.

Responsibilities, features, organisational structure and reporting lines, scope, audit methodology, co-operation between internal audit departments of the KBC group, and outsourcing of internal audit activities are set out in the *Audit Charter* of KBC Group NV.

In accordance with international professional audit standards, an external entity screens the audit function on a regular basis (the last time this happened was in 2014). The results of that exercise were reported to the EC and the AC.

The AC and RCC play a central role in monitoring the internal control and risk management systems

Each year, the EC evaluates whether the internal control and risk management system is still compliant and reports its findings to the AC and RCC.

These committees supervise, on behalf of the Board, the integrity and effectiveness of the internal control measures and the risk management system set up under the EC, paying special attention to correct financial reporting. They also examine the procedures set up by the company to see whether they comply with the law and other regulations.

Their role, composition and activities, along with the qualifications of their members, are laid down in their respective charters, which are included under the Charter of KBC Group NV. More information on these committees is provided elsewhere in this section.

Part 2: Description of the main features of the internal control and risk management systems in relation to the financial reporting process

It is vitally important that timely, accurate and understandable financial reports are provided to both internal and external stakeholders. To ensure this is the case, the underlying process needs to be sufficiently robust.

Periodic reporting at company level is based on a documented accounting process. A manual on the accounting procedures and financial reporting process is available. Periodic financial statements are prepared directly from the general ledger. Bookkeeping accounts are examined to see whether they correspond to underlying inventories. The result of these controls can be demonstrated. Periodic financial statements are prepared in accordance with local accounting policies and periodic reports on own funds in accordance with the most recent National Bank of Belgium (NBB) resolutions.

The main affiliated companies have their own accounting and administrative organisation, as well as a set of procedures for internal financial controls. The consolidation process is explained in a descriptive document. The consolidation system and the consolidation process have been operational for some time and have numerous built-in consistency controls.

The consolidated financial statements are prepared in accordance with IFRS accounting policies that apply to all the companies included in the scope of consolidation. The relevant senior financial managers (CFOs) of the subsidiaries certify to the accuracy and completeness of the financial figures reported in accordance with group accounting policies. The Approval Committee, which is chaired by the general managers of Financial Insight & Communication and of Experts, Reporting & Accounting, monitors compliance with IFRS accounting policies.

Pursuant to the Act of 25 April 2014 on the status and supervision of credit institutions, the EC of KBC Group NV evaluated the internal control system for the financial reporting process and prepared a report on its findings.

The group-wide roll-out of ‘fast close’ procedures, the monitoring of intercompany transactions within the group, and permanent follow-up of a number of indicators relating to risk, performance and quality (Key Risk Indicators and Key Performance Indicators) continually help raise the quality of both the accounting process and the financial reporting process.

The internal control of the accounting process has been based on Group Key Control Accounting and External Financial Reporting standards since 2006. These rules for managing the main risks attached to the accounting process involve the establishment and maintenance of accounting process architecture, the establishment and maintenance of accounting policies and accounting presentations, compliance with authorisation rules and the separation of responsibilities when transactions are registered in the accounts, and the establishment of appropriate first- and second-line account management.

The Challenger Framework (2012) and Data Management Framework (2015) define a solid governance structure and clearly describe the roles and responsibilities of the various players in the financial reporting process. The aim here is to radically reduce reporting risks by challenging input data and improving the analysis of – and therefore insight into – the reported figures.

Each year, when preparing the Internal Control Statement for the supervisory authorities, the legal entities have to assess themselves as to whether they comply with the Group Key Control Accounting and External Financial Reporting standards. The findings of this self-assessment are registered in the risk function’s Group Risk Assessment Tool. Business process management (BPM) techniques are also applied, using process inventories, process descriptions (turtle diagrams) and analyses of the potential risks in the processes (Failure Mode & Effects Analysis (FMEA)), supplemented by the questionnaire completed by the CFOs. In this way, the CFOs formally confirm by substantiated means that all the defined roles and responsibilities relating to the end-to-end process for external financial reporting have been properly assumed within their entity. The veracity of this confirmation can be checked at any time by all the internal and external stakeholders involved.

KBC Group NV's Internal Audit function conducts an end-to-end audit of the accounting process and external financial reporting process at both company and consolidated level.

For details of the AC's supervisory work, see the preceding paragraphs.

Disclosure under Article 34 of the Belgian Royal Decree of 14 November 2007 concerning the obligations of issuers of financial instruments admitted to trading on a regulated market

1 Capital structure on 31 December 2017

The share capital was fully paid up and was represented by 418 597 567 shares of no nominal value. More information on the group's capital can be found in the 'Company annual accounts and additional information' section.

2 Restrictions on transferring securities as laid down by law or the Articles of Association

Each year, KBC Group NV carries out a capital increase reserved for its employees and the employees of certain of its Belgian subsidiaries. If the issue price of the new shares is less than the closing price, these new shares may not be transferred by the employee for two years, starting from the payment date, unless he or she dies. The shares subscribed to by employees under the capital increase decided upon by the Board on 15 November 2017 are blocked until 19 December 2019. The shares issued under the capital increase in 2016 also remain blocked (until 19 December 2018).

The options on KBC Group NV shares held by employees of the various KBC group companies and allocated to them under stock option plans set up at different points in time, may not be transferred *inter vivos*. For information on stock options for staff, see Note 3.8 in the 'Consolidated financial statements' section.

3 Holders of any securities with special control rights

None.

4 Systems of control of any employee share scheme where the control rights are not exercised directly by the employees

None.

5 Restrictions on exercising voting rights as laid down by law or the Articles of Association

The voting rights attached to the shares held by KBC Group NV and its direct and indirect subsidiaries are suspended. At 31 December 2017, these rights were suspended for 64 847 shares.

6 Shareholder agreements known to KBC Group NV that could restrict the transfer of securities and/or the exercise of voting rights

The core shareholders of KBC Group NV comprise KBC Ancora Comm.VA, its parent company Cera CVBA, MRBB CVBA, and a group of legal entities and individuals referred to as 'Other core shareholders'.

Based on the most recent notifications provided to KBC, their shareholdings are:

- KBC Ancora Comm.VA: 77 516 380
- Cera CVBA: 11 127 166
- MRBB CVBA: 47 887 696
- Other core shareholders: 31 109 379

That is a total of 167 640 621 KBC Group NV shares representing an equal number of voting rights, or 40.05% of the total number of such rights on 31 December 2017.

A shareholder agreement was concluded between these core shareholders in order to ensure shareholder stability and guarantee continuity within KBC Group NV, as well as to support and co-ordinate its general policy. To this end, the core shareholders act in concert at the General Meeting of KBC Group NV and are represented on its Board.

The core shareholder agreement provides for a contractual shareholder syndicate. It sets out the rules for the syndicated shares, management of the syndicate, syndicate meetings, voting rights within the syndicate, preferential subscription rights in the event of the transfer of syndicated shares, withdrawal from the agreement, and duration of the agreement. Apart from a limited number of decisions, the syndicate meeting may – in the absence of a consensus – take decisions by a two-thirds majority vote, on the understanding that none of the shareholder groups can block a decision. The agreement was extended for a new ten-year period, with effect from 1 December 2014.

7 Rules governing the appointment and replacement of board members and the amendment of the Articles of Association of KBC Group NV

Appointment and replacement of members of the Board:

Following the approval of or notification to the supervisory authority, proposals to appoint nominated directors or to re-appoint directors are submitted by the Board to the General Meeting for approval. Each proposal is accompanied by a documented recommendation from the Board, based on the advice of the Nomination Committee. Without prejudice to the applicable legal provisions, nominations are communicated as a separate agenda item for the General Meeting at least thirty days before it is held.

When nominating an independent director, the Board will state whether the individual meets the independence criteria of the Companies Code. The General Meeting appoints directors by a simple majority of votes cast. From among its non-executive members, the Board elects a chairman and one or more deputy chairmen, if necessary. Outgoing directors are always eligible for re-appointment.

If, during the course of a financial year, a directorship falls vacant as a result of decease, resignation, dismissal or for any other reason, the remaining directors may provisionally arrange for a replacement and appoint a new director. In that case, the next General Meeting will proceed to a definitive appointment. A director appointed to replace a director whose term of office had not yet come to an end will complete this term of office, unless the General Meeting decides on a different term of office when making the definitive appointment.

Amendment of the Articles of Association:

Unless stipulated otherwise, the General Meeting is entitled to amend the Articles of Association. Accordingly, the General Meeting may only validly deliberate and take decisions about such amendments if they have been expressly proposed in the convening notice and if those attending the meeting represent at least half the share capital. If the latter condition is not satisfied, a new convening notice is required and the new meeting can validly deliberate and take decisions, regardless of the share of capital represented by the shareholders attending the meeting. An amendment is only adopted if it receives three-quarters of the votes cast (Article 558 of the Companies Code).

If an amendment to the Articles of Association pertains to the object of the company, the Board must justify the proposed amendment in a detailed report that is referred to in the agenda. A statement of assets and liabilities drawn up no longer than three months previously must be included in this report and be reported on separately by the statutory auditors. Copies of the reports in question can be obtained in accordance with Article 535 of the Companies Code. If these reports do not appear, decisions taken at the General Meeting will be null and void. The General Meeting may only deliberate and take decisions validly on changes in the object of the company if those present not only represent half of the share capital (…). If this condition is not satisfied, a second convening notice is required. To ensure that the second meeting can deliberate and take decisions validly, it is sufficient that some of the capital is represented. An amendment will then only be adopted if it receives at least four-fifths of the votes cast. (…) (excerpt from Article 559 of the Companies Code).

8 Powers of the Board with regard to the issue and repurchase of treasury shares

The General Meeting authorised the Board until 20 May 2018 to increase, in one or more steps, the share capital by a total amount of 700 million euros, in cash or in kind, by issuing shares. The Board is also authorised until the same date to decide on one or more occasions to issue convertible bonds (whether subordinated or otherwise) or warrants that may or may not be linked to bonds (whether subordinated or otherwise) that could result in capital being increased within the 700 million euros referred to above. Under this authorisation, the Board can suspend or restrict preferential subscription rights, subject to the limits laid down by law and the Articles of Association.

On 15 November 2017, the Board decided to use its authorisation to increase capital by issuing shares without preferential subscription rights to employees at a price of 59.60 euros per share and with a limit of 58 shares per employee. On 21 December 2017, the issued share capital was increased by 784 687.80 euros (represented by 225 485 new shares). For the impact of excluding preferential subscription rights, see 'Notes to the company annual accounts'.

As a result, the authorised capital amounted to 694 326 862.24 euros at year-end 2017. Consequently, when account is taken of the accounting par value of the share on 31 December 2017, a maximum of 199 519 213 new shares can still be issued, i.e. 47.66% of the number of shares in circulation at that time.

The General Meeting of 2 May 2013 authorised the Board (and also granted it a power of sub-delegation) to acquire maximum 250 000 shares over a five-year period. The shares may be acquired at a price that may not be higher than the last closing price on Euronext Brussels prior to the date of acquisition, plus 10%, and not lower than 1 euro. Within the confines of the law, this authorisation is valid for all acquisitions for a consideration, in the broadest sense of the term, on or off the exchange.

The boards of KBC Group NV and its direct subsidiaries received authorisation to sell their KBC Group NV shares on or off the exchange. In the latter case, the price may not be lower than that prevailing on the exchange at the time of sale, less 10%. On 31 December 2017, KBC Group NV and its *direct* subsidiaries held 64 847 KBC Group NV shares.

9 Significant agreements to which KBC Group NV is a party and which take effect, alter or terminate upon a change of control of KBC Group NV following a public takeover bid

None.

10 Agreements between KBC and its directors or employees providing for compensation if the directors resign or are made redundant, or if employees are made redundant, without valid reason following a public takeover bid

None.

Shareholder structure on 31 December 2017

Notifications of shareholdings are provided:

- under the Act of 2 May 2007;
- under the Act on public takeover bids;
- on a voluntary basis.

A summary containing the most recent disclosures is provided under 'Our business model' in the 'Report of the Board of Directors' section.

It should be noted that the figures provided below may differ from the current number of shares in possession, as a change in the number held does not always give rise to a new notification.

Shareholder structure based on notifications received under the Act of 2 May 2007 concerning the disclosure of significant participations in issuers whose shares are admitted to trading on a regulated market

Article 10*bis* of the Articles of Association of KBC Group NV stipulates the threshold at which individuals must disclose their shareholdings. KBC publishes these notifications on www.kbc.com. The table provides an overview of the shareholder structure at year-end 2017, based on all the notifications received by 31 December 2017. The 'Company annual accounts and additional information' section also contains an overview of notifications received in 2017 (and the first two months of 2018).

Shareholder structure on 31-12-2017 (based on the most recent notifications received pursuant to the Act of 2 May 2007)	Address	Number of KBC shares/voting rights (as a % of the current number of shares/voting rights)	Notification relating to
KBC Ancora Comm.VA	Muntstraat 1, 3000 Leuven, Belgium	77 516 380 (18.52%)	1 December 2014
Cera CVBA	Muntstraat 1, 3000 Leuven, Belgium	11 127 166 (2.66%)	1 December 2014
MRBB CVBA	Diestsevest 40, 3000 Leuven, Belgium	47 889 864 (11.44%)	1 December 2014
Other core shareholders	C/o Ph. Vlerick, Ronsevaalstraat 2, 8510 Bellegem, Belgium	32 020 498 (7.65%)	1 December 2014
KBC group companies	Havenlaan 2, 1080 Brussels, Belgium	300 (0.00%)	16 October 2012
BlackRock Inc.*	55 East 52nd Street, New York, NY 10055, United States	20 982 248 (5.01%)	28 November 2017
Parvus Asset Management Europe Ltd.	7 Clifford Street, London W1S 2FT, United Kingdom	12 341 146 (2.95%)	13 February 2015

* Excluding the 'voting rights that may be acquired if the instrument is exercised' as stated under 'B) Equivalent financial instruments' in the transparency notification (available at www.kbc.com).

Disclosures under Article 74 of the Belgian Act on public takeover bids

Within the framework of this law, KBC Group NV received a number of updated disclosures on 28 August 2017. The entities and individuals referred to below act in concert.

A Disclosures by
a legal entities
b individuals holding 3% or more of securities carrying voting rights[1]

Shareholder	Shareholding (quantity)	%[2]	Shareholder	Shareholding (quantity)	%[2]
KBC Ancora Comm. VA	77 516 380	18.52	Beluval NV	420 558	0.10
MRBB CVBA	47 887 696	11.44	Dufinco BVBA	400 002	0.10
Cera CVBA	11 127 166	2.66	Cecan Invest NV	397 563	0.09
Ravago Finance NV	4 380 500	1.05	Robor NV	359 606	0.09
SAK AGEV	4 282 454	1.02	Sereno SA	321 408	0.08
VIM CVBA	3 884 500	0.93	Rodep Comm. VA	304 181	0.07
3D NV	2 491 893	0.60	Bareldam SA	260 544	0.06
Almafin SA	1 621 589	0.39	Efiga Invest SPRL	230 806	0.06
De Berk BVBA	1 138 208	0.27	Gavel Comm. VA	220 024	0.05
Algimo NV	1 040 901	0.25	Promark International NV	199 008	0.05
SAK PULA	981 450	0.23	Ibervest	190 000	0.05
Rainyve SA	941 958	0.23	SAK Iberanfra	120 107	0.03
Alia SA	937 705	0.22	Agrobos	45 000	0.01
Stichting Amici Almae Matris	912 731	0.22	Willig	41 646	0.01
Ceco CVA	591 249	0.14	Filax Stichting	38 529	0.01
Niramore International SA	544 131	0.13	Hendrik Van Houtte CVA	25 920	0.01
Van Holsbeeck NV	502 822	0.12	Isarick NV	8 885	0.00
Nascar Finance SA	485 620	0.12	Vobis Finance NV	685	0.00
Cecan NV	466 002	0.11			

B Disclosures by individuals holding less than 3% of securities carrying voting rights
(the identity of the individuals concerned does not have to be disclosed)

Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]
861 395	0.21	159 100	0.04	89 562	0.02	40 000	0.01
285 000	0.07	107 744	0.03	89 562	0.02	20 836	0.00
182 826	0.04	107 498	0.03	70 500	0.02	3 431	0.00
166 200	0.04	91 000	0.02	46 540	0.01		

1 No such disclosures were received.
2 The calculation (%) of the total outstanding number of shares is based on the total number of shares on 31 December 2017.

Remuneration report for financial year 2017

Procedures for developing the remuneration policy and for determining the remuneration granted to individual directors and members of the EC

General: The remuneration policy for the Board and EC takes account of prevailing legislation, the Code and market data. The many statutory and regulatory provisions imposed on financial institutions create a highly restrictive framework that offers little scope for KBC to pursue its own policy in this regard. It is monitored and regularly checked by the Remuneration Committee – with the assistance of specialist members of staff – to see whether it complies with changes in the law, the Code, and prevailing market practices and trends. The Chairman of the Remuneration Committee informs the Board of the committee's activities and advises it of any changes to the remuneration policy and its practical implementation. The full minutes of the meetings of the Remuneration Committee are provided to the Board for information purposes. The Board may also act on its own initiative, or on a proposal from the EC, and instruct the Remuneration Committee to examine potential changes to the remuneration policy and to advise it accordingly. If required by law, the Board will submit any policy changes to the General Meeting for approval. The RCC assists the Board in drawing up a sound remuneration policy and also checks each year whether that policy, when implemented, is consistent with healthy and effective risk management, and whether or not the incentives in the system promote risks.

Board: On the basis of advice obtained from the Remuneration Committee, the Board decides on proposals to change the remuneration package for its members and submits such proposals for approval at the General Meeting.

EC: On the basis of advice obtained from the Remuneration Committee and taking account of the established remuneration policy, the Board determines the remuneration to be granted to members of the EC, and assesses this amount at regular intervals. The amount in question is split into a fixed component and a profit-related/performance-related component.

General framework

The policy for remunerating members of senior management (Board, EC, top management and 'risk takers') is published in the Remuneration Policy. It contains a number of group-wide principles relating primarily to the variable remuneration component. The main principles stipulate that:

- variable remuneration must always comprise a profit-related component (at least 10% of which is based on the results of the KBC group – not applicable to ČSOB employees in the Czech Republic on account of this being explicitly prohibited by the Czech National Bank) and a performance-related component;
- at least 40% of variable remuneration awarded to top management, also known as key identified staff (KIS), may not be paid straightaway but its payment is to be spread over a period of three years. For members of the EC and for senior general managers, this is 50% (or even 60% if the variable remuneration component exceeds 200 000 euros), with its payment being spread over a period of five years;
- half of the total amount of variable remuneration for KIS be awarded in the form of equity-related instruments (phantom stocks) so that the longer-term effects of the policy on the value of the KBC group can also be reflected in the variable remuneration component;
- no advance payments may be made in relation to the variable component and clawback/holdback provisions are put in place;
- the variable remuneration component may not exceed half of the fixed component;
- variable remuneration be capped at a nominal 750 000 euros;
- the criteria for assessing the performance of the EC member responsible for the risk function may not refer in any way to the results of the KBC group;
- at least one of the criteria used for assessing the performances of top management must always relate to risk;
- at least 10% of variable remuneration awarded to top management must also be subject to the achievement of individual targets that have been agreed beforehand in relation to the group's sustainability policy.

Risk-adjusted profit (RAP) is used to set results-based variable remuneration. For certain categories of key identified staff for whom the competent control function has assessed that the RAP is an inadequate risk-adjustment mechanism, this framework will be supplemented by additional performance indicators that are better designed to measure risk.

Clawback provisions

As already explained above, payment of the total annual variable remuneration is not only spread over time, half of it is also awarded in the form of phantom stocks that are subject to a retention period of one year (i.e. they are only converted into cash one year after being awarded). The variable remuneration component, including the deferred part, is only acquired when this can be reconciled with the financial situation of the entire institution and justified by the performances of the KBC group and the EC.

Action can be taken regarding payment of deferred amounts that have still to be acquired (malus arrangement), when:

- There is evidence of misconduct or serious error on the part of the employee (for example, a violation of the code of conduct or other internal rules, particularly in relation to risks).
- Either the net result excluding non-recurrent profit, or the risk-adjusted (underlying) profit of the KBC group and/or the underlying KBC entity in the year preceding the one in which the amounts are to be acquired, has fallen by at least 50% since the year in which the variable remuneration was awarded. In such a situation, the malus arrangement will be applied to the deferred amounts that have still to be acquired (and that relate to the year they were awarded), unless the Remuneration Committee of KBC Group NV provides well-reasoned advice to the Board not to apply this arrangement. The Remuneration Committee will also provide advice on the percentage that should be applied to the malus arrangement. The Board is responsible for the final decision in this regard.
- Either the net result excluding non-recurrent profit, or the risk-adjusted profit of the KBC group, is negative in the year preceding the one in which the amounts are to be acquired. In that case, all the deferred amounts that have still to be acquired (usually in the year following the one in which the negative result was posted) will not be acquired and will therefore be relinquished.

In this regard, the Board takes a decision on the advice of the Remuneration Committee.

Variable remuneration already acquired will exceptionally be clawed back when there is:

- evidence of fraud;
- (use of) misleading information.

Remuneration awarded to non-executive directors

- The remuneration paid to non-executive directors consists solely of an annual fixed component (non-performance-related and non-results-based) plus the fee received for each meeting attended. Attendance fees constitute the main element of this remuneration package. If meetings coincide with Board meetings of KBC Bank and/or KBC Insurance, the attendance fee will be paid just once to directors sitting on more than one of these Boards. Given his duties, the Deputy Chairman receives a higher fixed component.
- In light of the considerable time he devotes to the ongoing supervision of KBC group affairs, the Chairman of the Board receives a different remuneration package that comprises solely a fixed component, which is set separately by the Remuneration Committee and approved by the Board.
- The directors sitting on the AC or RCC receive an additional fixed emolument for the work they perform in that regard. The rule likewise applies that, if meetings coincide with AC or RCC meetings of KBC Bank and/or KBC Insurance, the emolument will be paid just once to directors sitting on different committees. The chairmen of the AC and RCC receive a higher fixed emolument. Directors sitting on either the Nomination Committee or the Remuneration Committee do not receive additional remuneration for the work they perform in that regard.
- In light of the considerable time required for directors residing outside Belgium to attend Board meetings, additional remuneration (attendance fees) is paid to them for each meeting attended.
- KBC Group NV does not grant loans to directors. Loans or guarantees may, however, be granted by KBC Group NV banking subsidiaries pursuant to Article 72 of the Banking Act of 25 April 2014, meaning that loans may be granted at terms applying to clients and approved by the Board.

Individual remuneration awarded to non-executive directors of KBC Group NV

In accordance with the remuneration system described above, the non-executive directors of KBC Group NV – and, where relevant, of other companies of the KBC group in Belgium or abroad – received the amounts set out in the following table. The members of the EC who also sit on the Board as executive directors did not receive either a fixed remuneration or any attendance fees.

Remuneration per individual director (on a consolidated basis, in EUR)

	Remuneration (for FY 2017)	Remuneration for AC and RCC members (for FY 2017)	Attendance fees (for FY 2017)
Thomas Leysen	500 000	–	–
Alain Bostoen	30 000	–	45 000
Katelijn Callewaert	40 000	–	50 000
Sonja De Becker	40 000	–	45 000
Franky Depickere	65 000	130 000	56 250
Frank Donck	30 000	30 000	45 000
Júlia Király	20 000	30 000	75 000
Walter Nonneman	40 000	–	50 000
Vladimira Papirnik	20 000	30 000	75 000
Theodoros Roussis	30 000	–	40 000
Matthieu Vanhove	40 000	–	50 000
Philippe Vlerick	60 000	–	50 000
Marc Wittemans	40 000	60 000	50 000

Remuneration policy for the next two financial years

It is not the intention to make any changes to the remuneration awarded to non-executive directors. In 2016, a comparison was again made with BEL 20 companies and an extensive sample of continental European financial institutions. The results that emerged indicated that there was no need to adjust the size of this emolument.

Remuneration paid to the President and the other members of the EC

- In accordance with the KBC group's remuneration policy, individual remuneration paid to EC members comprises:
  - a fixed monthly emolument;
  - an annual, performance-related variable emolument (the amount of which depends on the performance of the EC as a whole and on the performance of the institution (assessed on the basis of pre-agreed criteria));
  - an annual, individual variable emolument based on the performance by each member of the EC and on the example they set in respecting the group's values;
  - any emolument for offices performed on behalf of KBC Group NV (exceptional).
- A quantitative risk-adjustment mechanism (called a 'risk gateway') is used to set the variable remuneration. It comprises a number of capital and liquidity parameters that have to be met before the variable remuneration component may be awarded. The parameters are set each year by the Board. If one or more of these parameters are not met, not only will this remuneration component not be awarded, but payment of deferred amounts relating to previous years will be suspended in that year, too.
- For members of the EC, the individual variable component is set on the basis of an assessment of the performance of the member in question. On the basis of the advice obtained from the Remuneration Committee (which takes due account of the assessment performed by the President of the EC), the Board awards each member of the EC a score for each of the five aspects of our corporate culture (PEARL: *Performance, Empowerment, Accountability, Responsiveness* and *Local Embeddedness*) and the core value of being *Respectful*. The aggregate score for these six aspects ultimately determines the size of the individual variable emolument.
- On the advice of the Remuneration Committee, the Board sets the performance-related variable component on the basis of an assessment of a number of pre-agreed criteria relating to the performances of the EC and the company. These criteria are centred on four broad areas, viz. implementing strategy, realising financial plans, strengthening the risk control environment, and the satisfaction of all stakeholders (staff, clients, the Board and society). The performance of the EC in each of these four areas determines the size of the performance-related component (with each area accounting for 25% of the final outcome).
  - As regards implementing strategy – besides achieving any

specific targets – the main focus is on what has been achieved in terms of client centricity, sustainability and encouraging responsible conduct, and innovation (preparing for the digital revolution).
  - The criteria for assessing whether the financial plans have been achieved comprise a number of financial parameters (return, profit, capital, and cost of credit), but also an assessment of the progress made in further implementing the bank-insurance model and income diversification.
  - Strengthening the risk control environment is assessed based on stated liquidity, capital and funding criteria, implementing recommendations made by audit and the regulator, and the degree to which the quality of data has improved.
  - Stakeholder satisfaction is assessed on the basis of the results from the client and employee satisfaction surveys and on the progress made in the area of sustainability.

  This assessment of all these criteria is reflected in a percentage between 0% and 100% that is applied to the maximum performance-related variable emolument. The size of the variable emolument, therefore, depends to a very small extent on achieving financial results. Risk management, stakeholder management and sustainability are aspects that are at least equally important in this regard.
- When setting the variable remuneration of the CRO, financial planning achievements are not taken into account, but the relative weighting of risk-related criteria is doubled.
- The remuneration package awarded to members of the EC does not include a long-term bonus.
- Members also benefit from a retirement and survivor's pension scheme, which comprises a supplementary retirement pension or – if the insured dies while still in employment and leaves a spouse – a survivor's pension, and also provides cover in the event of disability.

Provisions concerning individual severance payments for executive directors and members of the EC of KBC Group NV

For members of the EC who have worked six years or less in the KBC group, such payments have been set at 12 months' remuneration, for those who have worked between six and nine years, they are equal to 15 months' remuneration, and for those who have worked more than nine years, they are equal to 18 months' remuneration. In this context, remuneration is taken to be the fixed remuneration component for the current year and the variable component for the last full year preceding termination of office.

Relative importance of the different components of remuneration

The variable component is split into a performance-related variable emolument and an individual variable emolument. The performance-related variable component for the President of the EC is set between 0 and 420 000 euros and the individual variable component between 0 and 140 000 euros. The limits for these components are 245 000 euros and 85 000 euros, respectively, for the other members of the EC. As explained above, the final amount is set by the Board on the advice of the Remuneration Committee, based on an assessment of the individual and collective achievements during the previous financial year.

Characteristics of performance-related bonuses in the form of shares, options, or any other rights to acquire shares

With effect from 1 January 2017, the total amount of annual variable remuneration (i.e. both the performance-related and individual components) for members of the EC is paid over six years, with 40% being paid in the first year and the rest spread equally over the next five years. Payment of these deferred amounts is subject to the clawback provisions outlined above. Furthermore, 50% of the total annual variable remuneration is awarded in the form of equity-related instruments called phantom stocks (though not in the Czech Republic where virtual investment certificates are used), whose value is linked to the price of the KBC Group NV share. These stocks must be retained for one year after being allocated. Like the cash component of variable remuneration, they are also allocated over a six-year period. The average price of the KBC share during the first three months of the year is used to calculate the number of phantom stocks to which each member of the EC is entitled. These stocks are then converted into cash a year later on the basis of the average price of the KBC share during the first three months of that year. They are subject to the allocation and acquisition conditions described under 'Clawback provisions'.

Pension arrangements, disability cover and death cover

The members of the EC have a separate defined contribution plan that is funded entirely by KBC. When drawing up this plan, account was taken of the fact that the career of a member (and especially the President) of the EC is shorter than that of an average employee. In the pension formula, therefore, the first ten years that an individual sits on the EC are the ones in which a significant part of the supplementary

pension is built up. The contribution that KBC makes to the pension plan amounts to 32% of the fixed emolument (40% for the CEO) during those first ten years, 7% for the next five years (3% for the CEO) and 3% starting from the sixteenth year of plan membership. A minimum return of 0% (capped at 8.25%) is guaranteed on the contributions. Given the specific structure of this new pension plan, funding of the plan is not spread equally over the entire career. During the first ten years, the size of the payment made into the pension fund is rather large, but declines to a fraction of what it had been previously starting from the eleventh year and even more markedly from the sixteenth year.
The plan applies to all members of the EC who are resident in Belgium. For the members who had joined the EC prior to 1 January 2016, the vested reserves built up (in the previous pension plan) by 31 December 2015 were transferred to the new plan.

In accordance with the pension regulations, 484 416 euros was paid into the fund for Johan Thijs in 2017, and 1 436 559 euros for the other members of the EC.

The pension plan also includes a death benefit, which equals four times the amount of the fixed emolument (or, if higher, the reserves that have been built at the time of death). Where applicable, there is also an orphan's pension, comprising a one-off benefit of 185 000 euros and an annuity of 6 000 euros per year.
The invalidity benefit provided under the plan amounts to approximately 700 000 euros.

Fixed remuneration for 2017

For 2017, the fixed component awarded to the CEO (Johan Thijs) came to 1 160 000 euros. For the other members of the EC, it came to 815 000 euros.

Variable remuneration for 2017

The variable component for the members of the EC is set in the way explained above.
Based on the advice of the Remuneration Committee, the Board decided that the members of the EC should be awarded performance-related variable remuneration for 2017 that equalled 96.46%. The same percentage also applies to the CRO.

Variable remuneration awarded to Johan Thijs: In accordance with the remuneration system described above, a performance-related variable emolument of 405 132 euros and an individual variable emolument of 133 000 euros was awarded to Johan Thijs for 2017. Half of the variable remuneration component is paid in cash and the other half is awarded in the form of phantom stocks. As regards the cash component, 40% (107 626 euros) will be paid in 2018 and the remaining 60% spread equally over the next five years (32 288 euros per year from 2019 to 2023, inclusive).

Variable remuneration awarded to the other members of the EC: In accordance with the remuneration system described above, a performance-related variable emolument of 236 327 euros was awarded to each of the other members of the EC for 2017 (the amount for Erik Luts and Hendrik Scheerlinck was calculated based on the period since their appointment to the EC). The individual variable emolument for the members of the EC came to 72 250 euros for Daniel Falque and Luc Popelier, 75 081 euros for Christine Van Rijsseghem and John Hollows, 46 280 euros for Erik Luts and 44 387 euros for Hendrik Scheerlinck. Half of the variable remuneration component is paid in cash and the other half is awarded in the form of phantom stocks. As regards the cash component, 40% will be paid in 2017 and the remaining 60% spread equally over the next five years (from 2019 to 2023, inclusive). These figures include the variable emolument for five members of the EC for 2017 in its entirety and for the two members who joined the EC in May for the period from May through December 2017. Consequently, the figures are not comparable with those included in the annual report for 2016.

Phantom stocks for 2017: The number of phantom stocks is calculated on the basis of the average price of the KBC share during the first quarter of 2018. Like the other variable components, 40% will be awarded in 2018 and the remaining 60% spread equally over the next five years. Given that phantom stocks are to be retained for one year, they are paid out in cash one year after being awarded, which means that payment is spread over 2019 to 2024, inclusive. The amounts for which phantom stocks were awarded in this way for 2017 are given in the table below:

Amounts awarded in the form of phantom stocks (in EUR)	**Total**	**Vesting in 2018**	**Vesting in 2019**	**Vesting in 2020**	**Vesting in 2021**	**Vesting in 2022**	**Vesting in 2023**
Johan Thijs	269 066	107 626	32 288	32 288	32 288	32 288	32 288
Daniel Falque	154 289	61 715	18 515	18 515	18 515	18 515	18 515
John Hollows*	155 704	62 282	18 684	18 684	18 684	18 684	18 684
Erik Luts	101 916	40 766	12 230	12 230	12 230	12 230	12 230
Luc Popelier	154 289	61 715	18 515	18 515	18 515	18 515	18 515
Hendrik Scheerlinck	100 969	40 388	12 116	12 116	12 116	12 116	12 116
Christine Van Rijsseghem	155 704	62 282	18 684	18 684	18 684	18 684	18 684

* Virtual investment certificates (VICs) instead of phantom stocks.

Variable remuneration in recent years

Of the variable remuneration component awarded to Johan Thijs for 2013, 2014, 2015 and 2016, 86 046 euros will be paid as a results-based variable emolument and 27 367 euros as an individual variable emolument in 2018. For the other members of the EC, these components come to 57 364 euros and 16 112 euros, respectively, for Daniel Falque, 57 364 euros and 20 860 euros for John Hollows, 57 364 euros and 18 301 euros for Luc Popelier and 38 322 euros and 11 585 euros for Christine Van Rijsseghem.

A portion of the phantom stocks awarded in 2012, 2013, 2014 and 2015 was converted into cash at 60.47 euros per share in April 2017.

The following amounts were paid (in euros):

- Johan Thijs 240 126
- Luc Popelier 166 897
- John Hollows 160 465 (partly VICs)
- Daniel Falque 143 677
- Christine Van Rijsseghem 92 519

Other benefits

Each member of the EC has a company car, the personal use of which is charged in accordance with the prevailing regulations. Other benefits which members of the EC receive include hospitalisation insurance, assistance insurance and accident insurance. The value of these benefits are estimated at 15 556 euros for Johan Thijs and at an aggregate 68 764 euros for the other members of the EC. These figures do not include the flat-rate expenses allowance of 400 euros which each member of the EC receives each month.

Remuneration paid to the EC of KBC Group NV (2017)	CEO: Johan Thijs Awarded	CEO: Johan Thijs Paid	Other members of the EC (combined) Awarded	Other members of the EC (combined) Paid
Employment status		Self-employed		Self-employed
Base remuneration (fixed)	1 160 000	1 160 000	4 346 667	4 346 667
Individual variable remuneration for the financial year (cash)	66 500	26 600	192 664	77 066
Individual variable remuneration for the financial year (phantom stocks)	66 500	0	192 664	0
Performance-related variable remuneration for the financial year (cash)	202 566	81 026	630 205	252 082
Performance-related variable remuneration for the financial year (phantom stocks)	202 566	0	630 205	0
Individual variable remuneration for previous financial years	–	27 367	–	66 858
Performance-related variable remuneration for previous financial years	–	86 046	–	210 415
Phantom stocks for previous financial years	–	240 126	–	563 558
Total	1 698 132	1 621 165	5 992 405	5 516 645
Other benefits	15 556		68 764	
Defined contribution pension plan (contribution)	484 416		1 436 559	

Remuneration policy for the next two financial years

Based on inflation and the solid individual and collective performance of the EC, and after studying the findings of the annual study on the remuneration awarded to the top management of BEL 20 companies and an extensive selection of continental European financial institutions, the Board decided – on the advice of the Remuneration Committee – with effect from 1 January 2018 to:

- increase the fixed remuneration component for Johan Thijs to 1 220 000 euros per year and the maximum variable remuneration component to 610 000 euros (450 000 euros for the performance-related variable emolument and 160 000 euros for the individual variable emolument);
- increase the fixed remuneration component for the other members of the EC to 835 000 euros per year and the maximum variable remuneration component to 375 000 euros (275 000 euros for the performance-related variable emolument and 100 000 euros for the individual variable emolument).

Under new tax rules, the flat-rate expenses allowance has been reduced from 400 euros per month to 335 euros per month, with effect from 1 January 2018.

Non-financial information statement

In keeping with our commitment to integrated reporting, we have incorporated our non-financial information in various sections of this report.

The non-financial information required by law is provided in the following cases:

- Business model: see the 'Our business model' section.
- Employees: see 'Our employees, capital, network and relationships' in the 'Our business model' section.
- Environment, human rights, other social matters: see 'Our role in society' and 'The client is at the centre of our business culture' in the 'Our strategy' section. 'Our role in society' also includes other aspects of our approach to sustainability and, therefore, forms an integral part of the 'Non-financial information statement'.
- Combating corruption and bribery: see 'Combating corruption and bribery' and 'Corporate culture and integrity policy' in the 'Corporate governance statement' section.

In this regard, we take as much account as possible of the guidelines issued by the International Integrated Reporting Council and base our non-financial statement on the Global Reporting Initiative (GRI) Standards. Full implementation of GRI Standards (Core option) and the GRI Content Index are discussed in our Sustainability Report, which is published at www.kbc.com.

Consolidated annual accounts

Consolidated income statement

(in millions of EUR)	Note	2017	2016
Net interest income	3.1	4 121	4 258
Interest income	3.1	6 337	6 642
Interest expense	3.1	-2 216	-2 384
Non-life insurance (before reinsurance)	3.7	706	628
Earned premiums	3.7	1 491	1 410
Technical charges	3.7	-785	-782
Life insurance (before reinsurance)	3.7	-58	-152
Earned premiums	3.7	1 271	1 577
Technical charges	3.7	-1 330	-1 728
Ceded reinsurance result	3.7	-8	-38
Dividend income	3.2	63	77
Net result from financial instruments at fair value through profit or loss	3.3	856	540
Net realised result from available-for-sale assets	3.4	199	189
Net fee and commission income	3.5	1 707	1 450
Fee and commission income	3.5	2 615	2 101
Fee and commission expense	3.5	-908	-651
Other net income	3.6	114	258
TOTAL INCOME		**7 700**	**7 211**
Operating expenses	3.8	-4 074	-3 948
Staff expenses	3.8	-2 303	-2 252
General administrative expenses	3.8	-1 505	-1 449
Depreciation and amortisation of fixed assets	3.8	-266	-246
Impairment	3.10	30	-201
on loans and receivables	3.10	87	-126
on available-for-sale assets	3.10	-12	-55
on goodwill	3.10	0	0
other	3.10	-45	-20
Share in results of associated companies and joint ventures	3.11	11	27
RESULT BEFORE TAX		**3 667**	**3 090**
Income tax expense	3.12	-1 093	-662
Net post-tax result from discontinued operations	–	0	0
RESULT AFTER TAX		**2 575**	**2 428**
attributable to minority interests	–	0	0
of which relating to discontinued operations	–	*0*	*0*
attributable to equity holders of the parent	–	**2 575**	**2 427**
of which relating to discontinued operations	–	*0*	*0*
Earnings per share (in EUR)			
Ordinary	3.13	6.03	5.68
Diluted	3.13	6.03	5.68

- We have dealt with the main items in the income statement in the 'Report of the Board of Directors' under the 'Our financial report' and 'Our business units' sections. The statutory auditor has not audited these sections.
- The results for United Bulgarian Bank and Interlease, which were acquired in mid-2017, have been incorporated into the group's results as of the second half of 2017 (contribution to net profit for that period: 27 million euros). For more information on this matter, see Note 6.6 in this report.

Consolidated statement of comprehensive income

(in millions of EUR)	2017	2016
RESULT AFTER TAX	**2 575**	**2 428**
attributable to minority interests	0	0
attributable to equity holders of the parent	2 575	2 427
OTHER COMPREHENSIVE INCOME RECYCLED TO PROFIT OR LOSS	**4**	**-196**
Net change in revaluation reserve for shares	-31	-57
Fair value adjustments before tax	108	83
Deferred tax on fair value changes	5	1
Transfer from reserve to net result	-145	-141
Impairment	11	31
Net gains/losses on disposal	-155	-185
Deferred taxes on income	0	14
Net change in revaluation reserve for bonds	38	26
Fair value adjustments before tax	-56	102
Deferred tax on fair value changes	158	-30
Transfer from reserve to net result	-64	-46
Impairment	0	0
Net gains/losses on disposal	-36	-30
Amortisation and impairment of revaluation reserve for available-for-sale financial assets following reclassification to 'loans and receivables' and 'held-to-maturity assets'	-50	-40
Deferred taxes on income	22	24
Net change in revaluation reserve for other assets	0	0
Fair value adjustments before tax	0	0
Deferred tax on fair value changes	0	0
Transfer from reserve to net result	0	0
Impairment	0	0
Net gains/losses on disposal	0	0
Deferred taxes on income	0	0
Net change in hedging reserve (cashflow hedges)	8	-201
Fair value adjustments before tax	220	-379
Deferred tax on fair value changes	-245	122
Transfer from reserve to net result	33	56
Gross amount	51	80
Deferred taxes on income	-18	-24
Net change in translation differences	-7	20
Gross amount	87	-16
Deferred taxes on income	-93	36
Net change in respect of associated companies and joint ventures	-3	4
Gross amount	-5	5
Deferred taxes on income	2	-1
Other movements	-2	11
OTHER COMPREHENSIVE INCOME NOT RECYCLED TO PROFIT OR LOSS	**80**	**-231**
Net change in defined benefit plans	86	-231
Remeasurements	118	-336
Deferred tax on remeasurements	-32	104
Net change in own credit risk	-6	0
Fair value adjustments before tax	-8	0
Deferred tax on adjustments	3	0
Transfer to retained earnings on realisation of assets (gross amounts)	0	0
Transfer to retained earnings on realisation of assets (deferred taxes)	0	0
Net change in respect of associated companies and joint ventures	0	0
Remeasurements	0	0
Deferred tax on remeasurements	0	0
TOTAL COMPREHENSIVE INCOME	**2 658**	**2 000**
attributable to minority interests	0	0
attributable to equity holders of the parent	2 658	2 000

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2017	31-12-2016
Cash, cash balances with central banks and other demand deposits with credit institutions	–	29 727	20 686
Financial assets	4.0	254 753	246 298
Held for trading	4.0	7 431	9 683
Designated at fair value through profit or loss	4.0	14 484	14 184
Available for sale	4.0	34 156	36 708
Loans and receivables	4.0	167 458	151 615
Held to maturity	4.0	30 979	33 697
Hedging derivatives	4.0	245	410
Reinsurers' share in technical provisions, insurance	5.6	131	110
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	-78	202
Tax assets	5.2	1 625	2 312
Current tax assets	5.2	82	66
Deferred tax assets	5.2	1 543	2 246
Non-current assets held for sale and disposal groups	5.11	21	8
Investments in associated companies and joint ventures	5.3	240	212
Investment property	5.4	485	426
Property and equipment	5.4	2 721	2 451
Goodwill and other intangible assets	5.5	1 205	999
Other assets	5.1	1 512	1 496
TOTAL ASSETS		**292 342**	**275 200**
LIABILITIES AND EQUITY (in millions of EUR)	**Note**	**31-12-2017**	**31-12-2016**
Financial liabilities	4.0	251 260	234 300
Held for trading	4.0	6 998	8 559
Designated at fair value through profit or loss	4.0	15 034	16 553
Measured at amortised cost	4.0	227 944	207 485
Hedging derivatives	4.0	1 284	1 704
Technical provisions, before reinsurance	5.6	18 641	19 657
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	-86	204
Tax liabilities	5.2	582	681
Current tax liabilities	5.2	148	188
Deferred tax liabilities	5.2	434	493
Liabilities associated with disposal groups	5.11	0	0
Provisions for risks and charges	5.7	399	238
Other liabilities	5.8	2 743	2 763
TOTAL LIABILITIES		**273 540**	**257 843**
Total equity	**5.10**	**18 803**	**17 357**
Parent shareholders' equity	5.10	17 403	15 957
Additional tier-1 instruments included in equity	5.10	1 400	1 400
Minority interests	–	0	0
TOTAL LIABILITIES AND EQUITY		**292 342**	**275 200**

- See Note 1.1 for changes in the above presentation.
- The balance sheet at year-end 2017 contains figures for United Bulgarian Bank and Interlease, which were acquired in mid-2017. For more information on this matter, see Note 6.6 in this report.

Consolidated statement of changes in equity

(in millions of EUR)	Issued and paid up share capital	Share premium	Treasury shares	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Remeasurement of defined benefit plans	Own credit risk	Reserves and retained earnings	Translation differences	Parent shareholders' equity	Additional tier-1 instruments included in equity	Minority interests	Total equity
2017													
Balance at the beginning of the period	1 455	5 453	0	1 756	-1 347	-138	-4	8 751	31	15 957	1 400	0	17 357
Net result for the period	0	0	0	0	0	0	0	2 575	0	2 575	0	0	2 575
Other comprehensive income	0	0	0	-5	8	86	-6	-2	2	84	0	0	84
Subtotal, comprehensive income	0	0	0	-5	8	86	-6	2 573	2	2 658	0	0	2 658
Dividends	0	0	0	0	0	0	0	-1 171	0	-1 171	0	0	-1 171
Coupon on additional tier-1 instruments included in equity	0	0	0	0	0	0	0	-52	0	-52	0	0	-52
Capital increase	1	15	0	0	0	0	0	0	0	15	0	0	15
Purchases of treasury shares	0	0	-5	0	0	0	0	0	0	-5	0	0	-5
Sales of treasury shares	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in scope	0	0	0	0	0	0	0	0	0	0	0	0	0
Total change	1	15	-5	-5	8	86	-6	1 350	2	1 446	0	0	1 446
Balance at the end of the period	1 456	5 467	-5	1 751	-1 339	-52	-10	10 101	33	17 403	1 400	0	18 803
of which revaluation reserve for equity instruments	–	–	–	460	–	–	–	–	–	–	–	–	–
of which revaluation reserve for bonds	–	–	–	1 292	–	–	–	–	–	–	–	–	–
of which relating to application of the equity method	–	–	–	14	0	0	0	0	16	30	–	–	30
2016													
Balance at the beginning of the period	1 454	5 437	0	1 782	-1 146	94	–	6 779	11	14 411	1 400	0	15 811
Net result for the period	0	0	0	0	0	0	–	2 427	0	2 427	0	0	2 428
Other comprehensive income	0	0	0	-26	-201	-231	–	11	20	-427	0	0	-427
Subtotal, comprehensive income	0	0	0	-26	-201	-231	–	2 439	20	2 000	0	0	2 000
Dividends	0	0	0	0	0	0	–	-418	0	-418	0	0	-418
Coupon on additional tier-1 instruments included in equity	0	0	0	0	0	0	–	-52	0	-52	0	0	-52
Capital increase	1	15	0	0	0	0	–	0	0	16	0	0	16
Purchases of treasury shares	0	0	0	0	0	0	–	0	0	0	0	0	0
Sales of treasury shares	0	0	0	0	0	0	–	0	0	0	0	0	0
Change in minority interests	0	0	0	0	0	0	–	0	0	0	0	0	0
Change in scope	0	0	0	0	0	0	–	0	0	0	0	0	0
Total change	1	15	0	-26	-201	-231	–	1 969	20	1 546	0	0	1 546
Balance at the end of the period	1 455	5 453	0	1 756	-1 347	-138	–	8 747	31	15 957	1 400	0	17 357
of which revaluation reserve for equity instruments	–	–	–	490	–	–	–	–	–	–	–	–	–
of which revaluation reserve for bonds	–	–	–	1 266	–	–	–	–	–	–	–	–	–
of which relating to application of the equity method	–	–	–	26	0	0	–	0	7	32	–	–	32

- For information on the shareholder structure, see Note 3 in the 'Company annual accounts and additional information' section and the 'Corporate governance statement' in the 'Report of the Board of Directors' section.
- For information on capital increases, additional tier-1 instruments and number of shares, see Note 5.10.
- The 'Dividends' item in 2017 (1 171 million euros) includes the final dividend of 1.80 euros per share for 2016 (paid in May 2017) and an interim dividend of 1 euro per share as an advance on the final dividend for 2017 (the final dividend will be paid in 2018). In 2016, it included only an interim dividend of 1 euro per share (418 million euros) as an advance on the total dividend for 2016. Please note that, subject to the approval of the General Meeting of Shareholders, the total dividend for 2017 will amount to 3 euros per share (with 1 euro per share having already been paid as an interim dividend), before withholding tax. It will also be proposed to the General Meeting of Shareholders that 2.7 million of our own shares be bought back (roughly 0.2 billion euros).
- Net change in the revaluation reserve for equity instruments: the 31-million-euro decline in 2017 was mainly attributable to a transfer to the net result (gains on sales), partly offset by positive changes in fair value. The 57-million-euro decline in 2016 came about primarily because of the sale of Visa Europe Limited shares following the public offering of Visa Inc.
- In 2017, the announced reduction in the tax rate in Belgium (see Note 3.12), along with the offsetting effect of the increase in long-term interest rates, had primarily the following impact: net change in the revaluation reserve for bonds: +26 million euros; net change in hedging reserve (cashflow hedges): +8 million euros; and net change in defined benefit plans: +86 million euros (also positively impacted by the actual return on plan assets, which was higher than the expected return). In 2016, the fall in long-term interest rates had the following impact: net change in the revaluation reserve for bonds: +31 million euros; net change in hedging reserve (cashflow hedges): -201 million euros; and net change in defined benefit plans: -231 million euros.

Consolidated cashflow statement

(in millions of EUR)	Reference[1]	2017	2016
Operating activities			
Result before tax	See consolidated income statement	3 667	3 090
Adjustments for:			
Result before tax from discontinued operations	See consolidated income statement	0	0
Depreciation, impairment and amortisation of property and equipment, intangible fixed assets, investment property and securities	3.10, 4.2, 5.4, 5.5	340	341
Profit/Loss on the disposal of investments	–	-16	-11
Change in impairment on loans and advances	3.10	-87	126
Change in technical provisions (before reinsurance)	5.6	-149	391
Change in the reinsurers' share in the technical provisions	5.6	-18	17
Change in other provisions	5.7	121	-7
Other unrealised gains or losses	–	-621	-104
Income from associated companies and joint ventures	3.11	-11	-27
Cashflows from operating profit before tax and before changes in operating assets and liabilities	–	3 227	3 815
Changes in operating assets (excluding cash and cash equivalents)	–	694	-3 676
Financial assets held for trading	4.1	2 751	707
Financial assets at fair value through profit or loss	4.1	-299	657
Available-for-sale assets	4.1	2 927	-909
Loans and receivables	4.1	-4 854	-4 226
Hedging derivatives	4.1	165	104
Operating assets associated with disposal groups, and other assets	–	4	-9
Changes in operating liabilities (excluding cash and cash equivalents)	–	9 464	18 345
Deposits measured at amortised cost	4.1	7 468	15 044
Debts represented by securities measured at amortised cost	4.1	5 874	11 728
Financial liabilities held for trading	4.1	-1 345	175
Financial liabilities at fair value through profit or loss	4.1	-1 543	-7 355
Hedging derivatives	4.1	-200	-867
Technical provisions, before reinsurance[2]	5.6	-867	-267
Operating liabilities associated with disposal groups, and other liabilities	–	78	-114
Income taxes paid	3.12	-523	-470
Net cash from or used in operating activities		12 863	18 014

Consolidated cashflow statement (continuation)

(in millions of EUR)	Reference[1]	2017	2016
Investing activities			
Purchase of held-to-maturity securities	4.1	-2 096	-2 365
Proceeds from the repayment of held-to-maturity securities at maturity	4.1	4 685	1 683
Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held)	6.6	185	0
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed of (including decreases in percentage interest held)	–	7	0
Purchase of shares in associated companies and joint ventures	–	0	0
Proceeds from the disposal of shares in associated companies and joint ventures	–	0	0
Dividends received from associated companies and joint ventures	–	26	26
Purchase of investment property	5.4	-37	-35
Proceeds from the sale of investment property	5.4	19	32
Purchase of intangible fixed assets (excluding goodwill)	5.5	-206	-158
Proceeds from the sale of intangible fixed assets (excluding goodwill)	5.5	6	9
Purchase of property and equipment	5.4	-793	-713
Proceeds from the sale of property and equipment	5.4	152	269
Net cash from or used in investing activities		1 947	-1 252
Financing activities			
Purchase or sale of treasury shares	See consolidated statement of changes in equity	-5	0
Issue or repayment of promissory notes and other debt securities	4.1	-657	-140
Proceeds from or repayment of subordinated liabilities	4.1	120	-428
Principal payments under finance lease obligations	–	0	0
Proceeds from the issuance of share capital	See consolidated statement of changes in equity	15	16
Redemption of non-voting core-capital securities	See consolidated statement of changes in equity	0	0
Proceeds from the issuance of preference shares	See consolidated statement of changes in equity	0	0
Dividends paid	See consolidated statement of changes in equity	-1 223	-470
Net cash from or used in financing activities		-1 750	-1 022
Change in cash and cash equivalents			
Net increase or decrease in cash and cash equivalents	–	13 060	15 741
Cash and cash equivalents at the beginning of the period	–	26 747	10 987
Effects of exchange rate changes on opening cash and cash equivalents	–	606	19
Cash and cash equivalents at the end of the period	–	40 413	26 747
Additional information			
Interest paid[3]	3.1	-2 216	-2 384
Interest received[3]	3.1	6 337	6 642
Dividends received (including equity method)	3.2, 5.3	89	103
Components of cash and cash equivalents			
Cash and cash balances with central banks	See consolidated balance sheet	29 727	20 148
Loans and advances to banks repayable on demand and term loans to banks at not more than three months	4.1	20 118	11 622
Deposits from banks repayable on demand	4.1	-9 431	-5 023
Cash and cash equivalents belonging to disposal groups	–	0	0
Total	–	40 413	26 747
of which not available	–	0	0

1 The notes referred to do not always contain the exact same amounts as those included in the cashflow statement, as – among other things – adjustments have been made to take account of acquisitions or disposals of subsidiaries, as set out in IAS 7.

2 With effect from 2017, cashflow movements in technical provisions (before reinsurance) are presented separately under 'Changes in operating liabilities' instead of being recognised in 'Other unrealised gains or losses'. The figures for 2016 have been restated to take account of this change in presentation.

3 'Interest paid' and 'Interest received' in this overview are the equivalent of the 'Interest expense' and 'Interest income' items in the consolidated income statement. Given the large number of underlying contracts that generate interest expense and interest income, it would take an exceptional administrative effort to establish actual cashflows. Moreover, it is reasonable to assume that actual cashflows for a bank-insurance company do not differ much from the accrued interest expense and accrued interest income, as most rate products pay interest regularly within the year.

- KBC uses the indirect method to report on cashflows from operating activities.
- Cash and cash equivalents rose sharply in 2017, due largely to an increase in reverse repos and cash balances with central banks. It was funded by net cashflows from operating activities, thanks to the higher level of deposits.
- Issue or repayment of promissory notes and other debt securities: KBC IFIMA, KBC Group NV, ČSOB (Czech Republic) and KBC Bank NV accounted for the lion's share of the figure for 2017, which related primarily to 2.6 billion euros' worth of these instruments being issued and 3 billion euros being redeemed by these companies. KBC IFIMA, KBC Group NV, ČSOB Bank (Czech Republic) and KBC Bank NV likewise accounted for the bulk of the figure for 2016, which related primarily to 2.9 billion euros' worth of these instruments being issued and 3 billion euros being redeemed by these companies.
- Proceeds from or repayment of subordinated liabilities: KBC IFIMA, KBC Group NV, ČSOB (Czech Republic) and KBC Bank NV accounted for the lion's share of the figure for 2017, which related primarily to

0.5 billion euros' worth of these instruments being issued and 0.3 billion euros being redeemed. KBC IFIMA, KBC Group NV, ČSOB Bank (Czech Republic) and KBC Bank NV likewise accounted for the bulk of the figure for 2016, which related chiefly to repayments.

- In January 2018, KBC called the 1-billion-US-dollar contingent capital note (CoCo) that had been issued in January 2013. The capital value of the CoCo had already been deducted from tier-2 capital at year-end 2017. The impact of calling the CoCo was largely offset by the successful issue of a 500-million-euro tier-2 benchmark in September 2017.
- There were no material acquisitions or divestments of group companies or activities in 2016. In 2017, we acquired a 99.9% stake in United Bulgarian Bank (UBB) and a 100% stake in Interlease (see Note 6.6). With the acquisition being paid for entirely in cash, its impact on cashflows from investing activities was -0.6 billion euros (or +0.2 billion euros after deducting the cash and cash equivalents acquired). On 12 December 2017, PKO Bank Polski Group completed the acquisition of all the shares of KBC TFI in Poland. The impact of this deal on KBC’s results and cashflow, however, was negligible.

1.0 Notes on the accounting policies

Note 1.1: Statement of compliance

The consolidated financial statements of KBC Group NV, including all the notes, were authorised for issue on 15 March 2018 by the Board of Directors. They have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union (‘endorsed IFRS’) and present one year of comparative information. All amounts are shown in millions of euros and rounded to the million (unless otherwise stated).

The following amended IFRS became effective on 1 January 2017 but did not affect KBC’s financial statements:

- Amendments to IFRS 12 (Disclosure of Interests in Other Entities): Clarification of the scope of disclosure requirements in IFRS 12 from Annual Improvements Cycle – 2014–2016.
- Amendments to IAS 12 (Income Taxes): Recognition of Deferred Tax Assets for Unrealised Losses.

The following amended IFRS became effective on 1 January 2017 and had an impact on KBC’s financial statements:

- ‘Disclosure Initiative’ amendments to IAS 7 (Statement of Cash Flows) mean that additional information on material changes in liabilities arising from financing activities, is provided in the notes to the cashflow statement.

The following changes in presentation and accounting policies were applied in 2017:

- For financial liabilities, IFRS 9 changes the presentation of gains and losses on own credit risk for financial instruments designated at fair value through profit or loss. KBC early adopted this aspect of IFRS 9 with effect from 1 January 2017 and the gains and losses on own credit risk now go through other comprehensive income. The impact of early adoption is minimal given the limited effect of own credit risk.
- A change in presentation was made to ‘Net fee and commission income’. In order to obtain a more transparent breakdown of net fee and commission income, this item was broken down as follows with effect from 2017 (reference figures restated accordingly): (i) Asset management services: includes the income and expense relating to entry and management fees, (ii) Banking services: includes the income and expense associated with credit or guarantee-related fees, payment service fees and securities-related fees, and (iii) Distribution: includes the income and expense relating to the distribution of mutual funds, banking products and insurance products.
- In order to align with the consolidated financial reporting framework (FINREP) of the European Banking Authority, the presentation of the balance sheet was slightly changed. With effect from 2017, ‘Cash and cash balances’ also includes other demand deposits with credit institutions and, consequently, has been renamed ‘Cash, cash balances at central banks and other demand deposits with credit institutions’. The reference figures have been restated (resulting in 538 million euros shifting mainly from ‘Loans and receivables’). The changes relate to the balance sheet and the relevant notes under Note 4.0.
- Due to a change in accounting policy, the decision was taken to release the indexation provision in non-life insurance. This change was approved by the Board of Directors in August 2017. The financial statements have not been restated retroactively according to IAS 8, as the total impact on them is considered to be non-material (a one-off impact of +26 million euros, before tax).

The following IFRS were issued but not yet effective at year-end 2017. KBC will apply these standards when they become mandatory.

- IFRS 9
  - In July 2014, the IASB issued IFRS 9 (Financial Instruments) on the classification and measurement of financial instruments, as a replacement for the relevant requirements of the present IAS 39 (Financial Instruments: Recognition and Measurement). The mandatory effective date for IFRS 9 is 1 January 2018. A project relating to IFRS 9 had been running for some time at KBC and implementation of the systems and processes was largely finalised in 2017. KBC will also apply IFRS 9 to its insurance entities and, therefore, not make use of the possibility offered by the IAS Board to temporarily defer implementation of IFRS 9. It will make use of transition relief as regards disclosing comparative information at the date of initial application.
  - Classification and measurement: classification and measurement of financial assets under IFRS 9 depends on the specific business model in place and the assets’ contractual cashflow characteristics. The impact of first time application is due primarily to a rebalancing of part of the treasury bond portfolio (reclassification from 'Available-for-sale' to 'Amortised cost'), the recognition of unrealised gains and losses on a limited number of investments

that have failed the contractual cashflow characteristics test, and the reversal of frozen available-for-sale reserves. These frozen reserves existed under IAS 39 due to historical reclassifications out of the 'Available-for-sale' category to the 'Held-to-maturity' or 'Loans and receivables' categories, but need to be reversed on transition to IFRS 9. For equity instruments not held for trading, which are situated mainly in our insurance activities, KBC will apply the overlay approach to eligible equity instruments and so continue to treat them under IAS 39 in a transparent way. This approach has been provided by the IASB to cover the transition period between the implementation of IFRS 9 and IFRS 17, thus ensuring there is a level playing field with other insurers and bank-insurers.
- Impairment of financial instruments: financial instruments that are subject to impairment will be classified into three stages, namely Stage 1: Performing; Stage 2: Underperforming (where lifetime expected credit losses are required to be measured); and Stage 3: Non-performing or impaired.
  KBC has established policies and processes to assess whether credit risk has increased significantly at the end of each reporting period and, therefore, whether ‘staging’ is required (i.e. moving from one stage to another). For the loan portfolio, a multi-tier approach has been adopted to staging, based on internal credit ratings, forbearance measures, collective assessment and days past due as a backstop. A similar multi-tier approach will be used for the investment portfolio, except that KBC will use the low-credit-risk exemption, meaning that all investment grade bonds in scope are considered to be in 'Stage 1', unless any of the other triggers indicate otherwise. For 'Stage 1' and 'Stage 2' – under IAS 39 – KBC records incurred-but-not-reported (IBNR) impairment losses, which are influenced by emergence periods. Under IFRS 9, impairment of financial assets is calculated on a 12-month expected credit loss (ECL) basis for 'Stage 1' and on a lifetime ECL basis for 'Stage 2'. As a consequence, impairment levels are generally expected to increase. Forward looking information is incorporated into the staging criteria and measurement of ECL. Different macroeconomic factors are taken into consideration and KBC applies three scenarios to evaluate a range of possible outcomes. The impact of first time application has been positively influenced by the current benign macroeconomic environment. Impairment levels under IFRS 9 will differ from current prudential requirements because of (i) application of a through-the-cycle estimate for prudential purposes as opposed to a point-in-time estimate under IFRS 9, (ii) application of a 12-month PD for prudential purposes as opposed to a lifetime PD under IFRS 9 (for 'Stage 2' and 'Stage 3') and (iii) inclusion of prudential floors and downturn adjustments in the PD, EAD and LGD estimates for prudential purposes.
- Hedge accounting: KBC will use the option to continue with hedge accounting under IAS 39 and will await further developments at the IASB regarding macro hedging.
- KBC will not make use of any transitional arrangements with regard to the impact of IFRS 9 on capital. Consequently, own funds, capital and the leverage ratio will reflect the full impact of IFRS 9.
- Overall, the first time application of IFRS 9 will have an estimated negative impact of approximately 41 basis points on common equity tier-1 capital, due primarily to part of the treasury bond portfolio being reclassified. In accordance with IFRS, KBC will provide the transition disclosures in the earnings report for the first quarter of 2018.

- IFRS 15
  - In May 2014, the IASB issued IFRS 15 (Revenue from Contracts with Customers) concerning the recognition of revenue. The new standard became effective on 1 January 2018. During 2017, the analysis of its impact was performed. KBC has identified the relevant contracts and assessed them using the new five-step model for revenue recognition. The main focus related to the (i) identification of the performance obligations and (ii) variable consideration in certain asset management contracts. However, as expected, no major impact was identified.

- IFRS 16
  - In January 2016, the IASB issued IFRS 16 (Leases), which will become effective on 1 January 2019. The new standard does not significantly change the accounting treatment of leases for lessors and, therefore, its impact is expected to be limited for KBC (given that it is mainly a lessor and not a lessee). An analysis of its impact is ongoing.

- IFRS 17
  - In May 2017, the IASB issued IFRS 17 (Insurance Contracts), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 (Insurance Contracts) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts. IFRS 17 will become effective for reporting periods beginning on or after 1 January 2021 (subject to EU endorsement), with comparative figures being required. An impact study is an inherent part of the IFRS 17 project that is currently underway at KBC.

- Other
  - The IASB published several limited amendments to existing IFRSs in the course of 2017. They will be applied when they become mandatory, but their impact is currently estimated to be negligible.

Note 1.2: Summary of significant accounting policies

a Criteria for consolidation and for inclusion in the consolidated accounts according to the equity method

All (material) entities (including structured entities) over which the consolidating entity exercises, directly or indirectly, exclusive control – as defined in IFRS 10 – are consolidated according to the method of full consolidation.

(Material) companies over which joint control is exercised, directly or indirectly, are consolidated according to the equity method (IFRS 11). (Material) investments in associates, i.e. companies over which KBC has significant influence, are also accounted for using the equity method. As allowed under IAS 28, investments held by venture capital organisations are classified as 'held for trading' (measured at fair value through profit or loss). Changes in ownership interests (that do not result in a loss of control) are accounted for as equity transactions. They do not affect goodwill or profit or loss.

b Effects of changes in foreign exchange rates

Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the spot rate at balance sheet date. Negative and positive valuation differences, except for those relating to the funding of shares and investments of consolidated companies in a foreign currency, are recognised in profit or loss. Non-monetary items measured at historical cost are translated into the functional currency at the historical exchange rate that existed on the transaction date. Non-monetary items carried at fair value are translated at the spot rate of the date the fair value was determined. Translation differences are reported together with changes in fair value. Income and expense items in foreign currency are taken to profit or loss at the exchange rate prevailing when they were recognised.

The balance sheets of foreign subsidiaries are translated into the reporting currency (euros) at the spot rate at balance sheet date (with the exception of the capital and reserves, which are translated at the historical rate). The income statement is translated at the average rate for the financial year as a best estimate of the exchange rate on the transaction date. Differences arising from the use of one exchange rate for assets and liabilities, and another for net assets (together with the exchange rate differences – net of deferred taxes – on loans concluded to finance participating interests in foreign currency) are recognised in equity, commensurate with KBC's share.

c Financial assets and liabilities (IAS 39)

Financial assets and liabilities are recognised in the balance sheet when KBC becomes a party to the contractual provisions of the instruments. Regular-way purchases or sales of financial assets are recognised using settlement date accounting.

All financial assets and liabilities – including derivatives – must be recognised in the balance sheet according to the IAS 39 classification system. Each classification is subject to specific measurement rules.

The IAS 39 classifications are as follows:

- *Loans and receivables (L&R)*. These include all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

- *Held-to-maturity assets (HTM)*. These are all non-derivative financial assets with a fixed maturity and fixed or determinable payments that KBC intends and is able to hold to maturity.

- *Financial assets at fair value through profit or loss*. This category includes held-for-trading (HFT) assets and other financial assets designated at fair value through profit or loss (FIFV; abbreviated in various notes to 'Designated at fair value'). Held-for-trading assets are assets held for the purpose of selling them in the short term or assets that are part of a portfolio of assets held for trading purposes. All derivatives with a positive replacement value are considered to be held for trading unless they are designated and effective hedging instruments. Other financial assets designated at fair value through profit or loss are measured in the same way as held-for-trading assets. KBC may use the fair value option when doing so results in more relevant information, because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The fair value option may also be used for financial assets with embedded derivatives.

- *Available-for-sale assets (AFS)*. These are all non-derivative financial assets that do not come under one of the above classifications. These assets are measured at fair value, with all fair value changes being recognised in equity until the assets are sold or until there is an impairment in value. In this case, the cumulative revaluation gain or loss will be recognised in income for the financial year.

- *Held-for-trading liabilities*. These are liabilities held with the intention of repurchasing them in the short term. All derivatives with a negative replacement value are also considered to be held for trading unless they are designated and effective hedging instruments. These liabilities are measured at fair value, with any fair value changes reported in profit or loss.

- *Financial liabilities designated at fair value through profit or loss (FIFV)*. These are measured at fair value, with any fair value changes recorded in profit or loss, apart from gains and losses on own credit risk, which will go through other comprehensive income. This fair value option may be used under the same conditions as FIFV assets. Additionally, this classification may be used to account for (unbundled) deposit components (i.e. financial liabilities not including a discretionary participation feature) as defined in IFRS 4.

- *Other financial liabilities*. These are all other non-derivative financial liabilities that are not classified under one of the two liability classifications above. They are measured at amortised cost.

- *Hedging derivatives*. These are derivatives used for hedging purposes.

Financial instruments are reported according to the dirty price convention, i.e. accrued interest is presented under the same heading as the financial instruments for which the interest has accrued.

KBC applies the following general rules:

- *Amounts receivable*. These are classified under 'Loans and receivables' and are measured on acquisition at fair value, including transaction costs. Loans with a fixed maturity are subsequently measured at amortised cost using the effective interest method, i.e. an interest rate is applied that exactly discounts all estimated future cashflows from the loans to the net carrying value. This interest rate takes account of all related fees and transaction costs. Loans with no fixed maturity date are measured at amortised cost.

  Impairment losses are recognised for loans and advances for which there is evidence – either on an individual or portfolio basis – of impairment at balance sheet date. Whether or not evidence exists is determined on the basis of the probability of default (PD). The PD depends on a number of loan-specific characteristics, such as the type of loan, the borrower's line of business, the geographical location of the borrower and other elements key to a borrower's risk profile. Loans with the same PD therefore have a similar credit risk profile.
  - Loans and advances with a PD of 12 (individual problem loans with the highest probability of default) are individually tested for impairment (and written down on an individual basis if necessary). The impairment amount is calculated as the difference between the loans' carrying value and their net present value.
  - Loans and advances with a PD of 10 or 11 are also considered to be individual problem loans. Material loans are tested individually. The impairment amount is calculated as the difference between the loans' carrying value and their present value. Non-material loans are tested on a statistical basis. The impairment amount calculated according to the statistical method is based on IRB Advanced models (PD x LGD x EAD).
  - Loans and advances with a PD lower than 10 are considered normal loans. Incurred-but-not-reported (IBNR) losses are recognised for loans with a PD of 1 through 9. IBNR losses are based primarily on IRB Advanced models (PD x LGD x EAD), with all parameters being adjusted to reflect the point-in-time nature of these losses. The main adjustment relates to the PD, i.e. the time horizon of the PD is shortened on the basis of the emergence period. This is the period between the time an event occurs that will lead to an impairment and the time KBC identifies this event, and is dependent on the review frequency, the location and degree of involvement with the counterparties. The emergence period is between 1 and 12 months for retail portfolios and between 1 and 11 months for corporate portfolios. On average, emergence periods for corporate portfolios are shorter than for their retail counterparts.

- When impairment is identified, the carrying value of the loan is reduced via an impairment account and the loss recognised in the income statement. If, in a subsequent period, the estimated impairment amount increases or decreases due to an event that occurs after the impairment loss was recognised, the previously recognised impairment will be increased or reduced accordingly through adjustment of the impairment account. Loans and the related amounts included in the impairment accounts are written off when there is no realistic prospect of recovery in future or if the loan is forgiven. A renegotiated loan will continue to be tested for impairment, calculated on the basis of the original effective interest rate applying to the loan.

  For off-balance-sheet commitments (commitment credit) classified as uncertain or irrecoverable and doubtful, provisions are recognised if the general IAS 37 criteria are satisfied and the more-likely-than-not criterion met. These provisions are recognised at their net present value.
  Interest on loans written down as a result of impairment is recognised using the contractual rate of interest used to measure the impairment loss.

- *Securities*. Depending on whether or not securities are traded on an active market and depending on what the intention is when they are acquired, securities are classified as loans and receivables, held-to-maturity assets, held-for-trading assets, financial assets at fair value through profit or loss, or available-for-sale assets.
  - Securities classified as loans and receivables or held-to-maturity assets are initially measured at fair value, including transaction costs. They are subsequently measured at amortised cost. The difference between the acquisition cost and the redemption value is recognised as interest and recorded in the income statement on an accruals basis over the remaining term to maturity. It is taken to the income statement on an actuarial basis, based on the effective rate of return on acquisition. Individual impairment losses for securities classified as loans and receivables or held-to-maturity are recognised – according to the same method as is used for amounts receivable as described above – if there is evidence of impairment at balance sheet date.
  - Held-for-trading securities are initially measured at fair value excluding transaction costs and subsequently at fair value, with all fair value changes being recognised in profit or loss for the financial year.

- Securities classified initially as ‘Financial assets at fair value through profit or loss’ that are not held for trading are measured in the same way as held-for-trading assets.
- Available-for-sale securities are initially measured at fair value (including transaction costs) and subsequently at fair value, with changes in fair value being recorded separately in equity until the sale or impairment of the securities. In this case, the cumulative fair value changes are transferred from equity to profit or loss for the financial year. Impairment losses are recognised if evidence of impairment exists on the balance sheet date. For listed equity and other variable-yield securities, a significant (more than 30%) or prolonged (more than one year) decline in their fair value below cost is evidence of impairment. For fixed-income securities, impairment is measured on the basis of the recoverable amount of the acquisition cost. Impairment losses are taken to the income statement for the financial year. For equity and other variable-yield securities, impairment is reversed through a separate equity heading. Reversals of impairment on fixed-income securities occur through profit or loss for the financial year. However, if it cannot be demonstrated objectively that the reason for prolonged impairment no longer exists (i.e. the loss event triggering impairment has not completely disappeared), any increases in fair value will be recorded in equity. This continues until there is no longer any evidence of impairment. At that moment, impairment is completely reversed through profit or loss and any difference in fair value recorded in equity.

- *Derivatives*. All derivatives are classified as held-for-trading assets or held-for-trading liabilities unless they are designated and effective hedging instruments. Held-for-trading derivatives are measured at fair value, with fair value changes being recognised in profit or loss for the financial year. Held-for-trading derivatives with a positive replacement value are recorded on the asset side of the balance sheet; those with a negative replacement value on the liabilities side.

- *Amounts owed*. Liabilities arising from advances or cash deposits received are recorded in the balance sheet at amortised cost. The difference between the amount made available and the nominal value is reflected on an accruals basis in the income statement. It is recorded on a discounted basis, based on the effective rate of interest.

- *Embedded derivatives*. Derivatives embedded in contracts that are measured on an accruals basis (held-to-maturity assets, loans and receivables, other financial liabilities) or at fair value, with fair value changes being recorded in equity (available-for-sale assets), are separated from the contract and measured at fair value (with fair value adjustments being taken to the income statement for the financial year), if the risk relating to the embedded derivative is considered not to be closely related to the risk on the host contract. The risk may not be reassessed subsequently, unless the terms of the contract are changed and this has a substantial impact on the contract’s cashflows. Contracts with embedded derivatives are however primarily classified as financial instruments at fair value through profit or loss, making it unnecessary to separate the embedded derivative, since the entire financial instrument is measured at fair value, with fair value changes being taken to the income statement.

- *Hedge accounting*. KBC applies hedge accounting when all the requisite conditions (according to the hedge accounting requirements that have not been carved out in the IAS 39 version as approved by the EU) are fulfilled. These conditions are that the hedge relationship must be formally designated and documented on the inception of the hedge, the hedge must be expected to be highly effective and this effectiveness must be able to be measured reliably, and the measurement of hedge effectiveness must take place on a continuous basis during the reporting period in which the hedge can be considered to be effective.
For fair value hedges, both the derivatives hedging the risks and the hedged positions are measured at fair value, with all fair value changes being taken to the income statement. Accrued interest income from rate swaps is included in net interest income. Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold. In this case, the gain or loss recorded in equity on the hedged position (for fixed-income financial instruments) will be taken to profit or loss on an accruals basis until maturity.

KBC uses fair value hedges for a portfolio of interest rate risk to hedge the interest rate risk for a portfolio of loans and savings deposits using interest rate swaps. The interest rate swaps are measured at fair value, with fair value changes reported in profit or loss. Accrued interest income from these swaps is included in net interest income. The hedged amount of loans is measured at fair value as well, with fair value changes reported in profit or loss. The fair value of the hedged amount is presented as a separate line item of the assets on the balance sheet. KBC makes use of the ‘carved-out’ version of IAS 39, so that no ineffectiveness results from anticipated repayments, as long as underhedging exists. In case of hedge ineffectiveness, the cumulative change in the fair value of the hedged amount will be amortised through profit or loss over the remaining lifetime of the hedged assets or immediately removed from the balance sheet if the ineffectiveness is due to the fact that the corresponding loans have been derecognised. For cashflow hedges, derivatives hedging the risks are measured at fair value, with those fair value gains or losses determined to be an effective hedge being recognised separately in equity. Accrued interest income from rate swaps is included in net interest income. The ineffective portion of the hedge is recognised in income for the financial year. Hedge accounting will be discontinued if the hedge accounting criteria are no longer met. In this case, the derivatives will be treated as held-for-trading derivatives and measured accordingly.

Foreign currency funding of a net investment in a foreign entity is accounted for as a hedge of that net investment. This form of hedge accounting is used for investments not denominated in euros. Translation differences (account taken of deferred taxes) on the funding are recorded in equity, along with translation differences on the net investment.

- *Financial guarantee contracts*. These are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the initial or revised terms of a debt instrument. A financial guarantee contract is initially recognised at fair value and subsequently measured at the greater of the following:
  - the amount determined in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets; and
  - the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18: Revenue.

- *Fair value adjustments (market value adjustments)*. Fair value adjustments are recognised on all financial instruments measured at fair value, with fair value changes being taken to profit or loss or recognised in equity. These fair value adjustments include all close-out costs, adjustments for less liquid instruments or markets, adjustments relating to 'mark-to-model' measurements, adjustments for counterparty exposures and adjustments for funding costs.

d Goodwill and other intangible assets

Goodwill is defined as any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. It is recognised as an intangible asset and is carried at cost less impairment losses. Goodwill is not amortised, but is tested for impairment at least once a year or if there is either internal or external evidence for doing so. An impairment loss is recognised if the carrying value of the cash-generating unit to which the goodwill belongs exceeds its recoverable amount. Impairment losses on goodwill cannot be reversed. For each new business combination, KBC has to choose whether to measure minority interests at fair value or as their proportionate share of the acquiree's net identifiable assets. This choice determines the amount of goodwill recognised.

Software is recognised as an intangible asset if the capitalisation criteria are met. System software is capitalised and amortised at the same rate as hardware, i.e. over three years, from the moment the software is available for use. Standard software and customised software developed by a third party are capitalised and amortised over five years according to the straight-line method from the moment the software is available for use. Internal and external development expenses for internally-generated software for investment projects are capitalised and written off according to the straight-line method over five years, while for core systems with a longer useful life, the period is eight years. Investment projects are large-scale projects that introduce or replace an important business objective or model. Internal and external research expenses for these projects and all expenses for other ICT projects concerning internally-generated software (other than investment projects) are taken to the income statement directly.

e Property and equipment and investment property

All property and equipment is recognised at cost (including directly allocable acquisition costs), less accumulated depreciation and impairment. The rates of depreciation are determined on the basis of the anticipated useful life of the assets and are applied according to the straight-line method from the moment the assets are available for use. Impairment is recognised when there is evidence of impairment and if the carrying value of the asset exceeds its recoverable value (i.e. the higher of the asset's value in use and net selling price). Amounts written down can be reversed through the income statement. When property or equipment is sold, the realised gains or losses are taken directly to the income statement. If property or equipment is destroyed, the remaining amount to be written off is taken directly to the income statement. The accounting policy outlined for property and equipment also applies to investment property.

External borrowing costs that are directly attributable to the acquisition of an asset are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred. Capitalisation commences when expenses are incurred for the asset, when the borrowing costs are incurred and when activities that are necessary to prepare the asset for its intended use or sale are in progress. When development is interrupted, the *capitalisation* of borrowing costs is suspended. The *capitalisation* of borrowing costs ceases when all the activities necessary to prepare the asset for its intended use or sale are complete.

f Technical provisions

Provision for unearned premiums and unexpired risk

For primary business, the provision for unearned premiums is in principle calculated on a daily basis, based on the gross premiums. For inward treaties, i.e. reinsurance business received, the provision for unearned premiums is calculated for each contract separately on the basis of the information communicated by the ceding undertaking and, where necessary, supplemented on the basis of the company's own view of how the risk will change over time. The provision for unearned premiums for the life insurance business is recorded under the provision for the life insurance group of activities.

Life insurance provision

Except for unit-linked life insurance products, this provision is calculated according to current actuarial principles, with account being taken of the provision for unearned premiums, the ageing reserve, provision for annuities payable but not yet due, etc. In principle, this provision is calculated separately for every insurance contract. For accepted business, a provision is constituted for each individual contract, based on the information supplied by the ceding undertaking and supplemented, where necessary, by the company's own past experience.

Besides the rules set out below, an additional provision is set aside as required by law. The following rules apply:

- *Valuation according to the prospective method*. This method is applied for the provisions for conventional non-unit-linked life insurance policies, modern non-unit-linked universal life insurance policies offering a guaranteed rate of interest on future premium payments and for the provision for extra-legal benefits for employees in respect of current annuities. Calculations according to prospective actuarial formulas are based on the technical assumptions made in the contracts.
- *Valuation according to the retrospective method*. This method is applied for the provision for modern non-unit-linked universal life insurance policies and for the provision for extra-legal benefits for employees in respect of new supplementary premium payments. Calculations according to retrospective actuarial formulas are based on the technical assumptions made in the contracts, though no account is taken of future payments.

Provision for claims outstanding

For claims reported, the provision is in principle measured separately in each case, taking into account the known facts in the claims file, on the basis of the amounts still due to the injured parties or beneficiaries, plus external costs of settling claims. Where benefits have to be paid in the form of an annuity, the amounts to be set aside for that purpose are calculated using recognised actuarial methods.

For 'claims incurred but not reported' at balance sheet date, an IBNR (Incurred But Not Reported) provision is set aside. In the primary business, this IBNR provision is based on a lump sum per class of insurance depending upon past experience and the trend in the insured portfolio. For extraordinary events, additional amounts are added to the IBNR provision.

For 'claims incurred but not enough reserved' at balance sheet date, an IBNER (Incurred But Not Enough Reserved) provision is set aside if the adequacy procedures demonstrate that the other claims provisions are insufficient to meet future liabilities. This provision contains amounts for claims which have already been reported but which, for technical reasons, could not yet be recorded in the claims file. Where appropriate, a provision is set aside on a prudent basis for possible liabilities arising for claims files already closed.

A provision for the internal cost of settling claims is calculated at a percentage that is based on past experience. Additional provisions are also constituted as required by law, such as supplementary workmen's compensation provisions.

Provision for profit sharing and rebates

This heading includes the provision for the profit share that has been allocated but not yet awarded at the end of the financial year for both the group of life insurance activities and the group of non-life insurance activities.

Liability adequacy test

A liability adequacy test is performed to evaluate current liabilities, detect possible deficiencies and recognise them in profit or loss.

Ceded reinsurance and retrocession

The effect of reinsurance business ceded and retrocession is entered as an asset and calculated for each contract separately, supplemented where necessary by the company's own past experience regarding the evolution of the risk over time.

g Insurance contracts measured in accordance with IFRS 4 – phase 1

Deposit accounting rules apply to financial instruments that do not include a discretionary participation feature (DPF), and to the deposit component of unit-linked insurance contracts. This means that the deposit component and insurance component are measured separately. In deposit accounting, the portion of the premiums relating to the deposit component is not taken to the income statement, nor is the resulting increase in the carrying value of the liability. Management fees and commissions are recognised immediately in the income statement. When the value of unit-linked investments fluctuates subsequently, both the change on the asset side and the resulting change on the liabilities side are taken to the income statement immediately. Therefore, after initial recognition, the deposit component is measured at fair value through profit or loss. This fair value is determined by multiplying the number of units by the value of the unit, which is based upon the fair value of the underlying financial instruments. Settlements relating to the deposit component are not recorded in the income statement, but will result in a decrease in the carrying value of the liability.

Financial instruments with a discretionary participation feature and the insurance component of unit-linked contracts are treated as non-unit-linked insurance contracts (see f Technical provisions), and are not unbundled into a deposit component and an insurance component. On the balance sheet date, the liabilities resulting from these financial instruments or insurance contracts are tested to see if they are adequate, according to the liability adequacy test. If the carrying value of these liabilities is lower than their estimated future discounted cashflows, the deficiency will be recognised in the income statement against an increase in the liability.

h Retirement benefit obligations

Retirement benefit obligations are included under the 'Other liabilities' item and relate to obligations for retirement and survivor's pensions, early retirement benefits and similar pensions or annuities. Defined benefit plans are those under which KBC has a legal or constructive obligation to pay extra contributions to the pension fund if this last has insufficient assets to settle all the obligations to employees resulting from employee service in current and prior periods. The retirement benefit obligations under these plans for employees are calculated according to IAS 19, based on the projected-unit-credit method, with each period of service granting additional entitlement to pension benefits. Changes in the net defined benefit liability/asset are recognised in operating expenses (current service costs), in interest expense (net interest costs) and in other comprehensive income (remeasurements).

i Tax liabilities

This heading includes current and deferred tax liabilities.

- Current tax for the period is measured at the amount expected to be paid, using the rates of tax in effect for the balance sheet date.
- Deferred tax liabilities are recognised for all taxable temporary differences between the carrying value of an asset or liability and its tax base. They are measured using the tax rates in effect on realisation of the assets or settlement of the liabilities to which they relate and which reflect the fiscal consequences of the manner in which the entity expects to recover or to settle the carrying value of the underlying asset or liability at balance sheet date. Deferred tax assets are recognised for all deductible temporary differences between the carrying value of assets and liabilities and their tax base, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

j Provisions

Provisions are recognised in the balance sheet:

- if an obligation (legal or constructive) exists on the balance sheet date that stems from a past event, and
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation.

k Equity

Equity is the residual interest in the net assets after all liabilities have been deducted. Equity instruments have been differentiated from financial instruments in accordance with the IAS 32 rules.

- The acquisition cost of KBC Group NV treasury shares is deducted from equity. On the sale, issuance or cancellation of treasury shares, gains or losses are reported directly in equity.
- Transactions in derivative financial instruments on KBC shares are likewise reported in equity, save in the event of net cash settlement.
- Written stock options on KBC shares subject to IFRS 2 are measured at fair value on the grant date. This fair value is recognised in the income statement as a staff expense over the period of service, against a separate entry under equity.
- The revaluation reserve for available-for-sale assets is included in equity until disposal or impairment of the assets. At that time, the cumulative gain or loss is transferred to profit or loss for the period.

Put options on minority interests (and, where applicable, combinations of put and call options resulting in forward contracts) are recognised as financial liabilities at the present value of the exercise prices. The corresponding minority interests are deducted from equity. When the share in equity held by minority interests changes, KBC adjusts the carrying value of the majority and minority interests in order to reflect the changes in their relative interests in the consolidated companies. KBC recognises any difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or received, directly in equity and attributes it to the majority interest holder.

l Exchange rates used*

	Exchange rate at 31-12-2017		Exchange rate average in 2017	
	1 EUR = … … currency	Change from 31-12-2016 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … … currency	Change relative to average in 2016 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
BGN	1.95580	0%	1.95580	0%
CZK	25.535	6%	26.351	3%
GBP	0.88723	-3%	0.87443	-6%
HUF	310.33	0%	309.29	1%
USD	1.1993	-12%	1.1310	-2%

* Rounded figures.

Note 1.3: Critical estimates and significant judgements

When preparing the consolidated financial statements and applying KBC's accounting policies, management is required to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Some degree of uncertainty is inherent in almost all amounts reported. The estimates are based on the experience and assumptions that KBC's management believes are reasonable at the time the financial statements are being prepared.

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Significant areas of estimation uncertainty, and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are found in, but not limited to, the following notes: 3.3, 3.7, 3.10, 4.2, 4.4–4.7, 5.2, 5.4–5.7 and 5.9.

2.0 Notes on segment reporting

Note 2.1: Segment reporting based on the management structure

Detailed information on the group's management structure and the results per segment can be found in the 'Our business units' section (which has not been audited by the statutory auditor). In line with IFRS 8, KBC has identified the Executive Committee and Board of Directors as 'chief operating decision-makers', responsible for allocating the resources and assessing the performance of the different parts of the company. The operating segments are based on the internal financial reporting to these policy bodies and on the location of the company's activities, resulting in geographical segmentation.

The three operating segments are (essentially):
- the Belgium Business Unit (all activities in Belgium);
- the Czech Republic Business Unit (all activities in the Czech Republic);
- the International Markets Business Unit (activities in Ireland, Hungary, Slovakia and Bulgaria, reported together in accordance with IFRS 8.16).

For reporting purposes, there is also a Group Centre (comprising the results of the holding company, items that have not been allocated to the other business units, and the results of companies to be divested).

Segment reporting
- The policy bodies analyse the performance of the segments based on a number of criteria, with the 'Result after tax' being the most important results indicator. The segment data is based entirely on IFRS data (with no adjustments).
- In principle, we assign a group company in its entirety to one specific segment/business unit. Exceptions are only made for those items that cannot clearly be allocated to a specific segment, such as subordination charges attached to subordinated loans (such items are recognised under Group Centre).
- We allocate the funding cost of participating interests to the Group Centre. Any funding cost in respect of leveraging at KBC Group NV level is also recognised under Group Centre.
- Transactions among the different segments are reported at arm's length.
- We recognise 'Net interest income' in the segment information without dividing it up into 'Interest income' and 'Interest expense'. This is permitted under IFRS because the bulk of the business units' income is in the form of interest, and management assesses and co-ordinates those business units primarily on the basis of net interest income.
- We do not provide any information on income from sales to external clients per group of products or services, since the information is prepared at consolidated level chiefly for each business unit, and not per client group or product group.
- Information on the impact of United Bulgarian Bank and Interlease (Bulgaria), which were acquired in mid-2017, is provided in Note 6.6.

Note 2.2: Results by segment

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	*Of which:* Hungary	Slovakia	Bulgaria	Ireland	Group Centre	KBC group
INCOME STATEMENT FOR 2017									
Net interest income	2 394	888	837	*244*	*211*	*104*	*278*	1	4 121
Non-life insurance (before reinsurance)	526	86	83	*35*	*25*	*23*	*0*	11	706
Earned premiums	1 043	216	224	*100*	*36*	*88*	*0*	8	1 491
Technical charges	-516	-130	-141	*-64*	*-12*	*-65*	*0*	3	-785
Life insurance (before reinsurance)	-132	48	25	*7*	*12*	*5*	*0*	1	-58
Earned premiums	927	260	85	*16*	*49*	*20*	*0*	0	1 271
Technical charges	-1 059	-212	-60	*-9*	*-36*	*-15*	*0*	1	-1 330
Ceded reinsurance result	-15	-4	9	*-1*	*-2*	*12*	*0*	1	-8
Dividend income	52	0	1	*0*	*0*	*0*	*0*	10	63
Net result from financial instruments at fair value through profit or loss	539	222	95	*62*	*15*	*13*	*5*	-1	856
Net realised result from available-for-sale assets	123	17	3	*2*	*0*	*1*	*0*	56	199
Net fee and commission income	1 290	192	232	*161*	*51*	*18*	*-1*	-6	1 707
Other net income	174	40	-112	*3*	*8*	*-4*	*-116*	11	114
TOTAL INCOME	4 953	1 490	1 173	*514*	*320*	*172*	*167*	84	7 700
Operating expenses[a]	-2 452	-646	-837	*-346*	*-204*	*-96*	*-188*	-140	-4 074
Impairment	-116	-24	190	*8*	*-13*	*-20*	*215*	-20	30
on loans and receivables	-87	-5	197	*11*	*-11*	*-17*	*215*	-18	87
on available-for-sale assets	-11	-1	-1	*0*	*0*	*-1*	*0*	0	-12
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
other	-18	-18	-7	*-3*	*-1*	*-2*	*0*	-2	-45
Share in results of associated companies and joint ventures	-13	21	4	*0*	*0*	*0*	*0*	0	11
RESULT BEFORE TAX	2 372	842	529	*176*	*103*	*56*	*193*	-75	3 667
Income tax expense	-797	-140	-85	*-29*	*-24*	*-6*	*-26*	-71	-1 093
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	1 575	702	444	*146*	*79*	*50*	*167*	-146	2 575
attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	0	0
attributable to equity holders of the parent	**1 575**	**702**	**444**	***146***	***79***	***50***	***167***	**-146**	**2 575**
a Of which non-cash expenses	-58	-54	-68	*-29*	*-14*	*-10*	*-15*	-91	-271
Depreciation and amortisation of fixed assets	-57	-54	-65	*-29*	*-15*	*-7*	*-15*	-90	-266
Other	-1	1	-3	*0*	*0*	*-4*	*0*	-1	-5
Acquisitions of non-current assets*	488	213	219	*48*	*114*	*27*	*30*	116	1 036

* Non-current assets held for sale and disposal groups, investment property, property and equipment, investments in associated companies, and goodwill and other intangible assets.

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	*Of which:* Hungary	*Slovakia*	*Bulgaria*	*Ireland*	Group Centre	KBC group
INCOME STATEMENT FOR 2016									
Net interest income	2 701	849	740	*231*	*216*	*48*	*244*	-32	4 258
Non-life insurance (before reinsurance)	440	78	91	*33*	*21*	*37*	*0*	18	628
Earned premiums	1 012	190	198	*82*	*32*	*83*	*0*	10	1 410
Technical charges	-572	-112	-107	*-49*	*-12*	*-46*	*0*	8	-782
Life insurance (before reinsurance)	-208	36	20	*4*	*12*	*4*	*0*	0	-152
Earned premiums	1 217	271	89	*16*	*51*	*22*	*0*	0	1 577
Technical charges	-1 425	-234	-69	*-12*	*-39*	*-18*	*0*	0	-1 728
Ceded reinsurance result	-12	-4	-6	*-2*	*-1*	*-3*	*0*	-17	-38
Dividend income	61	0	0	*0*	*0*	*0*	*0*	15	77
Net result from financial instruments at fair value through profit or loss	329	117	89	*66*	*15*	*2*	*6*	6	540
Net realised result from available-for-sale assets	90	48	38	*19*	*16*	*4*	*0*	13	189
Net fee and commission income	1 070	191	201	*157*	*45*	*-4*	*-1*	-11	1 450
Other net income	208	18	-1	*2*	*6*	*-5*	*-4*	33	258
TOTAL INCOME	4 680	1 333	1 173	*509*	*330*	*84*	*246*	25	7 211
Operating expenses[a]	-2 432	-608	-750	*-338*	*-199*	*-56*	*-154*	-158	-3 948
Impairment	-179	-24	34	*12*	*-16*	*-6*	*44*	-32	-201
on loans and receivables	-113	-23	42	*15*	*-15*	*-3*	*45*	-32	-126
on available-for-sale assets	-58	3	0	*0*	*0*	*0*	*0*	0	-55
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
other	-8	-4	-7	*-3*	*0*	*-3*	*-1*	0	-20
Share in results of associated companies and joint ventures	0	23	0	*0*	*0*	*0*	*0*	4	27
RESULT BEFORE TAX	2 070	724	457	*183*	*115*	*22*	*136*	-161	3 090
Income tax expense	-637	-128	-29	*-54*	*-23*	*0*	*49*	132	-662
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	1 433	596	428	*130*	*92*	*22*	*184*	-29	2 428
attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	0	0
attributable to equity holders of the parent	**1 432**	**596**	**428**	***130***	***92***	***22***	***184***	**-29**	**2 427**
a Of which non-cash expenses	-62	-48	-55	*-27*	*-12*	*-3*	*-12*	-81	-246
Depreciation and amortisation of fixed assets	-57	-49	-56	*-27*	*-13*	*-3*	*-12*	-85	-246
Other	-5	1	0	*0*	*0*	*0*	*0*	4	1
Acquisitions of non-current assets*	448	260	132	*36*	*37*	*38*	*21*	102	942

* Non-current assets held for sale and disposal groups, investment property, property and equipment, investments in associated companies, and goodwill and other intangible assets.

Note 2.3: Balance-sheet information by segment

The table below presents some of the main on-balance-sheet products by segment.

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	*Of which:* Hungary	Slovakia	Bulgaria	Ireland	Group Centre	KBC group
BALANCE SHEET AT 31-12-2017									
Deposits from customers and debt securities (excluding repos)	132 881	30 246	22 663	*7 302*	*6 066*	*3 903*	*5 392*	7 918	193 708
Demand deposits	42 757	19 582	11 267	*5 484*	*3 058*	*1 920*	*805*	0	73 606
Savings accounts	44 416	7 668	4 609	*942*	*1 227*	*837*	*1 603*	0	56 692
Time deposits	12 493	712	6 192	*844*	*1 379*	*1 105*	*2 864*	0	19 397
Debt securities	31 186	1 792	331	*31*	*178*	*0*	*121*	7 918	41 227
Other	2 028	492	264	*0*	*223*	*41*	*0*	0	2 784
Loans and advances to customers (excluding reverse repos)	94 495	22 303	24 201	*4 217*	*6 574*	*2 716*	*10 694*	0	140 999
Term loans	48 325	8 104	5 411	*1 936*	*2 158*	*568*	*749*	0	61 839
Mortgage loans	34 468	10 653	15 503	*1 556*	*2 943*	*1 100*	*9 905*	0	60 625
Other	11 701	3 546	3 287	*726*	*1 473*	*1 049*	*40*	0	18 535
BALANCE SHEET AT 31-12-2016									
Deposits from customers and debt securities (excluding repos)	125 074	26 183	18 344	*6 814*	*5 739*	*792*	*4 999*	7 820	177 421
Demand deposits	38 953	16 214	8 260	*4 438*	*2 916*	*358*	*549*	0	63 427
Savings accounts	42 289	7 222	3 817	*944*	*1 195*	*113*	*1 565*	0	53 328
Time deposits	15 505	672	5 759	*1 404*	*1 215*	*322*	*2 819*	0	21 936
Debt securities	26 338	1 625	289	*29*	*194*	*0*	*67*	7 793	36 044
Other	1 989	450	219	*0*	*219*	*0*	*0*	27	2 686
Loans and advances to customers (excluding reverse repos)	91 804	19 552	21 496	*3 802*	*6 094*	*835*	*10 765*	4	132 856
Term loans	46 130	7 375	5 203	*1 762*	*2 124*	*273*	*1 043*	0	58 707
Mortgage loans	34 265	9 077	13 993	*1 451*	*2 608*	*234*	*9 700*	0	57 335
Other	11 408	3 100	2 300	*588*	*1 363*	*328*	*22*	4	16 813

3.0 Notes to the income statement

Note 3.1: Net interest income

(in millions of EUR)	2017	2016
Total	**4 121**	**4 258**
Interest income	**6 337**	**6 642**
Available-for-sale assets	650	703
Loans and receivables	3 819	3 805
Held-to-maturity investments	853	981
Other assets not at fair value	166	79
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*5 488*	*5 568*
of which impaired financial assets	*22*	*64*
Financial assets held for trading	570	661
Hedging derivatives	274	288
Other financial assets at fair value through profit or loss	5	124
Interest expense	**-2 216**	**-2 384**
Financial liabilities measured at amortised cost	-955	-870
Other liabilities not at fair value	-102	-33
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*-1 057*	*-903*
Financial liabilities held for trading	-643	-771
Hedging derivatives	-479	-564
Other financial liabilities at fair valuethrough profit or loss	-29	-139
Net interest expense relating to defined benefit plans	-8	-6

Note 3.2: Dividend income

(in millions of EUR)	2017	2016
Total	**63**	**77**
Shares held for trading	11	12
Shares initially recognised at fair value through profit or loss	0	1
Available-for-sale shares	53	63

Note 3.3: Net result from financial instruments at fair value through profit or loss

(in millions of EUR)	2017	2016
Total	**856**	**540**
Trading instruments (including interest and fair value changes in trading derivatives)	336	687
Other financial instruments initially recognised at fair value through profit or loss	10	-6
of which gains/losses on own credit risk	*–*	*8*
Foreign exchange trading	589	-94
Fair value adjustments in hedge accounting	-79	-47
Hedge accounting broken down by type of hedge		
Fair value micro hedges	-5	-5
Changes in the fair value of the hedged items	-49	295
Changes in the fair value of the hedging derivatives, including discontinuation	44	-300
Cashflow hedges	1	-2
Changes in the fair value of the hedging derivatives, ineffective portion	1	-2
Hedges of net investments in foreign operations, ineffective portion	0	0
Portfolio hedge of interest rate risk	8	-2
Changes in the fair value of the hedged items	-102	101
Changes in the fair value of the hedging derivatives, including discontinuation	110	-104
Discontinuation of hedge accounting for fair value hedges	-17	0
Discontinuation of hedge accounting in the event of cashflow hedges	-65	-37

- Foreign exchange trading results comprise total exchange differences, excluding those recognised on financial instruments at fair value through profit or loss.
- For more information on the impact of changes in own credit risk, see Notes 1.1 and 4.8.
- The interest component of ALM derivatives is recognised under 'Net interest income'. Fair value changes in ALM derivatives, excluding those for which an effective cashflow hedge relationship exists, are recognised under 'Net result from financial instruments at fair value through profit or loss'. Under fair value hedge accounting, changes in the fair value of hedged assets are also recognised under this heading, and offsetting takes place insofar as the hedge is effective.
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, we use the dollar offset method on a quarterly basis, with changes in the fair value of the hedged item offsetting changes in the fair value of the hedging instrument within a range of 80%–125%.
  - For cashflow hedges, we compare the designated hedging instrument with a perfect hedge of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the perfect hedge). The effectiveness of both tests must fall within a range of 80%–125%.
  - We use the rules set out in the European version of IAS 39 (carve-out) to assess the effectiveness of fair value hedges for a portfolio of interest rate risk. IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, we make sure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- Day 1 profit: when the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or from the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case (i.e. the variables do not include only data from observable markets), day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. The impact of this is negligible for KBC.
- Fair value changes (due to marking-to-market) of a large proportion of ALM hedging instruments (that are treated as trading instruments) also appear under 'Net result from financial instruments at fair value', whereas most of the related assets are not recognised at fair value (i.e. not marked-to-market).
- Most significant fluctuations between 2016 and 2017: the substantially higher level of income generated by the dealing-room activities, especially in Belgium and the Czech Republic, and a more positive impact from various market value adjustments were the main drivers behind the increase in the 'Net result from financial instruments at fair value through profit or loss'.

Note 3.4: Net realised result from available-for-sale assets

(in millions of EUR)	2017	2016
Total	**199**	**189**
Fixed-income securities	29	24
Shares	170	165

- In 2016, the net realised result included the capital gain of 99 million euros (84 million euros (after tax)) generated by the sale of Visa Europe shares (following the public offering of Visa Europe).

Note 3.5: Net fee and commission income

(in millions of EUR)	2017	2016
Total	**1 707**	**1 450**
Fee and commission income	2 615	2 101
Fee and commission expense	-908	-651
Breakdown by type		
Asset management services	1 232	1 013
Fee and commission income	1 289	1 050
Fee and commission expense	-57	-37
Banking services	764	718
Fee and commission income	1 267	998
Fee and commission expense	-502	-280
Distribution	-290	-281
Fee and commission income	59	54
Fee and commission expense	-349	-335

- See Note 1.1 for changes in the above presentation.
- The lion’s share of the fees and commissions related to lending is recognised under ‘Net interest income’ (effective interest rate calculations).

Note 3.6: Other net income

(in millions of EUR)	2017	2016
Total	**114**	**258**
of which gains or losses on		
Sale of loans and receivables	3	2
Sale of held-to-maturity investments	3	4
Repurchase of financial liabilities measured at amortised cost	0	-7
Other, including:	109	259
Income from (mainly operational) leasing activities, KBC Lease Group	73	78
Income from VAB Group	64	69
Impact of surrender of a reinsured contract	1	25
Settlement of an old legal case (Czech Republic)	14	0
Provisioning for tracker mortgage review	-116	-4

- The impact of surrendering a reinsured contract in 2016 concerns the investment gains that were realised (and recognised under 'Other net income') when a large reinsured savings contract was surrendered. The gains were transferred in their entirety to the client through technical charges (life insurance) and, therefore, did not have any impact on KBC's net result.
- Provisioning for the tracker mortgage review in 2017 concerns KBC Bank Ireland, which – like all major lenders in Ireland at the time – had offered tracker mortgages (i.e. between 2003 and 2008). In December 2015, the Central Bank of Ireland (CBI) requested the Irish banking industry, including KBC Bank Ireland, to undertake a broad and wide ranging examination of tracker-mortgage related issues.

The purpose of the tracker mortgage review was to identify cases where clients' contractual rights under the terms of their mortgage agreements had not been fully honoured and/or lenders had not fully complied with the various requirements and standards regarding disclosure and transparency for the client. In situations where client detriment was identified from this examination, KBC Bank Ireland had to provide appropriate redress and compensation in line with the CBI 'Principles for Redress'. In 2016, the bank recognised a provision of 4 million euros in respect of redress and compensation for clients identified as being impacted. Following further testing and engagement with the CBI during 2017, the bank identified more impacted clients for which redress and compensation was required. During 2017, it recognised an additional provision of 116 million euros (54 million euros of which in the third quarter and 62 million euros in the fourth quarter of 2017), based on the best estimate of the potential liability at 31 December 2017. Redress and compensation payments are expected to be made to all impacted clients during 2018.

Note 3.7: Insurance results

- As a bank-insurer, KBC presents its financial information on an integrated basis (i.e. banking and insurance activities combined). More information on the banking and insurance businesses is provided separately in the respective annual reports of KBC Bank and KBC Insurance. This note provides information on the insurance results alone.
- The figures include intragroup transactions between bank and insurance entities (the results for insurance contracts concluded between the group's bank and insurance entities, interest that insurance companies receive on their deposits with bank entities, commissions that insurance entities pay to bank branches for sales of insurance, etc.) in order to give a more accurate view of the profitability of the insurance business.
- Additional information on the insurance business is provided separately in Note 3.7, Note 5.6 and Note 6.5 (KBC Insurance section), in the 'How do we manage our risks?' section ('Credit risk exposure in the insurance activities', 'Interest rate risk', 'Equity risk' and 'Real estate risk', 'Technical insurance risk') and in the 'How do we manage our capital?' section ('Solvency of KBC Bank and KBC Insurance separately').

Note 3.7.1: Overview

(in millions of EUR)	Life	Non-life	Non-technical account	Total
2017				
Earned premiums, insurance (before reinsurance)	1 273	1 510	–	2 784
Technical charges, insurance (before reinsurance)	-1 331	-785	–	-2 116
Net fee and commission income	-20	-292	–	-312
Ceded reinsurance result	1	-9	–	-8
General administrative expenses	-140	-247	-3	-389
Internal claims settlement expenses	-8	-56	–	-65
Indirect acquisition costs	-31	-73	–	-103
Administrative expenses	-100	-118	–	-218
Investment management fees	0	0	-3	-3
Technical result	-216	178	-3	-41
Net interest income	–	–	564	564
Net dividend income	–	–	39	39
Net result from financial instruments at fair value through profit or loss	–	–	-2	-2
Net realised result from available-for-sale assets	–	–	84	84
Other net income	–	–	-10	-10
Impairment	–	–	-12	-12
Allocation to the technical accounts	537	87	-624	0
Technical-financial result	320	265	35	621
Share in results of associated companies and joint ventures	–	–	4	4
RESULT BEFORE TAX	**320**	**265**	**39**	**624**
Income tax expense	–	–	–	-187
RESULT AFTER TAX	**–**	**–**	**–**	**438**
attributable to minority interests	–	–	–	0
attributable to equity holders of the parent	**–**	**–**	**–**	**438**
2016				
Earned premiums, insurance (before reinsurance)	1 579	1 428	–	3 007
Technical charges, insurance (before reinsurance)	-1 728	-784	–	-2 512
Net fee and commission income	-29	-272	–	-301
Ceded reinsurance result	-1	-37	–	-38
General administrative expenses	-135	-242	-3	-380
Internal claims settlement expenses	-8	-54	–	-62
Indirect acquisition costs	-32	-80	–	-112
Administrative expenses	-95	-108	–	-203
Investment management fees	0	0	-3	-3
Technical result	-315	94	-3	-224
Net interest income	–	–	614	614
Net dividend income	–	–	45	45
Net result from financial instruments at fair value through profit or loss	–	–	-10	-10
Net realised result from available-for-sale assets	–	–	56	56
Other net income	–	–	18	18
Impairment	–	–	-55	-55
Allocation to the technical accounts	558	73	-631	0
Technical-financial result	242	167	35	445
Share in results of associated companies and joint ventures	–	–	4	4
RESULT BEFORE TAX	**242**	**167**	**39**	**449**
Income tax expense	–	–	–	-135
RESULT AFTER TAX	**–**	**–**	**–**	**314**
attributable to minority interests	–	–	–	0
attributable to equity holders of the parent	**–**	**–**	**–**	**314**

- The figures relating to earned premiums do not include investment contracts without DPF, which largely correspond to unit-linked contracts. The margin on these products is recognised under ‘Net fee and commission income’.
- 'Non-life technical charges' in 2017 included the release of 26 million euros relating to the indexation provision (see Note 1.1. for more information). There was a net negative impact of 16 million euros on the 'Non-life technical result' in 2016, due to the terrorist attacks in Brussels.
- There was a positive impact on 'Life technical charges' in 2017, owing to the partial release of a specific life insurance provision of 23 million euros (the 'flashing light reserve' in Belgium) in the third quarter. This provision had been set aside to hedge the interest rate risk, i.e. the difference between the guaranteed interest rate and a set rate based on the five-year average of the 10-year OLO rate. Due to the fact that contracts with a high guaranteed rate of interest are nearing maturity, there is also less need to hedge the interest rate risk and the relevant provision is being scaled back in line with the contracts that are nearing maturity.

Reconciliation of the earned premiums stated in the consolidated income statement and in Note 3.7.1

(in millions of EUR)	2017	2016
Non-life insurance (before reinsurance) – Earned premiums		
In the consolidated income statement	1 491	1 410
Addition of premiums from intragroup transactions between bank and insurer	20	19
In Note 3.7.1	1 510	1 428
Life insurance (before reinsurance) – Earned premiums		
In the consolidated income statement	1 271	1 577
Addition of premiums from intragroup transactions between bank and insurer	2	2
In Note 3.7.1	1 273	1 579

Note 3.7.2: Life insurance

(in millions of EUR)	2017	2016
Total	**1 273**	**1 579**
Breakdown by IFRS category		
Insurance contracts	893	920
Investment contracts with DPF	380	659
Breakdown by type		
Accepted reinsurance	12	5
Primary business	1 261	1 574
Breakdown of primary business		
Individual premiums	950	1 265
Single premiums	285	624
Periodic premiums	665	642
Premiums under group contracts	312	309
Single premiums	60	48
Periodic premiums	252	261
Total sales of life insurance (including investment contracts without DPF)		
Unit-linked	856	820
Guaranteed-rate	1 025	1 295
Total	1 881	2 114

- As required under IFRS, we use deposit accounting for a number of investment contracts without DPF. This means that the premium income and technical charges from these contracts are not recognised under 'Earned premiums' and 'Technical charges', but that the margins on them are reported under 'Net fee and commission income'. Investment contracts without DPF are more or less the same as unit-linked contracts, which in 2017 accounted for premium income of 0.9 billion euros and in 2016 for premium income of 0.8 billion euros.

Note 3.7.3: Non-life insurance

(in millions of EUR)	Earned premiums (before reinsurance)	Claims incurred (before reinsurance)	Operating expenses (before reinsurance)	Ceded reinsurance	Total
2017					
Total	**1 510**	**-785**	**-539**	**-9**	**178**
Accepted reinsurance	39	-5	-16	-23	-4
Primary business	1 472	-781	-523	14	182
Accident & health (classes 1 & 2, excl. industrial accidents)	112	-54	-40	0	19
Industrial accidents (class 1)	73	-39	-18	0	16
Motor, third-party liability (class 10)	407	-268	-128	1	11
Motor, other classes (classes 3 & 7)	229	-135	-82	0	14
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	4	-2	-2	0	0
Fire and other damage to property (classes 8 & 9)	449	-166	-174	6	116
General third-party liability (class 13)	98	-81	-40	6	-17
Credit and suretyship (classes 14 & 15)	0	0	0	0	0
Miscellaneous pecuniary losses (class 16)	16	-7	-7	1	3
Legal assistance (class 17)	53	-16	-19	0	18
Assistance (class 18)	29	-12	-15	0	2
2016					
Total	**1 428**	**-784**	**-514**	**-37**	**94**
Accepted reinsurance	36	-2	-14	-15	6
Primary business	1 392	-782	-500	-22	89
Accident & health (classes 1 & 2, excl. industrial accidents)	110	-53	-38	-1	19
Industrial accidents (class 1)	72	-79	-18	-1	-26
Motor, third-party liability (class 10)	382	-243	-124	-1	15
Motor, other classes (classes 3 & 7)	211	-121	-75	0	14
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	3	-2	-1	0	0
Fire and other damage to property (classes 8 & 9)	425	-185	-165	-20	55
General third-party liability (class 13)	97	-64	-39	1	-6
Credit and suretyship (classes 14 & 15)	2	0	0	0	1
Miscellaneous pecuniary losses (class 16)	14	-9	-6	0	-1
Legal assistance (class 17)	51	-18	-19	0	14
Assistance (class 18)	25	-8	-13	0	4

Note 3.8: Operating expenses

(in millions of EUR)	2017	2016
Total	**-4 074**	**-3 948**
Staff expenses	-2 303	-2 252
General administrative expenses	-1 505	-1 449
of which bank taxes	-439	-437
Depreciation and amortisation of fixed assets	-266	-246

- General administrative expenses include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes, utilities and other such expenses. They also include expenses related to the special tax imposed on financial institutions in various countries (totalling 437 million euros in 2016 and 439 million euros in 2017). The latter figure comprises 264 million euros in the Belgium Business Unit, 27 million euros in the Czech Republic Business Unit, 19 million euros in Slovakia, 4 million euros in Bulgaria, 107 million euros in Hungary and 18 million euros in Ireland.
- Share-based payments are included under staff expenses. Information on the main equity-settled share-based payments: since 2000, KBC has launched a number of stock option plans for its employees. The remaining number of outstanding options at year-end 2017 was very limited (63 730 options, average exercise price 89.21 euros). Changes in 2017 related to exercised options (-81 650 options).
- Information on the capital increase reserved for KBC group employees can be found in the 'Company annual accounts and additional information' section. In 2017, this resulted in the recognition of a limited employee benefit (2 million euros) as the issue price was lower than the market price. Information regarding the (highest, lowest, average) price of the KBC share can be found in the 'Report of the Board of Directors' section.
- Cash-settled share-based payment arrangements also include the costs related to a phantom stock plan (included under 'Staff expenses'). These costs were negligible for 2017 and 2016.

Note 3.9: Personnel

(number)	2017	2016
Total average number of persons employed (in full-time equivalents)	**37 130**	**36 030**
Breakdown by legal entity		
KBC Bank	29 079	27 910
KBC Insurance NV	4 167	4 100
KBC Group NV (holding company)	3 884	4 020
Breakdown by employee classification		
Blue-collar staff	374	367
White-collar staff	36 488	35 393
Senior management	268	270

- The figures in the table are annual averages, which – in terms of scope – may differ from year-end figures that are provided elsewhere.
- Due to the fact that United Bulgarian Bank and Interlease were only acquired in mid-2017, just half of their figures have been included (i.e. 1 156 FTEs in 2017).

Note 3.10: Impairment (income statement)

(in millions of EUR)	2017	2016
Total	**30**	**-201**
Impairment on loans and receivables	**87**	**-126**
Breakdown by type		
Specific impairment, on-balance-sheet lending	86	-75
Provisions for off-balance-sheet credit commitments	-59	8
Portfolio-based impairment	60	-58
Breakdown by business unit		
Belgium	-87	-113
Czech Republic	-5	-23
International Markets	197	42
Group Centre	-18	-32
Impairment on available-for-sale assets	**-12**	**-55**
Shares	-12	-58
Other	0	3
Impairment on goodwill	**0**	**0**
Impairment on other	**-45**	**-20**
Intangible fixed assets (other than goodwill)	-13	-11
Property and equipment (including investment property)	-28	-7
Held-to-maturity assets	-1	-1
Associated companies and joint ventures	0	0
Other	-4	-1

- Impairment charges in the International Markets Business Unit included loan loss provisioning in Ireland (a net reversal of 215 million euros in 2017 and 45 million euros in 2016 (see next bullet point)), in Hungary (a net reversal of 11 million euros in 2017 and 15 million euros in 2016), in Slovakia (net provisioning of 11 million euros in 2017 and 15 million euros in 2016) and in Bulgaria (net provisioning of 17 million euros in 2017 (12 million euros of which for United Bulgarian Bank and Interlease, which were acquired in mid-2017) and 3 million euros in 2016). The bulk of the impairment charges in the Group Centre in 2016 and 2017 was accounted for by the former Antwerp Diamond Bank (Diamant Corporate Centre following the merger with KBC Bank).
- At KBC Bank Ireland, the loan portfolio – which contains a relatively large proportion of home loans and mortgages – has suffered in recent years as a consequence of the property crisis. The Irish loan portfolio stood at about 12 billion euros at the end of the year, just over 90% of which relates to mortgage loans. The group was able to recognise a net impairment reversal of 215 million euros for its Irish portfolio in 2017 (the net reversal came to 45 million euros in 2016). The net reversal in 2017 was accounted for primarily by the rise in the nine-month average housing price index, model-related adjustments and an improvement in the portfolio of non-performing loans.
- For information on total impairment recognised in the balance sheet, see Note 4.2.

Note 3.11: Share in results of associated companies and joint ventures

(in millions of EUR)	2017	2016
Total	11	27
of which		
ČMSS	21	23
Joyn International NV	-5	0
Payconiq Holding B.V.	-6	0
NLB Vita	4	4

- The share in results of associated companies and joint ventures is accounted for primarily by ČMSS, a joint venture of ČSOB in the Czech Republic. More details are provided in Note 5.3.
- Impairment on (goodwill on) associated companies and joint ventures is included in 'Impairment' (see Note 3.10). The share in results of associated companies and joint ventures does not therefore take this impairment into account.

Note 3.12: Income tax expense

(in millions of EUR)	2017	2016
Total	**-1 093**	**-662**
Breakdown by type		
Current taxes on income	-523	-470
Deferred taxes on income	-570	-192
Tax components		
Result before tax	3 667	3 090
Income tax at the Belgian statutory rate	33.99%	33.99%
Income tax calculated	-1 247	-1 050
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	303	251
tax-free income	205	125
adjustments related to prior years	0	11
adjustments to deferred taxes due to change in tax rate	-243	-8
unused tax losses and unused tax credits to reduce current tax expense	23	31
unused tax losses and unused tax credits to reduce deferred tax expense	16	110
reversal of previously recognised deferred tax assets due to tax losses	0	-20
other (mainly non-deductible expenses)	-148	-112
Aggregate amount of temporary differences associated with investments in subsidiaries, branches and associated companies and interests in joint ventures, for which deferred tax liabilities have not been recognised*	**0**	**358**

* Reserves of joint or other subsidiaries, associated companies and branches that, at certain entities, will be taxed in full on distribution (recorded in full). For a significant number of entities, the foreign tax credit applies (5% is recorded, since 95% is definitively taxed). These dividends will be definitively taxed starting in 2018.

- For information on tax assets and tax liabilities, see Note 5.2.
- 'Income tax expense' in 2017 was positively impacted by deferred tax assets, 66 million euros of which at KBC Bank following the liquidation of IIB Finance Ireland (under Belgian tax law, the loss in paid-up capital that KBC Bank sustained as a result of the liquidation of IIB Finance Ireland is tax deductible for the parent company on the date of liquidation, rather than at the time the losses were incurred). The impact in 2016 came to 103 million euros, +65 million euros of which at KBC Credit Investments, -20 million euros at KBC Securities, +66 million euros at KBC Bank Ireland and -8 million euros at K&H Bank.
- Adjustments to deferred taxes due to change in the tax rate concern the reform of the Belgian corporation tax system, which would impact KBC mainly because of the planned gradual decrease in the tax rate from 33.99% to 29.58% (from financial year 2018) and to 25% (from financial year 2020). This already had a slight, positive one-off impact (of roughly +0.1%) on our common equity ratio at the end of 2017 (thanks in part to higher revaluation reserves for available-for-sale assets (after tax) and lower risk-weighted assets resulting from the lower level of outstanding deferred tax assets) and a one-off negative impact on the income statement at year-end 2017 (-243 million euros due to a reduction in the amount of deferred tax assets). In addition, the increase in tax exemption for eligible dividends received (from 95% to 100%) had a positive impact of 32 million euros. Both these factors had an aggregate negative impact of 211 million euros for 2017. In segment reporting (Note 2.2), the portion related to the legacy business was charged to the Group Centre (126 million euros) and the rest to the Belgium Business Unit. We expect this to have a recurring positive impact on the income statement from 2018 onwards, because of the lower tax rate applying to the Belgian group companies and certain dividends received being 100% tax-exempt. However, the impact will be partly mitigated by other measures, including the reform of the notional interest deduction scheme.
- Country-by-country reporting (according to the Royal Decree of 27 November 2014 amending the royal decrees concerning the financial statements and consolidated financial statements of credit institutions, investment firms and management companies of undertakings for collective investment) is provided at the consolidated level of KBC Bank and is dealt with in Note 3.11 of the KBC Bank Annual Report (available at www.kbc.com).

Note 3.13: Earnings per share

(in millions of EUR)	2017	2016
Result after tax, attributable to equity holders of the parent	2 575	2 427
Coupon on AT1 instruments	-52	-52
Net result used to determine basic earnings per share	2 523	2 375
Weighted average number of ordinary shares outstanding (millions of units)	418	418
Basic earnings per share (EUR)	6.03	5.68

- Diluted earnings per share are currently almost the same as basic earnings per share.

4.0 Notes on the financial assets and liabilities on the balance sheet

These notes should be read in conjunction with Note 1.1.

Note 4.1: Financial assets and liabilities, breakdown by portfolio and product

(in millions of EUR)	Held for trading	Desig-nated at fair value[1]	Available for sale	Loans and recei-vables	Held to maturity	Hedging deriva-tives	Total	Pro forma: Total excluding UBB and Interlease
FINANCIAL ASSETS, 31-12-2017								
Loans and advances to credit institutions and investment firms[a]	3	0	0	24 448	–	–	24 450[c]	24 415
Loans and advances to customers[b]	0	38	0	141 464	–	–	141 502	139 707
Trade receivables	0	0	0	3 986	–	–	3 986	3 986
Consumer credit	0	0	0	3 857	–	–	3 857	3 519
Mortgage loans	0	23	0	60 601	–	–	60 625	59 781
Term loans	0	15	0	62 328	–	–	62 343	62 078
Finance lease	0	0	0	5 308	–	–	5 308	5 149
Current account advances	0	0	0	4 728	–	–	4 728	4 537
Other	0	0	0	656	–	–	656	656
Equity instruments	508	0	1 658	–	–	–	2 165	2 158
Investment contracts (insurance)	–	14 421	–	–	–	–	14 421	14 421
Debt instruments issued by	1 156	24	32 498	921	30 979	–	65 578	64 838
Public bodies	955	0	22 307	52	29 096	–	52 410	51 685
Credit institutions and investment firms	121	0	4 468	125	1 177	–	5 891	5 891
Corporates	80	24	5 723	744	706	–	7 277	7 263
Derivatives	5 765	–	–	–	–	245	6 010	6 010
Other[2]	0	0	0	626	0	0	626	626
Total	7 431	14 484	34 156	167 458	30 979	245	254 753	252 174
a of which reverse repos[3]							*19 572*	*19 572*
b of which reverse repos[3]							*504*	*498*
c of which loans and advances to banks repayable on demand and term loans to banks at not more than three months							*20 118*	*20 082*
FINANCIAL ASSETS, 31-12-2016								
Loans and advances to credit institutions and investment firms[a]	6	1	0	16 922	–	–	16 929[c]	
Loans and advances to customers[b]	1	77	0	133 154	–	–	133 231	
Trade receivables	0	0	0	3 549	–	–	3 549	
Consumer credit	0	0	0	3 180	–	–	3 180	
Mortgage loans	0	29	0	57 307	–	–	57 335	
Term loans	0	49	0	59 035	–	–	59 083	
Finance lease	0	0	0	4 916	–	–	4 916	
Current account advances	0	0	0	4 640	–	–	4 640	
Other	1	0	0	527	–	–	528	
Equity instruments	427	2	1 723	–	–	–	2 153	
Investment contracts (insurance)	–	13 693	–	–	–	–	13 693	
Debt instruments issued by	1 001	411	34 985	1 015	33 697	–	71 109	
Public bodies	713	47	22 982	16	32 131	–	55 889	
Credit institutions and investment firms	127	174	5 032	140	948	–	6 421	
Corporates	161	190	6 970	859	618	–	8 799	
Derivatives	8 249	–	–	–	–	410	8 659	
Other[2]	0	0	0	524	0	0	525	
Total	9 683	14 184	36 708	151 615	33 697	410	246 298	
a of which reverse repos[3]							*11 776*	
b of which reverse repos[3]							*376*	
c of which loans and advances to banks repayable on demand and term loans to banks at not more than three months							*11 622*	

1 Loans and advances in the 'Designated at fair value' column relate primarily to reverse repo transactions and a small portfolio of home loans. In each case, the carrying value comes close to the maximum credit exposure.

2 Financial assets not included under 'Loans and advances to customers' as they are not directly related to commercial lending.

3 The amount of the reverse repos is virtually identical to the amount of the underlying assets (that have been lent out).

(in millions of EUR)	Held for trading	Desig-nated at fair value	Hedging deriva-tives	Measured at amor-tised cost	Total	Pro forma: Total excluding UBB and Interlease
FINANCIAL LIABILITIES, 31-12-2017						
Deposits from credit institutions and investment firms[a]	3	12	–	33 321	33 337[c]	33 326
Deposits from customers and debt securities[b]	219	1 470	–	192 279	193 968	190 968
Demand deposits	0	0	–	73 606	73 606	72 173
Time deposits	11	403	–	19 243	19 657	18 844
Savings accounts	0	0	–	56 692	56 692	55 980
Special deposits	0	0	–	2 235	2 235	2 235
Other deposits	0	0	–	549	549	508
Certificates of deposit	0	14	–	22 579	22 593	22 593
Savings certificates	0	0	–	1 721	1 721	1 721
Convertible bonds	0	0	–	0	0	0
Non-convertible bonds	208	866	–	12 323	13 397	13 397
Convertible subordinated liabilities	0	0	–	0	0	0
Non-convertible subordinated liabilities	0	186	–	3 330	3 516	3 516
Liabilities under investment contracts	–	13 552	–	0	13 552	13 552
Derivatives	5 868	0	1 284	–	7 152	7 151
Short positions	905	0	–	–	905	905
In equity instruments	13	0	–	–	13	13
In debt instruments	892	0	–	–	892	892
Other[1]	3	0	–	2 344	2 347	2 347
Total	6 998	15 034	1 284	227 944	251 260	248 249
a of which repos[2]					*5 575*	*5 575*
b of which repos[2]					*260*	*260*
c of which deposits from banks repayable on demand					*9 431*	*9 425*
FINANCIAL LIABILITIES, 31-12-2016						
Deposits from credit institutions and investment firms[a]	5	1 766	–	30 248	32 020[c]	
Deposits from customers and debt securities[b]	541	2 134	–	175 055	177 730	
Demand deposits	0	0	–	63 427	63 427	
Time deposits	117	1 100	–	21 027	22 245	
Savings accounts	0	0	–	53 328	53 328	
Special deposits	0	0	–	2 056	2 056	
Other deposits	0	0	–	630	630	
Certificates of deposit	0	14	–	16 629	16 643	
Savings certificates	0	0	–	1 959	1 959	
Convertible bonds	0	0	–	0	0	
Non-convertible bonds	424	744	–	12 889	14 057	
Convertible subordinated liabilities	0	0	–	0	0	
Non-convertible subordinated liabilities	0	276	–	3 109	3 385	
Liabilities under investment contracts	–	12 653	–	0	12 653	
Derivatives	7 334	0	1 704	–	9 037	
Short positions	665	0	–	–	665	
In equity instruments	36	0	–	–	36	
In debt instruments	629	0	–	–	629	
Other[1]	13	0	–	2 182	2 195	
Total	8 559	16 553	1 704	207 485	234 300	
a of which repos[2]					*9 420*	
b of which repos[2]					*309*	
c of which deposits from banks repayable on demand					*5 023*	

1 Financial liabilities not included under deposits from customers as they are not directly related to commercial deposit acquisition.
2 The amount of the repos is virtually identical to the amount of the underlying assets (that have been lent out), with the assets being partly reflected on the balance sheet and partly obtained through reverse repo transactions.

- We have dealt with the impact of the acquisition of United Bulgarian Bank (UBB) and Interlease in the pro forma 'Total excluding UBB and Interlease' column, which helps provide a clear view of changes in financial assets and liabilities (excluding the acquisition of these companies). For more information, please refer to Note 6.6.
- For reclassifications, see Note 4.9.
- Non-convertible bonds: comprise mainly KBC Bank issues and, to a lesser extent, KBC Group and KBC IFIMA issues. They are usually recognised under 'Measured at amortised cost'. However, if they contain closely related embedded derivatives, they are recorded under 'Designated at fair value' (see accounting policies).
- Non-convertible subordinated liabilities: include the contingent capital note (CoCo) issued in January 2013 for an amount of 1 billion US dollars. Pursuant to IAS 32, this note was classified as a liability because it has a fixed term and obligatory interest payments. KBC called this CoCo in January 2018.
- More information on major new debt issues or redemptions is provided under the 'Consolidated cashflow statement'.
- Deposits from credit institutions and investment firms: include funding of 6.5 billion euros obtained from the ECB's TLTRO II programme. KBC's management has reasonable assurance that KBC will comply with the conditions attached and hence the interest has accordingly been recognised.
- Transferred financial assets that continue to be recognised in their entirety: KBC regularly lends and/or sells securities with the commitment to buy them back at a later date (repo transactions). Securities lent or sold with such a commitment are transferred to the counterparty, and, in exchange, KBC receives cash or other financial assets. However, KBC retains the main risks and income relating to these securities, and, therefore, continues to recognise them on its balance sheet. In addition, a financial liability is recognised equalling the cash collateral received.
- At year-end 2017, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 7 975 million euros (debt instruments classified as 'held for trading' (178 million euros), 'available for sale' (421 million euros), and 'held to maturity' (7 376 million euros)); and an associated financial liability with a carrying value of 5 312 million euros (178 million euros classified as 'held for trading', 422 million euros as 'available for sale', and 4 712 million euros as 'held to maturity'). At year-end 2016 (restated figures), KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 8 370 million euros (debt instruments classified as 'held for trading' (113 million euros), 'available for sale' (695 million euros), and 'held to maturity' (7 561 million euros)); and an associated financial liability with a carrying value of 8 970 million euros (94 million euros classified as 'held for trading', 649 million euros as 'available for sale', and 8 227 million euros as 'held to maturity'). It should be noted that, at year-ends 2017 and 2016, KBC had fewer transferred securities on its balance sheet than outstanding repo transactions, since securities obtained in reverse repo transactions are often used for repo transactions. These securities are not presented on the balance sheet and, therefore, do not qualify for disclosure as stated in this paragraph.

Note 4.2: Financial assets and liabilities, breakdown by portfolio and quality

Note 4.2.1: Impaired financial assets

(in millions of EUR)	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2017							
Unimpaired assets	7 431	14 484	33 865	162 673	30 979	245	249 677
Impaired assets	–	–	407	8 843	6	–	9 256
Impairment	–	–	-117	-4 058	-6	–	-4 181
Total	7 431	14 484	34 156	167 458	30 979	245	254 753
FINANCIAL ASSETS, 31-12-2016							
Unimpaired assets	9 683	14 184	36 400	146 458	33 696	410	240 832
Impaired assets	–	–	463	10 251	7	–	10 720
Impairment	–	–	-155	-5 094	-6	–	-5 254
Total	9 683	14 184	36 708	151 615	33 697	410	246 298

- Impairment: the concept of 'impairment' is relevant for all financial assets that are not designated at fair value through profit or loss. Fixed-income financial assets are impaired when impairment is identified on an individual basis. In the case of loans, they are impaired when they have a probability of default (or PD, see explanation below) rating of 10, 11 or 12. Impairment is recognised based on an estimate of the net present value of the recoverable amount. In addition, for credit in PD classes 1 to 9, impairment losses are recorded on a portfolio basis (IBNR), using a formula that takes account of the expected loss (EL) calculated using the internal rating based (IRB) advanced models and emergence period (or an alternative method if an IRB advanced model is not yet available).
- PD class: KBC has developed various rating models to determine the PD class. The output generated by these models is used to split the normal loan portfolio into internal rating classes ranging from PD 1 (lowest risk) to PD 9 (highest risk). More information on PD is provided under 'Credit risk' in the 'How do we manage our risks?' section.

Note 4.2.2: Impairment details

(in millions of EUR)	Available for sale		Held to maturity	Loans and receivables		Provisions for commitments and financial guarantees*
	Fixed-income assets	Shares	Fixed-income assets	Individual impairment	Portfolio-based impairment	
IMPAIRMENT, 31-12-2017						
Opening balance	0	155	6	4 829	265	76
Movements with an impact on results						
Impairment recognised	0	12	1	512	80	93
Impairment reversed	0	0	0	-599	-139	-35
Movements without an impact on results						
Write-offs	0	-1	0	-1 237	0	-4
Changes in the scope of consolidation	8	4	0	476	6	0
Transfers to/from non-current assets held for sale and disposal groups	0	0	0	0	0	0
Other	0	-61	-1	-139	3	2
Closing balance	8	109	6	3 843	215	133
IMPAIRMENT, 31-12-2016						
Opening balance	3	137	5	5 410	213	125
Movements with an impact on results						
Impairment recognised	0	58	1	582	106	41
Impairment reversed	-3	0	0	-507	-55	-42
Movements without an impact on results						
Write-offs	0	-2	0	-635	0	-11
Changes in the scope of consolidation	0	1	0	0	0	0
Transfers to/from non-current assets held for sale and disposal groups	0	0	0	0	0	0
Other	0	-40	0	-22	1	-38
Closing balance	0	155	6	4 829	265	76

* These impairment losses are recognised on the liabilities side of the balance sheet. Changes in impairment losses of this kind are recorded under 'Impairment on loans and receivables' in the income statement.

- For information regarding the impact of changes in impairment on the income statement, see Note 3.10.
- Additional information on impairment relating to the loan portfolio is provided under 'Credit risk' in the 'How do we manage our risks?' section.

Note 4.2.3: Past due, but not impaired assets

(in millions of EUR)	Less than 30 days past due	30 days or more, but less than 90 days past due
31-12-2017		
Loans and advances	2 945	425
Debt instruments	0	0
Derivatives	0	0
Total	2 945	425
31-12-2016		
Loans and advances	2 208	419
Debt instruments	0	0
Derivatives	0	0
Total	2 208	419

- Financial assets are past due if a counterparty fails to make a payment at the time agreed in the contract. The concept of 'past due' applies to a contract, not to a counterparty. For example, if a counterparty fails to make a monthly repayment, the entire loan is considered past due, but that does not mean that other loans to this counterparty are considered past due. Financial assets that are 90 days or more past due are always considered impaired.

Note 4.2.4: Guarantees received

- See Notes 4.3 and 6.1.

Note 4.3: Maximum credit exposure and offsetting

(in millions of EUR)			31-12-2017			31-12-2016
	Gross	Collateral received	Net	Gross	Collateral received	Net
Maximum credit exposure						
Equity instruments	2 165	0	2 165	2 153	0	2 153
Debt instruments	65 578	70	65 508	71 109	68	71 041
Loans and advances	165 953	90 068	75 885	150 160	78 038	72 122
of which designated at fair value	*38*	*11*	*27*	*78*	*39*	*39*
Derivatives*	6 010	1 831	4 180	8 659	2 642	6 017
Other	34 506	4 427	30 078	32 586	3 816	28 769
Total	274 212	96 396	177 816	264 667	84 564	180 102

* Figures restated for 2016.

- Maximum credit exposure relating to a financial asset: generally the gross carrying value, net of impairment. Besides the amounts on the balance sheet, maximum credit exposure also includes the undrawn portion of irrevocable credit lines, financial guarantees granted and other irrevocable commitments. These amounts are included in the table under 'Other'.
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail (under 'Credit risk') in the 'How do we manage our risks?' section. All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.
- Collateral received: recognised at market value and limited to the outstanding amount of the relevant loans.

Financial instruments subject to offsetting, enforceable master netting agreements and similar arrangements	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments set off	Net amounts of financial instruments presented in the balance sheet	Amounts not set off in the balance sheet			Net amount
(in millions of EUR)				Financial instruments	Cash collateral	Securities collateral	
FINANCIAL ASSETS, 31-12-2017							
Derivatives	9 384	3 374	6 010	3 343	1 251	389	1 027
Derivatives (excluding central clearing houses)	6 000	0	6 000	3 343	1 251	389	1 017
Derivatives with central clearing houses[1]	3 384	3 374	10	0	0	0	10
Reverse repos, securities borrowing and similar arrangements	31 361	11 285	20 076	0	0	20 073	3
Reverse repos	31 361	11 285	20 076	0	0	20 073	3
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	40 745	14 659	26 086	3 343	1 251	20 462	1 030
FINANCIAL ASSETS, 31-12-2016							
Derivatives[2]	12 543	3 884	8 659	4 931	1 768	390	1 571
Derivatives (excluding central clearing houses)[2]	8 650	0	8 650	4 931	1 768	390	1 562
Derivatives with central clearing houses[1]	3 893	3 884	9	0	0	0	9
Reverse repos, securities borrowing and similar arrangements	18 407	6 255	12 152	31	0	12 109	12
Reverse repos	18 407	6 255	12 152	31	0	12 109	12
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	30 950	10 139	20 811	4 962	1 768	12 498	1 583
FINANCIAL LIABILITIES, 31-12-2017							
Derivatives	10 525	3 374	7 152	3 343	1 661	891	1 257
Derivatives (excluding central clearing houses)	7 141	0	7 141	3 343	1 661	891	1 247
Derivatives with central clearing houses[1]	3 384	3 374	10	0	0	0	10
Repos, securities lending and similar arrangements	17 120	11 285	5 836	151	0	5 684	1
Repos	17 120	11 285	5 836	151	0	5 684	1
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	27 646	14 659	12 987	3 493	1 661	6 575	1 258
FINANCIAL LIABILITIES, 31-12-2016							
Derivatives[2]	12 922	3 884	9 037	4 931	1 834	607	1 666
Derivatives (excluding central clearing houses)[2]	9 017	0	9 017	4 931	1 834	607	1 646
Derivatives with central clearing houses[1]	3 905	3 884	20	0	0	0	20
Repos, securities lending and similar arrangements	15 984	6 255	9 729	31	0	9 692	6
Repos	15 984	6 255	9 729	31	0	9 692	6
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	28 905	10 139	18 766	4 962	1 834	10 299	1 672

1 Cash collateral account at central clearing houses included in the gross amount.
2 Figures restated for 2016.

- The criteria for offsetting are met if KBC currently has a legally enforceable right to set off the recognised financial assets and financial liabilities and intends either to settle the transactions on a net basis, or to realise the financial asset and settle the financial liability simultaneously. Financial assets and financial liabilities that are set off relate to financial instruments that were traded on (central) clearing houses.
- The amounts presented in the 'Financial instruments' column under the 'Amounts not set off in the balance sheet' heading are for financial instruments entered into under an enforceable master netting agreement or similar arrangement that does not meet the criteria defined in IAS 32. The amounts stated refer to situations in which offsetting can only be applied if one of the counterparties defaults, becomes insolvent or goes bankrupt. The same principle applies for financial instruments given or received as collateral. The value given in the table for non-cash collateral received (the 'Securities collateral' column under the 'Amounts not set off in the balance sheet' heading) corresponds with the market value. This is the value that is used if one of the counterparties defaults, becomes insolvent or goes bankrupt.

Note 4.4: Fair value of financial assets and liabilities – general

- In line with the IFRS definition, KBC defines 'fair value' as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale. An imbalance between supply and demand (e.g., fewer buyers than sellers, thereby forcing prices down) is not the same as a forced transaction or distress sale. Distress sales or forced transactions are transactions that are either carried out on an occasional basis, due to – for example – regulatory changes or transactions that are not market-driven but rather entity or client-driven.
- All internal valuation models used at KBC are validated by an independent Risk Validation Unit. In addition, the Executive Committee has appointed a Group Valuation Committee (GVC) to ensure that KBC and its entities meet all the legal requirements for measuring financial assets and liabilities at fair value. The GVC monitors consistent implementation of the *KBC Valuation Framework*, which consists of various guidelines, including the *Group Valuation Policy*, the *Group Market Value Adjustments Policy* and the *Group Parameter Review Policy.* The GVC meets at least twice a quarter to approve significant changes in valuation methods (including, but not limited to, models, market data and inputs) or deviations from group policies for financial assets and liabilities measured at fair value. The committee is made up of members from Finance, Risk Management and the Middle Office. Valuation uncertainty measurements are made and reported to the GVC every quarter. Lastly, certain fair values generated by valuation models are challenged by a team set up specifically for this purpose.
- Market value adjustments are recognised on all positions that are measured at fair value, with fair value changes being reported in profit or loss or in equity. They relate to close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk and funding costs. Credit value adjustments (CVAs) are used when measuring derivatives to ensure that the market value of the derivatives is adjusted to reflect the credit risk of the counterparty. In making this adjustment, both the mark-to-market value of the contract and its expected future fair value are taken into account. These valuations are weighted based on the counterparty credit risk that is determined using a quoted credit default swap (CDS) spread, or, if there is no such spread, on the counterparty credit risk that is derived from bonds whose issuers are similar to the derivative counterparty in terms of rating, sector and geographical location. A debt value adjustment (DVA) is made for contracts where the counterparty is exposed to KBC (as opposed to the other way around). It is similar to a CVA, but the expected future negative fair value of the contracts is taken into consideration. A funding value adjustment (FVA) is a correction made to the market value of uncollateralised derivatives in order to ensure that the (future) funding costs or income attached to entering into and hedging such instruments are factored in when measuring the value of the instruments.
- Account is taken of the effect of changes in own funding spreads when calculating the fair value of financial liabilities measured at fair value.
- The fair value of mortgage and term loans not measured at fair value in the balance sheet (see table) is calculated by discounting contractual cashflows at the risk-free rate. This calculation is then adjusted for credit risk by taking account of margins obtained on similar, but recently issued, loans. The fair value of the main portfolios takes account of prepayment risks and cap options.
- The fair value of demand and savings deposits (both of which are repayable on demand) is presumed to be equal to their carrying value.
- Most of the changes in the market value of loans and advances initially designated at fair value are accounted for by changes in interest rates. The effect of changes in credit risk is negligible.

Fair value of financial assets and liabilities that are not measured at fair value in the balance sheet (in millions of EUR)	**Loans and receivables**		**Financial assets held to maturity**		**Financial liabilities measured at amortised cost**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL ASSETS, 31-12-2017						
Loans and advances to credit institutions and investment firms	24 448	24 596	–	–	–	–
Loans and advances to customers	141 464	141 180	–	–	–	–
Debt instruments	921	928	30 979	34 517	–	–
Other	626	626	–	–		
Total	167 458	167 330	30 979	34 517	–	–
Level 1	–	72	–	31 926	–	–
Level 2	–	37 510	–	2 033	–	–
Level 3	–	129 748	–	558	–	–
FINANCIAL ASSETS, 31-12-2016						
Loans and advances to credit institutions and investment firms	16 922	16 910	–	–	–	–
Loans and advances to customers	133 154	134 292	–	–	–	–
Debt instruments	1 015	1 033	33 697	37 502	–	–
Other	524	529	–	–		
Total	151 615	152 764	33 697	37 502	–	–
Level 1	–	110	–	36 032	–	–
Level 2	–	27 403	–	986	–	–
Level 3	–	125 252	–	484	–	–
FINANCIAL LIABILITIES, 31-12-2017						
Deposits from credit institutions and investment firms	–	–	–	–	33 321	33 246
Deposits from customers and debt securities	–	–	–	–	192 279	192 771
Liabilities under investment contracts	–	–	–	–	0	0
Other	–	–	–	–	2 344	2 340
Total	–	–	–	–	227 944	228 358
Level 1	–	–	–	–	–	6
Level 2	–	–	–	–	–	118 800
Level 3	–	–	–	–	–	109 551
FINANCIAL LIABILITIES, 31-12-2016						
Deposits from credit institutions and investment firms	–	–	–	–	30 248	30 309
Deposits from customers and debt securities	–	–	–	–	175 055	175 284
Liabilities under investment contracts	–	–	–	–	0	0
Other	–	–	–	–	2 182	2 181
Total	–	–	–	–	207 485	207 774
Level 1	–	–	–	–	–	70
Level 2	–	–	–	–	–	102 028
Level 3	–	–	–	–	–	105 676

Note 4.5: Financial assets and liabilities measured at fair value – fair value hierarchy

(in millions of EUR)				31-12-2017				31-12-2016
Fair value hierarchy	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value								
Held for trading								
Loans and advances to credit institutions and investment firms	0	3	0	3	0	6	0	6
Loans and advances to customers	0	0	0	0	0	1	0	1
Equity instruments	502	5	0	508	302	125	0	427
Debt instruments	620	407	129	1 156	731	62	208	1 001
of which sovereign bonds	*572*	*354*	*28*	*955*	*653*	*29*	*31*	*713*
Derivatives	0	3 988	1 777	5 765	0	6 392	1 856	8 249
Other	0	0	0	0	0	0	0	0
Designated at fair value								
Loans and advances to credit institutions and investment firms	0	0	0	0	0	1	0	1
Loans and advances to customers	0	38	0	38	0	77	0	77
Equity instruments	0	0	0	0	2	0	0	2
Investment contracts (insurance)	13 935	486	0	14 421	13 331	362	0	13 693
Debt instruments	14	0	10	24	44	177	190	411
of which sovereign bonds	*0*	*0*	*0*	*0*	*42*	*5*	*0*	*47*
Available for sale								
Equity instruments	1 336	24	297	1 658	1 368	18	338	1 723
Debt instruments	25 037	6 788	673	32 498	30 059	3 699	1 227	34 985
of which sovereign bonds	*18 790*	*3 090*	*428*	*22 307*	*21 248*	*1 417*	*317*	*22 982*
Hedging derivatives								
Derivatives	0	245	0	245	0	410	0	410
Total	41 445	11 984	2 887	56 316	45 838	11 328	3 820	60 986
Financial liabilities at fair value								
Held for trading								
Deposits from credit institutions and investment firms	0	3	0	3	0	5	0	5
Deposits from customers and debt securities	0	219	0	219	0	541	0	541
Derivatives	4	3 646	2 218	5 868	0	5 100	2 234	7 334
Short positions	905	0	0	905	665	0	0	665
Other	0	3	0	3	0	13	0	13
Designated at fair value								
Deposits from credit institutions and investment firms	0	12	0	12	0	1 766	0	1 766
Deposits from customers and debt securities	0	885	585	1 470	0	1 577	557	2 134
Liabilities under investment contracts	13 544	7	0	13 552	12 652	0	0	12 653
Other	0	0	0	0	0	0	0	0
Hedging derivatives								
Derivatives	0	1 284	0	1 284	0	1 704	0	1 704
Total	14 453	6 060	2 803	23 316	13 318	10 707	2 791	26 815

- The fair value hierarchy prioritises the valuation techniques and the respective inputs into three levels.
  - The fair value hierarchy gives the highest priority to 'level 1 inputs'. This means that, when there is an active market, quoted prices have to be used to measure the financial assets or liabilities at fair value. Level 1 inputs are prices that are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency (and that are quoted in active markets accessible to KBC). They represent actual and regularly occurring market transactions on an arm's length basis. The fair value is then based on a mark-to-market valuation derived from currently available transaction prices. No valuation technique (model) is involved.
  - If there are no price quotations available, the reporting entity establishes fair value using a model based on observableor unobservable inputs. The use of observable inputs needs to be maximised, whereas the use of unobservable inputs has to be minimised.
    Observable inputs are also referred to as 'level 2 inputs' and reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Examples of observable inputs are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs include discounted cashflow analysis, or reference to the current or recent fair value of a similar instrument.
  - Unobservable inputs are also referred to as 'level 3 inputs' and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions regarding the risks involved). Unobservable inputs reflect a market that is not active. For example, proxies and correlation factors can be considered to be unobservable in the market.
- When the inputs used to measure the fair value of an asset or a liability can be categorised into different levels of the fair value hierarchy, the fair value measurement is classified in its entirety into the same level as the lowest level input that is significant to the entire fair value measurement. For example, if a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.
- The valuation methodology and the corresponding classification in the fair value hierarchy of the most commonly used financial instruments are summarised in the table. This table provides an overview of the level in which the instruments are generally classified, but exceptions are possible. In other words, whereas the majority of instruments of a certain type are within the level indicated in the table, a small portion may actually be classified in another level.
- KBC follows the principle that transfers into and out of levels of the fair value hierarchy are made at the end of the reporting period. Transfers between the various levels are dealt with in more detail in Note 4.6.

	Instrument type	Products	Valuation technique
Level 1	Liquid financial instruments for which quoted prices are regularly available	FX spots, exchange traded financial futures, exchange traded options, exchange traded stocks, exchange traded funds, liquid government bonds, other liquid bonds, liquid asset backed securities (ABS) in active markets	Mark-to-market (quoted prices in active markets), for bonds: BVAL.
Level 2	Plain vanilla/liquid derivatives	(Cross-currency) interest rate swaps (IRS), FX swaps, FX forwards, forward rate agreements (FRA), inflation swaps, dividend swaps and futures, commodity swaps, reverse floaters, bond future options, interest rate future options, overnight index swaps (OIS), FX resets	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
		Caps & floors, interest rate options, European & American stock options, European & American FX options, forward starting options, digital FX options, FX strips of simple options, European swaptions, constant maturity swaps (CMS), European cancellable IRS, compound options, commodity options	Option pricing model based on observable inputs (e.g., volatilities)
	Linear financial assets (without optional features) – cash instruments	Deposits, simple cashflows, repo transactions	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
	Semi-liquid bonds/asset backed securities	Semi-liquid bonds/asset backed securities	BVAL, third-party pricing (e.g., lead manager); prices corroborated by alternative observable market data, or using comparable spread method
	Debt instruments	KBC IFIMA own issues (liabilities), mortgage bonds held by ČSOB	Discounted cashflow analysis and valuation of related derivatives based on observable inputs
	Linear financial liabilities (cash instruments)	Loans, commercial paper	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
Level 3	Exotic derivatives	Target profit forwards, Bermudan swaptions, digital interest rate options, quanto interest rate options, digital stock options, composite stock options, Asian stock options, barrier stock options, quanto digital FX options, FX Asian options, FX European barrier options, FX simple digital barrier options, FX touch rebates, inflation options, Bermudan cancellable IRS, CMS spread options, CMS interest rate caps/floors, (callable) range accruals, outperformance options, auto-callable options, lookback options	Option pricing model based on unobservable inputs (e.g., correlation)
	Illiquid credit-linked instruments	Collateralised debt obligations (notes)	Valuation model based on correlation of probability of default of underlying assets
	Private equity investments	Private equity and non-quoted participations	Based on the valuation guidelines of the European Private Equity & Venture Capital Association (EVCA)
	Illiquid bonds/asset backed securities	Illiquid (mortgage) bonds/asset backed securities that are indicatively priced by a single pricing provider in an inactive market	BVAL, third-party pricing (e.g., lead manager), where prices cannot be corroborated due to a lack of available/reliable alternative market data
	Debt instruments	KBC own issues (KBC IFIMA)	Discounted cashflow analysis and valuation of related derivatives based on unobservable inputs (indicative pricing by third parties for derivatives)

Note 4.6: Financial assets and liabilities measured at fair value – transfers between levels 1 and 2

- In 2017, KBC reclassified 2 983 million euros' worth of debt instruments from level 1 to level 2, and approximately 176 million euros' worth of bonds from level 2 to level 1. Most of these reclassifications were attributable to a change in the valuation method, driven by the implementation in the third quarter of 2017 of an automated process that uses BVAL to price debt instruments. Provided by Bloomberg, BVAL is a fully transparent service that sets prices on the basis of various sources. Its use impacts fair value hierarchy levelling.
- In 2016, KBC reclassified 99 million euros' worth of debt instruments from level 1 to level 2, and approximately 120 million euros' worth of bonds from level 2 to level 1. Most of these reclassifications were carried out due to a change in the liquidity of covered bonds, corporate bonds and bonds issued by regional public authorities.

Note 4.7: Financial assets and liabilities measured at fair value – focus on level 3

- In 2017, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - In the 'financial assets held for trading' category, the fair value of debt instruments fell by 80 million euros, owing primarily to the discontinuation of CDO transactions and disposals (105 million euros), instruments that had reached maturity and changes in fair value (11 million euros), offset in part by acquisitions of investment certificates (40 million euros). The fair value of derivatives declined by 79 million euros, due mainly to instruments that had reached maturity (375 million euros), partially offset by new transactions (230 million euros) and positive changes in fair value (70 million euros).
  - The carrying value of debt instruments in the 'financial assets designated at fair value through profit or loss' category decreased by 180 million euros, primarily on account of the discontinuation of CDO transactions (162 million euros) and transfers out of level 3 (14 million euros) due to changes in liquidity and changes in fair value. The rest of the decline was attributable to a combination of acquisitions and exchange rate movements.
  - The carrying value of securities classified as 'available-for-sale' fell by 595 million euros: The carrying value of bonds fell by 554 million euros, primarily on account of a net transfer out of level 3 arising from implementation of the BVAL pricing model (318 million euros), disposals (107 million euros) and bonds that had reached maturity (153 million euros), but was partly offset by acquisitions. The carrying value of unlisted shares dropped by 40 million euros, owing in the main to disposals and changes in the scope of consolidation (78 million euros), transfers out of level 3 due to changes in liquidity (49 million euros), partly offset by acquisitions (76 million euros) and positive changes in fair value (9 million euros).
  - The total fair value of derivatives in the 'financial liabilities held for trading' category declined by 16 million euros, due primarily to instruments that had reached maturity and changes in fair value (304 million euros), largely offset by new transactions (288 million euros).
  - The carrying value of debt instruments in the 'financial liabilities designated at fair value through profit or loss' category increased by 28 million euros, due mainly to the issue of debt instruments (263 million euros) and changes in fair value (8 million euros), offset in part by own issues of debt instruments reaching maturity and discontinued CDO transactions (243 million euros).
- In 2016, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - The carrying value of derivatives in the 'financial assets held for trading' category fell by 199 million euros, due primarily to deals reaching maturity (-558 million euros), offset in part by positive changes in fair value (+246 million euros, +140 million euros of which from assets that we were still holding at the end of the year) and new acquisitions (+116 million euros). The carrying value of bonds in the 'financial assets held for trading' category also declined, falling by 79 million euros mainly on account of disposals (-111 million euros), deals reaching maturity (-35 million euros) and transfers from level 3 (-30 million euros), partially offset by new acquisitions (+87 million euros).
  - The carrying value of bonds in the 'financial assets designated at fair value through profit or loss' category fell by 192 million euros, mainly because a CDO note matured in January 2016.
  - In the 'available-for-sale' category, a net 153 million euros' worth of bonds was transferred out of level 3, most of which was due to a change in the liquidity of primarily corporate bonds and bonds issued by regional public authorities. This was partly offset by an 82-million-euro increase in carrying value resulting chiefly from the net impact of the acquisition, disposal and settlement of positions. The carrying value of unlisted shares in the 'available-for-sale' category also declined, falling by 73 million euros primarily on account of disposals.
  - The carrying value of derivatives in the 'financial liabilities held for trading' category went up by 164 million euros, due mainly to new issues (+160 million euros) and positive changes in fair value (+497 million euros, +485 million euros of which from liabilities that were still recognised in the balance sheet at the end of the year), offset in part by deals reaching maturity (-481 million euros).
- Some level 3 assets are associated or economically hedged with identical level 3 liabilities, which means that KBC's exposure to unobservable inputs is lower than would appear from the gross figures.

  Most of the level 3 instruments are valued using third-party pricing sources, with KBC not developing any unobservable inputs itself. Consequently, KBC does not disclose specific quantitative information or sensitivity analyses regarding (changes in) unobservable inputs.

Note 4.8: Changes in own credit risk

Own debt issues designated at fair value (in millions of EUR) **((+) profit (-) loss; amounts before tax)**	**31-12-2017**	**31-12-2016**
Impact of change in own credit spreads on the income statement	–	8
Total cumulative impact at balance sheet date	-15	-6

- For financial liabilities, IFRS 9 changes the presentation of gains and losses on own credit risk for financial instruments designated at fair value through profit or loss. KBC early adopted this aspect of IFRS 9 with effect from 1 January 2017 and the gains and losses on own credit risk now go through other comprehensive income. The impact of early adoption is minimal given the limited effect of own credit risk.
- If no account is taken of the effect of changes in credit risk, the difference between the carrying value and redemption price of the financial liabilities designated at fair value through profit or loss is limited (less than 0.1 billion euros).

Note 4.9: Reclassification of financial assets and liabilities

Financial assets reclassified out of 'available for sale' to 'loans and receivables' – situation at 31-12-2017
(in millions of EUR)

Carrying value			487
Fair value			515
	If not reclassified (available for sale)	After reclassification (loans and receivables)	Impact
Impact on the revaluation reserve (available-for-sale assets), before tax	-26	-54	-28
Impact on the income statement, before tax	0	0	0

- Reclassifications: in October 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 39 and IFRS 7 under 'Reclassification of financial assets'. Following the implementation of these amendments, the KBC group reclassified a number of assets out of the 'available for sale' category to the 'loans and receivables' category because they had become less liquid. On the date of reclassification, the assets in question met the definition of loans and receivables, and the group has the intention and ability to hold these assets for the foreseeable future or until maturity. KBC reclassified these assets on 31 December 2008. On the reclassification date (31 December 2008), the estimated recoverable amount of these assets came to 5 billion euros and the effective interest rate varied between 5.88% and 16.77%. The above reclassifications had a negative impact of 28 million euros on equity and a limited impact on the income statement.
- Other reclassifications (not included in the table):
  - In 2015 and 2016, an aggregate 0.6 billion euros' worth of debt instruments were reclassified out of the 'available for sale' category and into the 'held to maturity' category.
  - As a result, the relevant available-for-sale reserve is no longer exposed to changes in market rates. It has been frozen and is being written down on a *pro rata temporis* basis. As the relevant held-to-maturity security is also being written down, there is no net impact on the results.

	Held for trading				Fair value hedge				Cashflow hedge[2]				Portfolio hedge of interest rate risk			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
(in millions of EUR)[1]	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
31-12-2017																
Total	5 765	5 868	354 599	351 816	17	430	24 191	24 191	115	750	26 052	26 223	113	104	25 430	23 439
Breakdown by type																
Interest rate contracts	3 082	2 901	193 723	189 791	17	428	24 165	24 165	103	671	21 650	21 650	113	104	25 430	23 439
of which interest rate swaps and futures	2 468	2 697	167 168	175 947	17	428	24 165	24 165	103	671	21 650	21 650	113	91	23 439	23 439
of which options	614	203	26 554	13 844	0	0	0	0	0	0	0	0	0	13	1 991	0
Foreign exchange contracts	1 385	1 552	132 681	133 643	0	2	26	26	12	79	4 401	4 573	0	0	0	0
of which currency and interest rate swaps and futures	1 298	1 477	126 675	126 971	0	2	26	26	12	79	4 401	4 573	0	0	0	0
of which options	87	75	6 005	6 672	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	1 285	1 403	27 838	28 029	0	0	0	0	0	0	0	0	0	0	0	0
of which equity swaps	1 204	1 242	25 917	25 880	0	0	0	0	0	0	0	0	0	0	0	0
of which options	81	161	1 921	2 149	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
of which credit default swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	13	13	357	353	0	0	0	0	0	0	0	0	0	0	0	0
31-12-2016																
Total	8 249	7 334	390 342	393 830	99	528	34 636	34 636	265	1 147	26 046	26 042	46	29	9 143	8 945
Breakdown by type																
Interest rate contracts	4 135	3 682	202 117	204 823	99	528	34 636	34 636	256	1 142	25 940	25 940	46	29	9 143	8 945
of which interest rate swaps and futures	3 285	3 294	160 501	160 741	99	528	34 636	34 636	256	1 142	25 940	25 940	38	29	7 397	7 157
of which options	849	388	39 563	36 802	0	0	0	0	0	0	0	0	8	0	1 746	1 788
Foreign exchange contracts	2 486	2 012	154 899	156 160	0	0	0	0	9	5	106	102	0	0	0	0
of which currency and interest rate swaps and futures	2 007	1 578	121 996	121 596	0	0	0	0	9	5	106	102	0	0	0	0
of which options	162	108	8 784	10 464	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	1 563	1 613	32 627	32 421	0	0	0	0	0	0	0	0	0	0	0	0
of which equity swaps	1 278	1 295	29 731	29 731	0	0	0	0	0	0	0	0	0	0	0	0
of which options	285	318	2 869	2 690	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	38	0	311	35	0	0	0	0	0	0	0	0	0	0	0	0
of which credit default swaps	38	0	311	35	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	28	27	389	390	0	0	0	0	0	0	0	0	0	0	0	0

1 In this table, both legs of the derivatives are reported in the notional amounts.
2 Including hedges of net investments in foreign operations.

- The Treasury departments of the various entities manage the interest rate risk. To prevent rate movements from having a negative impact, the maturities of assets and liabilities are adjusted on the balance sheet using interest rate swaps and other derivatives.
- The accounting mismatches due to the valuation of these derivatives and of the hedged assets and liabilities generate volatility in the income statement. This volatility is dealt with using various techniques provided for under IAS 39 rules for hedge accounting. KBC uses the following techniques:
  - Fair value hedges for a portfolio hedge of interest rate risk: used in interest rate risk management to hedge a portfolio of loans (term loans, home loans, instalment loans, straight loans) using interest rate swaps. The hedges are constructed in accordance with the requirements of the EU carve-out version of IAS 39 and allow changes in the fair value of the derivatives to be offset by changes in the fair value of the hedged assets and liabilities.
  - Various hedging techniques in accordance with the principles of IAS 39 to limit volatility:
    - Cashflow hedges: used to swap floating-rate assets and liabilities for a fixed rate. This technique allows changes in the fair value of the derivative to be recognised in equity (in a cashflow hedge reserve).
    - Fair value hedges: used in certain asset-swap constructions. Using this technique, the interest rate risk attached to a bond is hedged for investments that were made purely on account of the credit spread. The technique is also applied when certain fixed-term debt instruments are issued by the bank (senior debt issues).
    - Hedges of net investments in foreign operations: the exchange risk attached to foreign-currency investments is hedged by attracting funding in the currency concerned at the level of the investing entity. This way, the translation differences on the hedge can be recognised in equity.
- As regards the relationship between risk management and hedge accounting policy, 'economic' management takes priority and risks are hedged in accordance with the general ALM framework. Only then is a decision made on which, if any, of these techniques will be used to limit any resulting accounting mismatch.
- For information on fair value adjustments in hedge accounting, see Note 3.3.

Estimated cashflows from cashflow hedging derivatives per time bucket (in millions of EUR)	**Inflow**	**Outflow**
Not more than three months	19	-16
More than three but not more than six months	27	-53
More than six months but not more than one year	80	-120
More than one but not more than two years	120	-316
More than two but not more than five years	340	-918
More than five years	1 013	-2 006

5.0 Notes on other balance sheet items

Note 5.1: Other assets

(in millions of EUR)	31-12-2017	31-12-2016
Total	**1 512**	**1 496**
Debtors arising out of direct insurance operations	347	403
Debtors arising out of reinsurance operations	12	16
Deposits with ceding companies	174	158
Income receivable (other than interest income from financial assets)	46	43
Other	934	877

Note 5.2: Tax assets and tax liabilities

(in millions of EUR)	31-12-2017	31-12-2016
CURRENT TAXES		
Current tax assets	82	66
Current tax liabilities	148	188
DEFERRED TAXES	**1 109**	**1 753**
Deferred tax assets by type of temporary difference	1 921	2 743
Employee benefits	149	219
Losses carried forward	776	1 069
Tangible and intangible fixed assets	46	28
Provisions for risks and charges	18	21
Impairment for losses on loans and advances	168	248
Financial instruments at fair value through profit or loss and fair value hedges	97	140
Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations	572	944
Technical provisions	6	24
Other	88	49
Deferred tax liabilities by type of temporary difference	812	990
Employee benefits	18	15
Losses carried forward	0	0
Tangible and intangible fixed assets	78	102
Provisions for risks and charges	7	0
Impairment for losses on loans and advances	2	6
Financial instruments at fair value through profit or loss and fair value hedges	104	60
Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations	445	644
Technical provisions	90	97
Other	69	65
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	1 543	2 246
Deferred tax liabilities	434	493
Unused tax losses and unused tax credits	216	450

- Deferred tax assets are recognised to the extent that it is probable that, on the basis of realistic financial projections, taxable profit will be available against which the deductible temporary differences can be utilised in the foreseeable future (limited to a period of eight to ten years).
- Unused tax losses and unused tax credits concern tax losses of group companies which are not capitalised due to insufficient proof of future taxable profit. Most unused tax losses and unused tax credits can be carried forward for 20 years or more.
- The net change in deferred taxes (-644 million euros in 2017) breaks down as follows:
  - a decrease in deferred tax assets: -822 million euros;
  - a decrease in deferred tax liabilities: -178 million euros.
- The decline in deferred taxes was reinforced by the reform of the Belgian corporation tax system (the planned gradual decrease in the tax rate from 33.99% to 29.58% (from financial year 2018) and to 25% (from financial year 2020)). Deferred taxes on temporary differences are measured on the basis of tax rates that are expected to be in effect and the timing of expected reversals. In this respect – and as regards the change in the tax rate in Belgium – management uses its judgement to determine the temporary differences that are expected to be settled before 2020 (at a tax rate of 29.58%) and after 2020 (at a tax rate of 25%).
- The change in deferred tax assets was accounted for chiefly by:
  - the decrease in deferred tax assets via the income statement: -546 million euros (owing primarily to losses carried forward (-294 million euros), impairment (-90 million euros), hedges of net investments in foreign operations (-52 million euros), remeasurement of defined benefit plans (-41 million euros), financial instruments at fair value through profit or loss (-39 million euros), technical and other provisions (-20 million euros) and other items (-10 million euros));
  - the decrease in deferred tax assets consequent on movements in the market value of cashflow hedges: -279 million euros;

- other items (including exchange differences): +3 million euros.

- The change in deferred tax liabilities was accounted for chiefly by:
  - the decrease in deferred tax liabilities consequent on movements in the market value of available-for-sale securities: -183 million euros;
  - other items (including exchange differences): +6 million euros.
- The deferred tax assets presented in the balance sheet are attributable primarily to KBC Bank.

Note 5.3: Investments in associated companies and joint ventures

(in millions of EUR)	31-12-2017	31-12-2016
Total	240	212
Overview of investments, including goodwill		
ČMSS	176	178
Other	64	34
Goodwill on associated companies and joint ventures		
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	240	212
Listed	0	0
Fair value of investments in listed associated companies and joint ventures	0	0

- Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies. Joint ventures are companies over which KBC exercises joint control.
- Investments in associated companies and joint ventures' is accounted for primarily by ČMSS, a joint venture of ČSOB in the Czech Republic. The following is a summary of financial data for ČMSS (on 55% basis at year-ends 2017 and 2016 (in brackets), in millions of euros):
  - Total assets: 3 209 (3 039)
  - Cash and cash equivalents: 482 (315)
  - Financial assets: 2 693 (2 691)
  - Non-financial assets: 35 (33)
  - Financial liabilities: 2 991 (2 818)
  - Non-financial liabilities: 42 (42)
  - Total equity: 176 (178)
  - Total income: 57 (62)
  - Interest income: 93 (99)
  - Interest expense: -48 (-49)
  - Operating expenses: -28 (-28)
  - Impairment: -4 (-5)
  - Income tax expense: -4 (-5)
  - Result after tax: 21 (23)
  - Other comprehensive income: 0 (-1)
  - Total comprehensive income: 21 (22)
- Goodwill paid on associated companies and joint ventures is included in the nominal value of 'Investments in associated companies and joint ventures' shown on the balance sheet. An impairment test is performed and, if required, the necessary impairment losses on goodwill recognised (see table).

Note 5.4: Property and equipment and investment property

(in millions of EUR)	31-12-2017	31-12-2016
Property and equipment	2 721	2 451
Investment property	485	426
Rental income	41	43
Direct operating expenses from investments generating rental income	9	12
Direct operating expenses from investments not generating rental income	2	1

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2017					
Opening balance	1 149	101	1 200	2 451	426
Acquisitions	207	47	539	793	37
Disposals	-40	-2	-242	-284	-15
Depreciation	-72	-51	-31	-153	-17
Other movements	-21	3	-68	-86	54
Closing balance	1 224	99	1 399	2 721	485
of which accumulated depreciation and impairment	1 258	448	704	2 410	259
Fair value 31-12-2017	–	–	–	–	677
2016					
Opening balance	1 161	96	1 041	2 299	438
Acquisitions	81	55	578	713	35
Disposals	-18	-25	-224	-267	-25
Depreciation	-71	-46	-29	-145	-20
Other movements	-4	21	-166	-150	-2
Closing balance	1 149	101	1 200	2 451	426
of which accumulated depreciation and impairment	1 206	385	655	2 247	240
Fair value 31-12-2016	–	–	–	–	610

- Annual rates of depreciation: mainly 3% for buildings (including investment property), 33% for IT equipment, between 5% and 33% for other equipment. No depreciation is charged for land.
- There was a small amount (around 0.2 billion euros) for commitments for the acquisition of property and equipment. There are no material restrictions on title, or on property and equipment pledged as security for liabilities.
- Most investment property is valued by an independent expert on a regular basis and by in-house specialists on an annual basis, based primarily on the capitalisation of the estimated rental value and on unit prices of similar real property. Account is taken of all the market inputs available on the date of the assessment (including location and market situation, type of building and construction, state of repair, use, etc.).
- Certain other investment property is valued annually by in-house specialists based on the current annual rental per building and expected rental movements and on an individual capitalisation rate per building.

Note 5.5: Goodwill and other intangible assets

(in millions of EUR)	Goodwill	Software developed in-house	Software developed externally	Other	Total
2017					
Opening balance	597	203	189	10	999
Acquisitions	110	95	98	13	315
Disposals	0	0	-1	-5	-7
Amortisation	0	-65	-45	-2	-112
Other movements	13	-1	-3	1	9
Closing balance	719	232	237	16	1 205
of which accumulated depreciation and impairment	242	607	726	47	1 622
2016					
Opening balance	594	176	181	9	959
Acquisitions	0	94	56	8	158
Disposals	0	-2	-3	-5	-9
Amortisation	0	-58	-42	-1	-102
Other movements	2	-6	-2	0	-6
Closing balance	597	203	189	10	999
of which accumulated depreciation and impairment	287	555	643	45	1 531

- Goodwill: includes the goodwill paid on companies included in the scope of consolidation and relating to the acquisition of activities. Goodwill paid on associated companies: included in the nominal value of 'Investments in associated companies' shown on the balance sheet.
- For goodwill in respect of recent acquisitions, see Note 6.6.
- Impairment testing: a test was carried out to establish whether impairment on goodwill had to be recognised (see table and Note 3.10). This impairment test is performed at least once a year. We also carry out a high level assessment on a quarterly basis to see whether there is an indication of impairment. In the test, each entity is regarded as a separate cash-generating unit. Each entity has a specific risk profile and it is rare to have different profiles within a single entity.
- Impairment on goodwill under IAS 36: recognised in profit or loss if the recoverable amount of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cashflow analysis) and the fair value (calculated based on multiple analysis, etc.) less costs to sell.
- The main group companies to which goodwill relates are listed in the table. All of these companies have been valued using the discounted cashflow method (apart from the recently acquired United Bulgarian Bank/Interlease entities which have yet to be valued using this method, since goodwill is still provisional and there is no indication of impairment). The discounted cashflow method calculates the recoverable amount of an investment as the present value of all future free cashflows of the business. This method is based on long-term projections about the company's business and the resulting cashflows (i.e. projections for a number of years ahead (usually 15), and the residual value of the business at the end of the specific projection period). These long-term projections are the result of an assessment of past and present performances combined with external sources of information on future performances in the respective markets and the global macroeconomic environment. The terminal growth rate is determined using a long-term average market growth rate. The present value of these future cashflows is calculated using a compound discount rate which is based on the capital asset pricing model (CAPM). A risk-free rate, a market-risk premium (multiplied by an activity beta), and a country risk premium (to reflect the impact of the economic situation of the country where KBC is active) are also used in the calculation. KBC has developed two distinct discounted cashflow models, viz. a bank model and an insurance model. Free cashflows in both cases are the dividends that can be paid out to the company's shareholders, account taken of the minimum capital requirements.

Goodwill outstanding (in millions of EUR)			Discount rates throughout the specific period of cashflow projections	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
K&H Bank	222	223	14.0%–11.0%	12.8%–10.5%
ČSOB (Czech Republic)	245	233	10.7%–9.8%	10.1%–9.5%
United Bulgarian Bank	109	–	–	–
DZI Insurance	74	74	9.2%–8.1%	9.6%–7.7%
Rest	70	68	–	–
Total	719	597	–	–

- The period to which the cashflow budgets and projections relate is 15 years in most cases. This longer period is used to take account of the expected convergence of the Central and Eastern European economies with their Western European counterparts. This significant assumption is used in the model to reflect the dynamism of the economies in Central and Eastern Europe.
- The growth rate used to extrapolate the cashflow projections after the 15-year period is equal to the expected long-term growth rate of gross domestic product. This rate depends on the country and varied between 1.2% and 1.8% in 2017 (2% in 2016).
- The amount of goodwill for United Bulgaria Bank at year-end 2017 is a provisional figure. Consequently, an impairment test is only performed on goodwill in accordance with IFRS 3.45 if there is objective evidence of impairment. It was confirmed at the end of December that there was no such evidence.
- No sensitivity analysis was carried out for entities where the recoverable amount exceeded the carrying value to such a large extent that no reasonably possible change in the key assumptions would result in the recoverable amount being less than or equal to the carrying value. The table gives an indication for K&H Bank and DZI Insurance of the change in key assumptions that would lead to their recoverable amount equalling their carrying value.

Change in key assumptions[1]	Increase in discount rate[2]	Decrease in terminal growth rate[3]	Increase in targeted solvency ratio[4]	Decrease in annual net profit	Increase in annual impairment charges[5]
K&H Bank	1.9%	–	2.9%	15.7%	106.2%
DZI Insurance	0.6%	–	18.9%	8.9%	–

1 Needless to say account should be taken of the fact that a change in these assumptions could affect other assumptions used to calculate the recoverable amount.
2 Based on a parallel shift and absolute increase in the discount rate curve. Discount rates are in the 15.9%–12.9% bracket for K&H Bank and the 9.8%–8.7% bracket for DZI Insurance.
3 Not relevant as it would mean that the terminal growth rate will be negative.
4 Absolute increase in the tier-1 capital ratio (K&H Bank) and the solvency capital requirement (DZI Insurance).
5 Not relevant for DZI Insurance.

Note 5.6: Technical provisions, insurance

(in millions of EUR)	31-12-2017	31-12-2016
Technical provisions (before reinsurance) (i.e. gross figures)	**18 641**	**19 657**
Insurance contracts	10 852	10 715
Provision for unearned premiums and unexpired risk	644	687
Life insurance provision	7 118	6 961
Provision for claims outstanding	2 632	2 524
Provision for profit sharing and rebates	20	19
Other technical provisions	437	524
Investment contracts with DPF	7 790	8 942
Life insurance provision	7 713	8 856
Provision for claims outstanding	0	0
Provision for profit sharing and rebates	76	87
Reinsurers' share	**131**	**110**
Insurance contracts	131	110
Provision for unearned premiums and unexpired risk	2	2
Life insurance provision	4	3
Provision for claims outstanding	126	105
Provision for profit sharing and rebates	0	0
Other technical provisions	0	0
Investment contracts with DPF	0	0
Life insurance provision	0	0
Provision for claims outstanding	0	0
Provision for profit sharing and rebates	0	0

MOVEMENTS TABLE	**Gross 2017**	**Reinsurance 2017**	**Gross 2016**	**Reinsurance 2016**
INSURANCE CONTRACTS, LIFE				
Opening balance	7 460	3	7 170	3
Deposits excluding fees	694	0	774	0
Provisions paid	-571	0	-550	0
Accretion of interest	176	0	185	0
Cost of profit sharing	3	0	3	0
Exchange differences	63	0	6	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements[1]	-270	3	-128	0
Closing balance	7 554	6	7 460	3
INSURANCE CONTRACTS, NON-LIFE				
Opening balance	3 255	107	3 127	123
Changes in the provision for unearned premiums	32	0	24	0
Payments regarding claims of previous years	-236	-10	-223	-5
Surplus/shortfall of claims provision in previous financial years	-90	-2	-135	-8
Provision for new claims	322	26	406	32
Exchange differences	14	1	2	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements	1	4	55	-36
Closing balance	3 297	125	3 255	107
INVESTMENT CONTRACTS WITH DPF, LIFE				
Opening balance	8 942	0	9 235	0
Deposits excluding fees	361	0	632	0
Provisions paid	-1 004	0	-800	0
Accretion of interest	168	0	214	0
Cost of profit sharing	0	0	0	0
Exchange differences	2	0	0	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements[2]	-679	0	-339	0
Closing balance	7 790	0	8 942	0

1 Includes the surrender of a large, reinsured savings policy in 2016.
2 Includes transfers to unit-linked contracts.

- Technical provisions relate to insurance contracts and investment contracts with a discretionary participation feature (DPF).
- Liabilities under investment contracts without DPF are measured at fair value. These liabilities concern mainly unit-linked contracts, which are recognised under financial liabilities (see Note 4.1).
- Technical provisions for life insurance are calculated using various assumptions. Judgement is required when making these assumptions and the assumptions used are based on various internal and external sources of information. At present, IFRS 4 refers extensively to local accounting principles for the recognition of technical provisions. These provisions are generally calculated using the technical assumptions that were applicable at the inception of the insurance contract and are subject to liability adequacy tests. The key assumptions are:
  - mortality and morbidity rates, which are based on standard mortality tables and adapted where necessary to reflect the group's own experience;
  - expense assumptions, which are based on current expense levels and expense loadings;
  - the discount rate, which is generally equal to the technical interest rate, remains constant throughout the life of the policy, and in some cases is adjusted to take account of legal requirements and internal policy decisions.
- Assumptions for the technical provisions for claims outstanding are based on past claims experience relating to claim numbers, claim payments and claims handling costs, and adjusted to take account of such factors as anticipated market experience, claims inflation and external factors such as court awards and legislation. The technical provision for claims outstanding is generally not discounted except when long-term obligations and/or annuities (industrial accidents, guaranteed income and hospitalisation insurance) are involved.
- In 2017, there were no major changes in assumptions leading to a significant change in the valuation of insurance assets and liabilities.

Note 5.7: Provisions for risks and charges

(in millions of EUR)	Provisions for restructuring	Provisions for taxes and pending legal disputes	Other	Subtotal	Provisions for commitments and financial guarantees	Total
2017						
Opening balance	3	105	53	162	76	238
Movements with an impact on results						
Amounts allocated	6	125	8	140	93	233
Amounts used	-2	-16	-8	-27	-4	-30
Unused amounts reversed	0	-2	-3	-5	-35	-40
Transfers out of/into liabilities associated with disposal groups	0	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0
Other movements	0	-1	-3	-4	2	-2
Closing balance	8	211	47	266	133	399
2016						
Opening balance	9	118	58	184	125	310
Movements with an impact on results						
Amounts allocated	0	20	10	30	41	71
Amounts used	-2	-21	-13	-36	-11	-46
Unused amounts reversed	0	-11	-2	-14	-42	-56
Transfers out of/into liabilities associated with disposal groups	0	0	0	0	0	0
Changes in the scope of consolidation	-1	0	0	-1	0	-1
Other movements	-3	-1	1	-3	-38	-41
Closing balance	3	105	53	162	76	238

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- Other provisions included those set aside for miscellaneous risks.
- Information relating to the main legal disputes pending: claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. 'probable outflow', 'possible outflow' or 'remotely probable outflow'). Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies'). No provisions are constituted for 'possible outflow' cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 50 million euros). All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
- Probable outflow (related to 'Provisions for taxes and pending legal disputes'):
  - From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult were involved in the transfer of cash companies. Cash companies are characterised by the fact that the asset side of their balance sheets comprises primarily amounts receivable and cash, in addition to other liquid assets. On several occasions between 1995 and 1997, KB Consult acted as the intermediary between the sellers and buyers of such companies. There were various ways in which the bank could be involved, but in most cases they concerned payments or lending. KBC Bank and/or KB Consult were joined to proceedings in a number of cases. In addition, KB Consult was placed under suspicion by an investigating judge in 2004, and together with KBC Bank and KBC Group NV, was summoned to appear in the proceedings before a judge in chambers in Bruges. On 9 November 2011, the judge referred KB Consult and KBC Bank to Bruges Criminal Court on charges of uttering, but dismissed the charges against KBC Group NV. The Belgian state appealed the

decision of no case to answer against KBC Group NV. On 27 October 2015, the indictments division ruled that proceedings were time-barred and upheld the original decision of no case to answer. The case as referred will now be heard before Bruges Criminal Court in the course of 2018. A suitable provision has been constituted to deal with the potential impact of claims for damages in this respect. The transfer of a cash company is in principle completely legitimate. However, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties. Referral to the criminal court does not in any way imply that any KBC entity has been convicted of an offence. KBC is fully defending its position in these cases, based, among other things, on the fact that, during the period in which the events took place, the legal entity was not liable to prosecution and, in particular, KBC was utterly lacking in criminal intent.

- In March 2000, Rebeo and Trustimmo, two subsidiaries of Almafin (a subsidiary of KBC Bank), together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned by the Ministry of Finance to appear before the civil court in Brussels regarding non-payment of 16.7 million euros in taxes owed by Broeckdal. However, Broeckdal contested this claim and in December 2002 initiated court proceedings against the Ministry of Finance before the civil court in Antwerp. The civil case pending before the Brussels court was suspended until final judgment had been passed in the tax-related proceedings pending before the Antwerp court. Broeckdal was wound up by court order on 2 November 2010 and was declared properly wound up and dissolved on 13 September 2011. The Belgian state revived the tax-related proceedings, further to which the Antwerp court handed down a default judgment on 9 May 2014 and deemed closure of the liquidation to imply an abandonment of proceedings. On 17 February 2017, the Belgian state revived the civil action in Brussels. Judgment is expected in the final quarter of 2018. A suitable provision has been constituted to cover the potential risk.

- Possible outflow:
  - On 6 October 2011, Irving H. Picard, trustee for the substantively consolidated SIPA (Securities Investor Protection Corporation Act) liquidation of Bernard L. Madoff Investments Securities LLC and Bernard L. Madoff, sued KBC Investments before the bankruptcy court in New York to recover approximately 110 million US dollars' worth of transfers made to KBC entities. The basis for this claim was the subsequent transfers that KBC received from Harley International, a Madoff feeder fund established under the laws of the Cayman Islands. This claim is one of a whole set made by the trustee against several banks, hedge funds, feeder funds and investors. In addition to the issues addressed by the district court, briefings were held on the applicability of the Bankruptcy Code's 'safe harbor' and 'good defenses' rules to subsequent transferees (as is the case for KBC). KBC, together with numerous other defendants, filed motions for dismissal. District court Judge Jed Rakoff has made several intermediate rulings in this matter, the most important of which are the rulings on extraterritoriality and good faith defences. On 27 April 2014, Judge Rakoff issued an opinion and order regarding the 'good faith' standard and pleading burden to be applied in the Picard/SIPA proceeding based on sections 548(b) and 559(b) of the Bankruptcy Code. As such, the burden of proof that KBC should have been aware of the fraud perpetrated by Madoff in this matter is for Picard/SIPA. On 7 July 2014, Judge Rakoff ruled that Picard/SIPA's reliance on section 550(a) does not allow for the recovery of subsequent transfers received abroad by a foreign transferee from a foreign transferor (as is the case for KBC Investments Ltd). Therefore, the trustee's recovery claims have been dismissed to the extent that they seek to recover purely foreign transfers. In June 2015, the trustee filed a petition against KBC to overturn the ruling that the claim fails on extraterritoriality grounds. In this petition, the trustee also amended the original claim including the sum sought. The amount has now been increased to 196 million US dollars. On 22 November 2016, Judge Bernstein handed down an intermediate ruling dismissing the claims of the trustee in respect of those foreign transfers under the rules of international comity. In December 2017, the trustee appealed the final ruling issued earlier in 2017 dismissing the above claims. The case will take six to eighteen months before a decision is given.
  - In the spring of 2008, KBC issued two bonds, KBC IFIMA 5-5-5 and KBC Group 5-5-5 (totalling 0.66 billion euros – also see Note 8 in the 2011 and 2012 annual reports). These structured bonds had a term of five years, a gross coupon of 5%, and were linked until their maturity to the public debt of five countries (Belgium, France, Spain, Italy and Greece). They allowed for early redemption of the residual value as soon as a credit event occurred with respect to one of these countries. When the 5-5-5 bonds were launched, the sovereign risks were generally regarded as very low. However, the unexpected, far-reaching changes in market conditions early in 2010 (the Greek crisis) changed the original risk profile of these bonds. At the start of 2011, KBC proactively decided to offer additional security to holders of 5-5-5 bonds and informed them of this in writing: if a credit event occurred, investors would still get back the amount they had invested, less the coupons already received and less taxes and charges. On 9 March 2012, a credit event actually occurred in Greece, and KBC honoured the promise it made. On 8 October 2012, a number of parties who had subscribed to the 5-5-5 bonds issued by KBC Group NV and by KBC IFIMA raised proceedings before Brussels Court of First Instance, as they were not satisfied with the proposed settlement. In the case involving the KBC Group NV issue, the court handed down a judgment on 20 January 2016, which found in favour of one of the plaintiffs. KBC Bank and KBC Group NV have appealed the case, with the final submissions being filed on 16 March 2017. No date has been set yet for the court hearing.

Note 5.8: Other liabilities

(in millions of EUR)	31-12-2017	31-12-2016
Total	**2 743**	**2 763**
Breakdown by type		
Retirement benefit obligations or other employee benefits	625	705
Deposits from reinsurers	70	73
Accrued charges (other than from interest expenses on financial liabilities)	304	289
Other	1 743	1 696

- For more information on retirement benefit obligations, see Note 5.9 (note that the amount recognised under 'Retirement benefit obligations or other employee benefits' in Note 5.8 relates to a broader scope than the amounts presented in Note 5.9).

Note 5.9: Retirement benefit obligations

(in millions of EUR)	31-12-2017	31-12-2016
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	2 851	2 380
Current service cost	126	111
Interest cost	40	54
Plan amendments	0	0
Actuarial gain or loss resulting from changes in demographic assumptions	-3	5
Actuarial gain or loss resulting from changes in financial assumptions	-1	357
Experience adjustments	-39	1
Past-service cost	2	-1
Benefits paid	-109	-93
Exchange differences	-8	-9
Curtailments	0	1
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	6	0
Other	-3	45
Defined benefit obligations at the end of the period	2 861	2 851
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	2 336	2 165
Actual return on plan assets	112	160
Expected return on plan assets	*33*	*48*
Employer contributions	78	90
Plan participant contributions	21	21
Benefits paid	-109	-93
Exchange differences	-5	-8
Settlements	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	1	1
Fair value of plan assets at the end of the period	2 433	2 336
of which financial instruments issued by the group	30	32
of which property occupied by KBC	8	9
Funded status		
Plan assets in excess of defined benefit obligations	-428	-515
Reimbursement rights	0	0
Asset ceiling limit	-37	-28
Unfunded accrued/prepaid pension cost	-466	-543

(in millions of EUR)	31-12-2017	31-12-2016
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	-543	-221
Amounts recognised in the income statement	-116	-95
Amounts recognised in other comprehensive income	118	-336
Employer contributions	78	90
Exchange differences	3	1
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	-6	0
Other	0	17
Unfunded accrued/prepaid pension cost at the end of the period	-466	-543
Amounts recognised in the income statement	**116**	**95**
Current service cost	126	111
Past-service cost	2	-1
Interest cost	7	5
Plan participant contributions	-21	-21
Curtailments	0	0
Settlements	0	0
Changes in the scope of consolidation	0	0
Changes to the amounts recognised in other comprehensive income	**-118**	**336**
Actuarial gain or loss resulting from changes in demographic assumptions	-3	5
Actuarial gain or loss resulting from changes in financial assumptions	-1	357
Actuarial result on plan assets	-80	-112
Experience adjustments	-39	1
Adjustments to asset ceiling limits	-4	24
Other	9	60
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	14	14

- The pension claims of the Belgian-based staff of the various KBC group companies are covered by pension funds and group insurance schemes. Retirement benefits that are actively accrued for the current workforce of KBC Bank, KBC Insurance and most of their Belgian subsidiaries are accrued exclusively through the KBC pension funds. Retirement benefits accrued through employer contributions are currently accrued primarily through a defined benefit plan, where the benefit is calculated based on the final salary of employees before they retire, the number of years they had been in the plan and a formula that applies a progressive rate scale. A defined contribution plan was introduced on 1 January 2014 for all new employees. In this plan, a contribution is deposited based on the current monthly salary and the amounts deposited are paid out together with the (guaranteed) return on retirement. Both types of pension plan are managed by the OFP Pensioenfonds KBC and the OFP Pensioenfonds Senior Management KBC, which uses the services of KBC Asset Management for the investment strategy. In addition, there are a number of smaller, closed group insurance schemes from the past that will continue to be funded, such as the one for employees of KBC Insurance.
- KBC Bank Ireland participated in a defined benefit plan until 31 August 2012. As of that date, no additional pension rights will be accumulated under that plan for future years of service. Benefits accrued in the plan continue to be linked to future salary increases of the participants (i.e. it will be managed dynamically). The assets of the pension plan have been separated from the assets of the bank. The employees of KBC Finance Ireland and the Dublin branch of KBC Bank are also signed up to this pension plan. The retirement benefits are calculated using a mathematical formula that takes account of age, salary and the length of time the participant was signed up.

Additional information on retirement benefit obligations

(in millions of EUR)	2017	2016	2015	2014	2013
Changes in main headings in the main table					
Defined benefit obligations	2 861	2 851	2 380	2 610	2 034
Fair value of plan assets	2 433	2 336	2 165	2 103	1 818
Unfunded accrued/prepaid pension cost	-466	-543	-220	-507	-216
Impact of changes in the assumptions used in the actuarial calculation of plan assets and retirement benefit obligations					
Impact on plan assets	0	0	0	0	0
Impact on retirement benefit obligations	4	147	24	-135	-85

Additional information on retirement benefit obligations – DEFINED BENEFIT PLANS

	KBC pension fund	KBC Bank Ireland pension plan
Composition (31-12-2017)		
Shares	39%	38%
Bonds	47%	40%
Real estate	9%	3%
Cash	5%	1%
Investment funds	0%	18%
of which illiquid assets	*9%*	*17%*
Composition (31-12-2016)		
Shares	34%	41%
Bonds	49%	35%
Real estate	13%	3%
Cash	4%	0%
Investment funds	0%	21%
of which illiquid assets	*8%*	*17%**
Contributions expected in 2018 (in millions of EUR)	55	3
Regulatory framework	Pension plans are registered in collective labour agreements and incorporated into a set of regulations. Annual reporting of funding levels to supervisory authorities (FSMA/NBB). Any underfunding must be reported immediately to the supervisory authorities.	Regulated by the Irish Pensions Authority. Funding level calculated every year and certified every three years. Any underfunding must be reported immediately to the Irish Pensions Authority.
Risks for KBC	Investment risk and inflation risk.	Investment risk.
ALM policy	The hedging portfolio hedges against interest rate risk and inflation risk using interest rate swaps. The return portfolio aims to generate an extra return.	Investments in leveraged LDI pooled funds.
Plan amendments	An employer-funded defined contribution plan was introduced on 1 January 2014. All employees joining the company from that date are signed up to this new plan, while all those who were already employed on 31 December 2013 remain signed up to the defined benefit plan unless they chose to switch to the new one.	Not applicable.
Curtailments and settlements	Not applicable.	Not applicable.
Discounting method	Based on BVAL quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. The curve becomes flat for maturities of 22 years and longer.	The Mercer method starts from a proprietary basket of corporate bonds with AAA, AA and A ratings. A spread is deducted from the bonds with an A rating in order to obtain the equivalent of an AA-rated corporate bond. After conversion to the zero coupon format using extrapolation for long maturities, the equivalent discount rate is determined.
Key actuarial assumptions		
Average discount rate	1.21%	2.30%
Expected rate of salary increase	2.70%	2.75%
Expected inflation rate	1.85%	1.75%
Expected rate of increase in pensions	–	1.75%
Weighted average duration of the obligations	13.50 years	27 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations		
Increase in the retirement benefit obligations on 31-12-2017 consequent on:		
a decrease of 1% in the discount rate	14.40%	31.96%
an increase of 1% in the expected inflation rate	12.58%	30.23%
an increase that is 1% higher than the expected real increase in salary	16.24%	6.35%
the age of retirement being 65 for all active employees	0.76%	–
an increase of one year in life expectancy	–	3.06%
The impact of the following assumptions has not been calculated:	Decreasing mortality rates. Pension benefits are paid out in capital, so longevity risk is immaterial. Staff turnover rates: the expected rate is very low.	Not applicable.

Additional information on retirement benefit obligations – DEFINED CONTRIBUTION PLANS	KBC pension fund
Contributions expected in 2018 (in millions of EUR)	19
Regulatory framework	Pursuant to the Belgian Supplementary Pensions Act, the employer must guarantee a minimum return of 1.75% on employee and employer contributions.
Risks for KBC	Investment risk.
Valuation	Retirement benefit obligations are measured on the basis of the accrued benefits on the reporting date, making a projection of these benefits (at the rate of interest guaranteed by law) until the expected age of retirement, and discounting the resulting benefits. KBC offers two types of defined contribution plan: one that is financed through employee contributions and one through employer contributions. The value of the employee-funded defined contribution plan takes account of the accrued interest (at the fund return rate), but not of future contributions since the plan is not deemed to be backloaded. The value of the employer-funded defined contribution plan takes account of future contributions in the projection, due to the fact that the plan is deemed to be backloaded.
Discounting method	Based on BVAL quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. The curve becomes flat for maturities of 22 years and longer.
Key actuarial assumptions	
Average discount rate	0.96%
Weighted average duration of the obligations	10.64 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations	
Increase in the retirement benefit obligations on 31-12-2017 consequent on:	
a decrease of 1% in the discount rate	10.15%
the age of retirement being 65 for all active employees	0.35%

* Adjusted.

Note 5.10: Parent shareholders' equity and additional tier-1 instruments

Quantities	31-12-2017	31-12-2016
Ordinary shares	418 597 567	418 372 082
of which ordinary shares that entitle the holder to a dividend payment	*418 597 567*	*418 372 082*
of which treasury shares	*64 847*	*2*
Additional information		
Par value per share (in EUR)	3.48	3.48
Number of shares issued but not fully paid up	0	0

- Ordinary shares: ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued. The shares are listed solely on Euronext Brussels.
- Main changes in 2016 and 2017: the number of KBC Group NV shares went up by 225 485 in December 2017 and by 285 024 in December 2016, due to new shares being issued following the capital increases reserved for staff. For more information, see the 'Company annual accounts and additional information' section.
- Treasury shares: at year-end 2017, KBC group companies held 64 847 KBC shares in portfolio, 64 845 of which were registered with KBC Bank (London branch) to hedge outstanding derivatives on indices/ baskets that include KBC Group shares.
- For information on stock option plans, see Note 3.8; for information on the authorisation to increase capital, see the 'Company annual accounts and additional information' section.
- Additional tier-1 instruments: in March 2014, KBC issued 1.4 billion euros in CRD IV-compliant additional tier-1 securities. These securities qualify as additional tier-1 capital under Basel III (as adopted in the CRR) and, therefore, have had a positive impact on KBC's tier-1 capital. They are perpetual and may be called for redemption after five years or on each subsequent coupon date. They also have a loss absorption mechanism (i.e. a temporary write-down trigger should the common equity tier-1 ratio fall below 5.125%). Since they are classified as shares under IAS 32 (because they have fully discretionary non-cumulative coupons and are perpetual), the annualised coupon of 5.625% – which is paid every quarter – is treated as a dividend. This transaction had no impact on the number of ordinary shares.

Note 5.11: Non-current assets held for sale and discontinued operations (IFRS 5)

No principal group companies fell under the scope of IFRS 5 in 2016 and 2017.

6.0 Other notes

Note 6.1: Commitments and guarantees granted and received

(in millions of EUR)	31-12-2017	31-12-2016
Loan commitments – undrawn amount		
Given	36 078	34 027
Irrevocable	23 625	21 869
Revocable	12 453	12 157
Received	35	31
Financial guarantees		
Given	9 972	9 908
Guarantees/collateral received	50 270	42 494
For impaired and past due assets	1 960	3 795
For assets that are not impaired or past due	48 310	38 699
Other commitments		
Given	283	284
Irrevocable	283	284
Revocable	0	0
Received	12	6
Carrying value of financial assets pledged by KBC as collateral		
For liabilities*	36 621	36 517
For contingent liabilities	2 007	2 339

* At year-end 2017, some 11 billion euros' worth of residential mortgage loans and cash collections were entered in the cover asset register for the special estate of the covered bond programme (11.2 billion euros at year-end 2016).

- Fair value of financial guarantees: based on the available market value.
- KBC Group NV irrevocably and unconditionally guarantees all amounts shown as liabilities in the statutory financial statements of the following Irish companies in respect of the financial year ending on 31 December 2017, allowing these companies to be eligible for exemption from certain disclosure requirements, pursuant to Section 357 of the Irish Companies Act 2014: KBC Fund Management Limited. Since this company is included in the scope of consolidation, this is an intragroup transaction and the guarantee is not included in the above table.
- There is an obligation to return collateral received (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will organise the foreclosure itself or take possession of the collateral. Collateral received that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table). More details are provided in Note 4.3.

Collateral received (which may be sold or repledged in the absence of default by the owner) (in millions of EUR)	Fair value of collateral received		Fair value of collateral sold or repledged	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
Financial assets	21 241	13 529	8 527	7 859
Equity instruments	7	13	2	5
Debt instruments	20 973	13 309	8 526	7 854
Loans and advances	261	206	0	0
Cash	0	0	0	0
Other	0	0	0	0
Property and equipment	0	0	0	0
Investment property	0	0	0	0
Other	0	0	0	0

- Collateral acquired through foreclosure came to 0.1 billion euros in 2017 (0.3 billion euros in 2016).

Note 6.2: Leasing

(in millions of EUR)	31-12-2017	31-12-2016
Finance lease receivables		
Gross investment in finance leases, receivable	5 855	5 453
At not more than one year	1 360	1 323
At more than one but not more than five years	3 171	2 836
At more than five years	1 324	1 294
Unearned future finance income on finance leases	497	530
Net investment in finance leases	5 308	4 916
At not more than one year	1 258	1 212
At more than one but not more than five years	2 894	2 601
At more than five years	1 156	1 103
of which unguaranteed residual values accruing to the benefit of the lessor	33	21
Accumulated impairment for uncollectable lease payments receivable	88	67
Contingent rents recognised in the income statement	93	93
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable operating leases	463	554
Contingent rents recognised in the income statement	1	0

- There are no significant cases in which KBC is the lessee in operating or finance leases.
- Pursuant to IFRIC 4, no operating or finance leases contained in other contracts were identified.
- Finance leases: KBC offers finance lease products ranging from equipment and vehicle leasing to real estate leasing. In Belgium, finance leases are typically sold through KBC group's branch network, and that channel is becoming increasingly important in Central Europe, too.
- Operating leases: involve primarily full service car leases, which are sold through the KBC Bank and CBC Banque branch network and through an internal sales team. Full service car leasing activities are being further developed in Central Europe, too.

Transactions with related parties, excluding key management (in millions of EUR)	2017 Subsidiaries	2017 Associated companies	2017 Joint ventures	2017 Other	2017 Total	2016 Subsidiaries	2016 Associated companies	2016 Joint ventures	2016 Other	2016 Total
Assets	327	138	12	52	529	333	187	11	40	572
Loans and advances	144	44	2	45	234	104	46	2	31	182
Equity instruments	146	92	10	5	252	228	140	10	4	382
Other	37	2	1	3	43	1	1	0	5	8
Liabilities	70	101	151	318	641	365	109	289	221	983
Deposits	68	11	151	312	542	364	8	289	220	881
Other financial liabilities	0	0	0	0	0	0	0	0	0	0
Other	2	90	0	6	99	1	101	0	1	102
Income statement	11	-7	-8	5	1	7	-1	-7	6	4
Net interest income	0	-1	-4	0	-5	-2	-1	-4	0	-6
Interest income	0	1	0	0	2	1	1	0	0	2
Interest expense	-1	-1	-5	0	-7	-2	-2	-5	0	-8
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0
Technical insurance charges (before reinsurance)	0	0	0	0	0	0	0	0	0	0
Dividend income	4	0	0	8	12	2	9	0	3	15
Net fee and commission income	9	-1	-4	3	7	14	-1	-3	2	12
Fee and commission income	9	1	0	3	13	14	0	1	2	17
Fee and commission expense	0	-1	-4	0	-6	0	-1	-4	0	-5
Other net income	-1	-2	0	0	-3	1	-5	0	4	1
General administrative expenses	0	-4	0	-6	-10	-9	-3	0	-5	-17
Undrawn portion of loan commitments, financial guarantees and other commitments										
Given by the group	39	7	0	137	183	10	6	0	151	167
Received by the group	0	0	0	0	0	0	0	0	0	0

Transactions with key management (members of the Board of Directors and Executive Committee of KBC Group NV)

(in millions of EUR)*	2017	2016
Total*	**11**	**10**
Breakdown by type of remuneration		
Short-term employee benefits	9	9
Post-employment benefits	2	2
Defined benefit plans	0	0
Defined contribution plans	2	2
Other long-term employee benefits	0	0
Termination benefits	0	0
Share-based payments	0	0
Stock options (units)		
At the beginning of the period	0	0
Granted	0	0
Exercised	0	0
Composition-related changes	0	0
At the end of the period	0	0
Advances and loans granted to key management and partners	2	2

* Remuneration to key management or partners of the consolidating company on the basis of their activity in that company, its subsidiaries and associated companies, including the amount of retirement pensions granted to former key management staff on that basis.

- The 'Subsidiaries' heading in the first table includes transactions with unconsolidated subsidiaries (transactions with consolidated subsidiaries have already been eliminated from the consolidated financial statements).
- The 'Other' heading in the first table includes KBC Ancora, Cera and MRBB.
- All related-party transactions occur at arm's length.
- Key management comprises the members of the Board of Directors and Executive Committee of KBC Group NV. More detailed information on remuneration paid to key management staff is provided in the 'Corporate governance statement' section.
- There were no significant impairment charges vis-à-vis related parties.

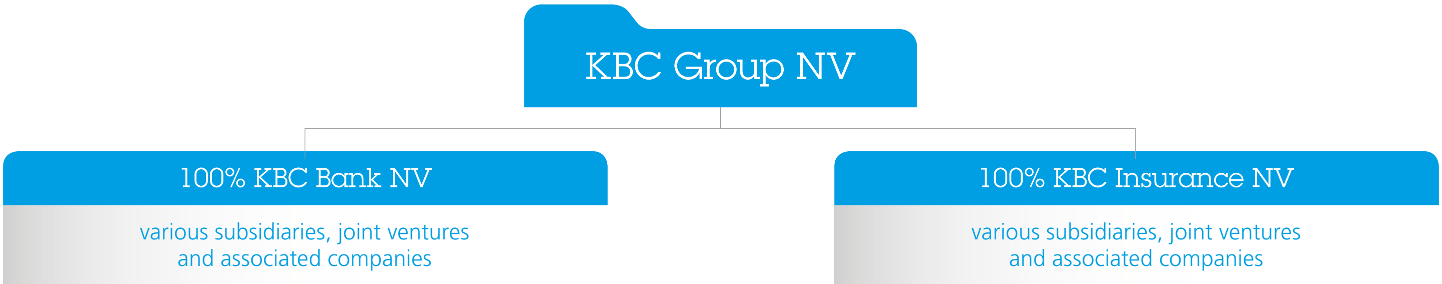
Note 6.4: Statutory auditor's remuneration

Statutory auditor's remuneration (PwC, in EUR)	2017	2016
KBC Group NV and its subsidiaries		
Standard audit services	7 798 214	7 020 249
Other services	2 385 559	1 153 589
Other certifications	1 993 953	293 746
Tax advice	274 679	42 379
Other non-audit assignments	116 927	817 463
KBC Group NV (alone)		
Standard audit services	229 445	145 000
Other services	615 150	420 944

Note 6.5: Subsidiaries, joint ventures and associated companies at year-end 2017

The KBC group's legal structure has one single entity – KBC Group NV – in control of two underlying companies, viz. KBC Bank NV and KBC Insurance NV, each of which has several subsidiaries and sub-subsidiaries.

The main group companies are shown in the table. A complete list of group companies (included in or excluded from the scope of consolidation) is provided at www.kbc.com > About us > Our structure.



KBC Group: main companies included in the scope of consolidation at year-end 2017

Company	Registered office	Company number	Share of capital held at group level (in %)	Business unit*	Activity
KBC Bank (group)					
KBC Bank NV	Brussels – BE	0462.920.226	100.00	BEL/GRP	credit institution
CBC BANQUE SA	Brussels – BE	0403.211.380	100.00	BEL	credit institution
Československá Obchodná Banka a.s.	Bratislava – SK	–	100.00	IMA	credit institution
Československá Obchodní Banka a.s.	Prague – CZ	–	100.00	CZR	credit institution
CIBANK EAD	Sofia – BG	–	100.00	IMA	credit institution
KBC Asset Management NV	Brussels – BE	0469.444.267	100.00	BEL	asset management
KBC Autolease NV	Leuven – BE	0422.562.385	100.00	BEL	leasing
KBC Bank Ireland Plc.	Dublin – IE	–	100.00	IMA	credit institution
KBC Commercial Finance NV	Brussels – BE	0403.278.488	100.00	BEL	factoring
KBC Credit Investments NV	Brussels – BE	0887.849.512	100.00	BEL/GRP	investment firm
KBC IFIMA SA	Luxembourg – LU	–	100.00	GRP	financing
KBC Securities NV	Brussels – BE	0437.060.521	100.00	BEL	stockbroker
K&H Bank Zrt.	Budapest – HU	–	100.00	IMA	credit institution
Loan Invest NV	Brussels – BE	0889.054.884	100.00	BEL	securitisation
United Bulgarian Bank	Sofia – BG	–	99.91	IMA	credit institution
KBC Insurance (group)					
KBC Insurance NV	Leuven – BE	0403.552.563	100.00	BEL/GRP	insurance company
ADD NV	Heverlee – BE	0406.080.305	100.00	BEL	insurance broker
KBC Group Re SA	Luxembourg – LU	–	100.00	GRP	reinsurance company
ČSOB Pojišt'ovna a.s.	Pardubice – CZ	–	100.00	CZR	insurance company
ČSOB Poist’ovňa a.s.	Bratislava – SK	–	100.00	IMA	insurance company
DZI (group)	Sofia – BG	–	100.00	IMA	insurance company
Groep VAB NV	Zwijndrecht – BE	0456.920.676	95.00	BEL	driving school/roadside assistance
K&H Biztosító Zrt.	Budapest – HU	–	100.00	IMA	insurance company
NLB Vita d.d. (equity method)	Ljubljana – SI	–	50.00	GRP	life insurance
KBC Group					
KBC Group NV	Brussels – BE	0403.227.515	100.00	GRP	bank-insurance holding company
KBC Bank (group)	various locations	–	100.00	various	credit institution
KBC Insurance (group)	various locations	–	100.00	various	insurance company

* BEL = Belgium Business Unit, CZR = Czech Republic Business Unit, IMA = International Markets Business Unit, GRP = Group Centre.

- Companies eligible for consolidation are effectively included in the consolidated accounts if two of the following criteria are met:
  - The group share in equity exceeds 2.5 million euros.
  - The group share in the results exceeds 1 million euros.
  - The balance sheet total exceeds 100 million euros. The combined balance sheet total of the companies excluded from consolidation may not amount to more than 1% of the consolidated balance sheet total.
- All (material) entities (including structured entities (SPVs)) over which the consolidating entity exercises, directly or indirectly, exclusive control are consolidated according the method of full consolidation. To assess whether or not structured entities have to be consolidated, KBC uses the principles set out in IFRS 10, as well as thresholds for inclusion in consolidation (see previous bullet point).
- Disclosures of interests in other entities (IFRS 12)
  - Significant judgements and assumptions
    - In general, funds managed by KBC are not included in the scope of consolidation, as they do not meet the three criteria of control (power, exposure to a variable return and ability to use such power to affect those returns).
    - Joint subsidiaries in which KBC does not hold 50% of the share capital are classified as joint subsidiaries, since it has joint control over these entities based on shareholder agreements.
  - Interests in subsidiaries
    - For the vast majority of the entities, the voting rights are materially equal to the ownership rights.
    - Certain structured entities that are included in the scope of consolidation are subject to significant restrictions. In the past, KBC initiated a number of CDO and RMBS note issues, in each case through a structured entity established for the sole purpose of entering into the relevant transaction (collectively referred to as the 'vehicles' and the 'transactions'). Each of the vehicles

invested the proceeds of its notes issue in order to collateralise its obligations under both the notes and a portfolio credit default swap. All shares in the vehicles are wholly owned by a trust company. Nevertheless, the vehicles are consolidated in KBC based on the requirements of IFRS 10. Under the agreements governing the transactions, there are significant restrictions on KBC's ability to access, transfer or use the cash or other assets of the vehicles to settle liabilities of other entities within the group. All the assets of the vehicles are assigned to the security trustee (for itself and as trustee for the holders of the notes) as continuous security for the payment and discharge of the obligations of the vehicles under the notes. Unless explicitly authorised by the agreements or unless the security trustee provides consent in writing beforehand, neither the vehicle nor KBC Bank as administrator can access, transfer or use the cash or other assets of the vehicles to settle liabilities of other KBC-group entities.
  - Pursuant to the joint capital decision, specific pillar-II levels have been set to ensure that certain minimum capital ratios are respected, which impose certain restrictions on the repatriation of capital and distribution of dividends.
  - With regard to Loan Invest NV, KBC is exposed to loan losses on the mortgage portfolio and, therefore, recognises impairment losses on them where necessary.
- Interests in joint ventures and associated companies
  - For a summary of the financial information on ČMSS, see Note 5.3.
  - No summarised financial information is provided for immaterial entities on an aggregate basis, because, even on that basis, the amount is immaterial.
- Interests in unconsolidated structured entities
  - KBC Bank NV is arranger and dealer of a number of 40-billion-euro medium term notes programmes issued by 19 unconsolidated structured entities established for that purpose. Between 2006 and 2016, these entities were established as Irish public limited companies or Irish private limited companies under the Irish Companies Act 1963 to 2012. Their primary business is to raise money by issuing notes in order to buy financial assets (such as securities, bonds and deposits) and to enter into related derivative and other contracts (like equity-linked swaps, interest-linked swaps, total return swaps and repo transactions). They provide investment opportunities for clients by providing economies of scale, a diversification of credit risk and a high level of granularity. Each structured entity has a prospectus that was approved by the Central Bank of Ireland (available at www.kbc.be/prospectus/spv). However, the structured entities are not consolidated because they fail to meet the three criteria for consolidation (power, exposure to a variable return and ability to use such power to affect those returns). At year-end 2017, the assets under management at these entities amounted to 15.1 billion euros.
  - Sponsored unconsolidated structured entities are defined as structured entities where KBC or one of its subsidiaries acts as arranger of the issuance programme, but where the decision-making power of the entities does not reside with KBC or one of its subsidiaries. As a result, these entities are not consolidated.
  - At year-end 2017, KBC had received income from unconsolidated structured entities in the form of management fees (67 million euros), custody fees (1 million euros), administrative agent fees (1 million euros) and accounting fees (1 million euros).
  - At year-end 2017, KBC held 5.8 billion euros' worth of notes issued by the unconsolidated structured entities. Its liabilities towards the unconsolidated structured entities amounted to 6.2 billion euros and comprised mainly term deposits (5.9 billion euros).
  - Any potential decrease in the value of the notes is passed on to the end-client, which means it will have no impact on KBC.
  - KBC Asset Management provides approximately 19 million euros as a line of credit for KBC funds to cover (temporary) shortfalls arising at month-end and especially at quarter-end.

- One subsidiary is active in the extractive industry, but is not included in the scope of consolidation for reasons of materiality. Furthermore, this subsidiary did not make any payments to governments that reached the threshold of 100 000 euros. As a result, no consolidated report on such payments has been prepared (see Art. 119/1 of the Companies Code).

Note 6.6: Main changes in the scope of consolidation

Company	Consolidation method	Ownership percentage at group level		Remarks
		31-12-2017	31-12-2016	
Additions				
United Bulgarian Bank AD	Full	99.91	–	Acquired in 2Q 2017
Interlease EAD	Full	100.00	–	Acquired in 2Q 2017
Exclusions				
KBC Towarzystwo Funduszy Inwestycyjnych a.s. (KBC TFI)	Full	–	100.00	Sold in 4Q 2017
Name changes				
None				
Changes in ownership percentage and internal mergers				
None				

- United Bulgarian Bank (UBB) and Interlease: on 13 June 2017, we concluded the deal to acquire 99.91% of the shares of United Bulgarian Bank AD and 100% of the shares of Interlease EAD in Bulgaria for a total consideration of 609 million euros, without any contingent consideration. The deal enables us to substantially strengthen our position in Bulgaria and means that we also become active in leasing, asset management and factoring there, ensuring that we can offer our clients a full range of financial services. KBC envisages substantial value creation for shareholders through income and cost synergies. UBB and Interlease belong to the Bulgaria country segment of the International Markets Business Unit (see Note 2). The deal had a limited impact of just -0.5 percentage points on KBC's common equity ratio on 30 June 2017.
- The consolidated figures in this report incorporate the impact of the acquisition of UBB and Interlease as from 30 June 2017.
  - KBC recognised goodwill of 109 million euros in its consolidated financial statements (with account being taken of specific negative fair value adjustments amounting to 83 million euros (after tax) which it had identified during the due diligence process). It should be noted that IFRS 3 (Business Combinations) allows the amount of goodwill to be adjusted during the 12-month measurement period starting from the acquisition date. Consequently, the amount of goodwill is provisional and subject to change. Goodwill is not deductible for tax purposes.
  - We have dealt with the impact of the acquisition on financial assets and liabilities by product in Note 4.1. This note includes an additional *pro forma* 'Total excluding UBB/Interlease' column, which helps provide a clear view of changes in financial assets and liabilities (excluding the acquisition of these companies).
  - The table below provides the provisional fair value of the main assets and liabilities involved in the acquisition of UBB/Interlease, as well as the impact of both these entities on the group's income statement (for the period July through December 2017).
- KBC TFI: on 12 December 2017, PKO Bank Polski Group completed the acquisition of all the shares of KBC TFI in Poland. The impact of this deal on KBC's results, however, is negligible.
- MetLife: on 29 December 2017, KBC and MetLife reached agreement for KBC (through DZI) to acquire MetLife's remaining 40% stake in UBB-Metlife Insurance Company AD, a life-insurance joint venture between UBB and MetLife. Earlier in 2017, KBC (through UBB) had acquired 60% of this joint venture as part of KBC's acquisition of UBB and Interlease. The financial impact of this deal is negligible.

Impact of the acquisition of United Bulgarian Bank and Interlease (in millions of EUR)	**2017**
General information	
Percentage of shares bought or sold in the relevant year	99.91% (UBB) and 100% (Interlease)
For business unit/segment	International Markets Business Unit
Deal date (month and year)	June 2017
Results of the relevant company/business recognised in the group result as from:	July 2017
Purchase price or sale price	609
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	185
Amounts recognised for the purchased assets and liabilities	
Cash and cash balances with central banks	693
Financial assets	2 810
Held for trading	502
Available for sale	335
Loans and receivables	1 973
Tax assets	12
Investments in associated companies and joint ventures	17
Investment property	15
Property and equipment	20
Goodwill and other intangible assets	4
Other assets	20
Cash and cash equivalents (included in the above assets)	*801*
Financial liabilities	3 063
Measured at amortised cost	3 062
Other liabilities	20
Cash and cash equivalents (included in the above liabilities)	*7*
Contribution to the consolidated income statement (July through December 2017)	
Net interest income	55
Dividend income	0
Net result from financial instruments at fair value through profit or loss	10
Net realised result from available-for-sale assets	0
Net fee and commission income	23
Other net income	-5
TOTAL INCOME	**83**
Operating expenses	-40
Impairment	-13
on loans and receivables	-12
on available-for-sale assets	-1
on goodwill	0
other	0
Share in results of associated companies and joint ventures	0
RESULT BEFORE TAX	**30**
Income tax expense	-3
RESULT AFTER TAX	**27**
attributable to minority interests	0
attributable to equity holders of the parent	**27**

Note 6.7: Risk management and capital adequacy

Capital management is a key management process relating to all decisions on the level and composition of our capital, both for banking and insurance. It covers all instruments that are positioned to absorb losses in going concern and/or gone concern situations. Capital management aims to achieve the best possible balance between regulatory requirements, investor expectations, rating agencies' views and management ambitions. Ultimate accountability for capital management lies with the Board of Directors.

Capital management entails a broad scope of activities covering strategic topics (such as defining policies, targets, etc.), frameworks and models (e.g., for regulatory capital, internal capital, cost of equity, measuring performance, etc.), planning and allocation (e.g., allocating capital to business, planning capital instrument issuances, forecasting capital ratios, etc.), implementation (e.g., dividends, capital transactions) and monitoring (including current solvency positions at various levels, compliance with group policies and regulatory requirements).

ICAAP (Internal Capital Adequacy Assessment Process) consists of numerous business and risk processes that together contribute to the objective of assessing and ensuring at all times that we are adequately capitalised in view of our risk profile and the quality of our risk management and control environment. In addition to the integrated approach at group level, KBC Insurance and its insurance and reinsurance subsidiaries conduct an Own Risk and Solvency Assessment (ORSA) on a regular basis, in accordance with Solvency II requirements.

We report the solvency of the group, the bank and the insurance company based on IFRS data and according to the rules imposed by the regulator.

- For the KBC group and KBC Bank, this implies that we calculate our solvency ratios based on CRR/CRD IV. KBC has received authorisation from the regulator to apply a risk weighting to the participation in KBC Insurance (Danish compromise method) at KBC group level. The KBC group and KBC Bank are subject to minimum solvency ratios. The main measure is the fully loaded common equity ratio, with the minimum regulatory requirement being 10.6%. This includes the pillar 1 minimum requirement (4.5%), the pillar 2 requirement (1.75% set by the ECB following its supervisory review and evaluation process) and the buffer requirements (4.35% set by the local competent authorities in KBC's core markets). At year-end 2017, the fully loaded common equity ratio came to 16.3%, which represented a capital buffer of 5 309 million euros relative to the minimum requirement of 10.6%.
- The solvency of KBC Insurance is calculated on the basis of Solvency II (the regulatory minimum requirement is 100%). At year-end 2017, the Solvency II ratio came to 212%, which represented a capital buffer of 2 042 million euros relative to the minimum requirement of 100%.

Key solvency figures for the KBC group, KBC Bank and KBC Insurance

(in millions of EUR)[1]		KBC Group (consolidated) CRR/CRD IV		KBC Bank (consolidated) CRR/CRD IV		KBC Insurance (consolidated) Solvency II
	31-12-2017 Fully loaded	31-12-2016 Fully loaded	31-12-2017 Fully loaded	31-12-2016 Fully loaded	31-12-2017	31-12-2016
Total regulatory capital, after profit appropriation	18 706	17 571	15 756	16 229	3 865	3 637
Tier-1 capital	16 504	15 286	13 484	12 625	3 365	3 137
Common equity	15 104	13 886	12 077	11 219	–	–
Parent shareholders' equity	17 403	15 957	14 083	12 568	3 051	2 936
Solvency adjustments	-2 299	-2 071	-2 006	-1 349	314	200
Additional going concern capital	1 400	1 400	1 407	1 406	–	–
Tier-2 capital	2 202	2 285	2 273	3 604	500	500
Total weighted risk volume (group, bank)[2]	92 410	87 782	83 117	78 482	–	–
Solvency capital requirement (insurance)	–	–	–	–	1 823	1 791
Common equity ratio (group, bank)	16.3%	15.8%	14.5%	14.3%	–	–
Solvency II ratio (insurance)	–	–	–	–	212%	203%

1 More detailed figures can be found in the 'How do we manage our capital?' section.
2 Supervision of the RWA internal models' compliance with the approval criteria as provided for in the regulatory standards does not come under the responsibility of the accredited statutory auditor.

More detailed information is provided in the 'How do we manage our capital?' section.

The information required in relation to risks (in accordance with IFRS 4 and IFRS 7) is provided in those parts of the 'How do we manage our risks?' section that have been audited by the statutory auditor.

Note 6.8: Post-balance-sheet events

Significant non-adjusting events between balance sheet date and the date on which the financial statements were approved for publication by the Board of Directors (15 March 2018):

- None

Note 6.9: General information on the company

- Name: KBC Group.
- Incorporated: 9 February 1935 as Kredietbank; the present name dates from 2 March 2005.
- Country of incorporation: Belgium.
- Registered office: Havenlaan 2, 1080 Brussels, Belgium.
- VAT: BE 0403.227.515.
- RLP: Brussels.
- Legal form: *naamloze vennootschap* (company with limited liability) under Belgian law, which seeks to attract or has sought to attract savings from the public. The company is a mixed financial holding company that is subject to the prudential supervision of the National Bank of Belgium and the European Central Bank.
- Life: undefined.
- Purpose: the company has as its object, the direct or indirect ownership and management of shareholdings in other companies, including but not restricted to credit institutions, insurance companies and other financial institutions. The company also has as object to provide support services for third parties, as mandatary or otherwise, in particular for companies in which the company has an interest – either directly or indirectly. The object of the company is also to acquire in the broadest sense of the word (including by means of purchase, hire and lease), to maintain and to operate resources, and to make these resources available in the broadest sense of the word (including through letting, and granting rights of use) to the beneficiaries referred to in the second sentence above. In addition, the company may function as an 'intellectual property' company responsible for, among other things, the development, acquisition, management, protection and maintenance of intellectual property rights, as well as for making these rights available and/or granting rights of use in respect of these rights to the beneficiaries referred to in the second sentence above. The company may also perform all commercial, financial and industrial transactions that may be useful or expedient for achieving the object of the company and that are directly or indirectly related to this object. The company may also by means of subscription, contribution, participation or in any other form whatsoever participate in all companies, businesses or institutions that have a similar, related or complementary activity. In general, the company may, both in Belgium and abroad, perform all acts which may contribute to the achievement of its object (Article 2 of the Articles of Association, which are available at www.kbc.com).
- Documents open to public inspection: the Articles of Association of the company are open to public inspection at the Registry of the Dutch-speaking division of the Brussels Commercial Court and are published on www.kbc.com. The financial statements and annual report are filed with the National Bank of Belgium and are available at www.kbc.com. The annual report can also be obtained from the company's registered office and will be sent to those requesting it. Extracts of minutes concerning decisions on the appointment and the termination of the offices of members of the Executive Committee and the Board of Directors are published in the appendices to the *Belgian Official Gazette.* Financial reports about the company are published in the financial press and/or on www.kbc.com. Convening notices of general meetings of shareholders are published in the *Belgian Official Gazette*, in at least one national newspaper, in the media and on www.kbc.com.
- For information on the general meeting of shareholders and the right of shareholders to take part in such meetings, see Article 23 *et seq.* of the Articles of Association, which are available at www.kbc.com.

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STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING OF THE COMPANY KBC GROUP NV ON THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2017

We present to you our statutory auditor's report in the context of our statutory audit of the consolidated accounts of KBC Group NV (the "Company") and its subsidiaries (jointly "the Group"). This report includes our report on the audit of the consolidated accounts, as well as the report on other legal and regulatory requirements. These reports form part of an integrated whole and are indivisible.

We have been appointed as statutory auditor by the general shareholders' meeting of 4 May 2016, following the proposal formulated by the board of directors and following the recommendation by the audit committee and the proposal formulated by the workers' council. Our mandate will expire on the date of the general shareholders' meeting which will deliberate on the consolidated accounts for the year ended 31 December 2018. We have performed the statutory audit of the consolidated accounts of KBC Group NV for 2 consecutive years.

Report on the audit of the consolidated accounts

Unqualified opinion

We have performed the statutory audit of the Group's consolidated accounts, which comprise the consolidated balance sheet as at 31 December 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cashflow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and which is characterised by a consolidated balance sheet total of EUR 292.342 million and a profit for the year (share of the Group) of EUR 2.575 million.

In our opinion, the consolidated accounts give a true and fair view of the Group's net equity and consolidated financial position as at 31 December 2017, and of its consolidated income and its consolidated cashflows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "*Statutory auditor's responsibilities for the audit of the consolidated accounts*" section of our report. We have fulfilled our ethical responsibilities in accordance with the ethical requirements that are relevant to our audit of the consolidated accounts in Belgium, including the requirements related to independence.

We have obtained from the board of directors and Company officials the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated accounts of the current period. These matters were addressed in the context of our audit of the consolidated accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimation uncertainty with respect to financial instruments measured at fair value

Key audit matter

Details regarding the financial instruments measured at fair value at year-end 31 December 2017 are included in Note 4.5 to the consolidated accounts. For information regarding the determination of fair value please refer to Note 1.2.c of the Summary of significant accounting principles on IAS 39 and Note 4.4 to the consolidated accounts.

Valuation techniques and models used for certain financial instruments are inherently subjective and involve various assumptions regarding pricing. In addition, the number of factors influencing the determination of fair value can be extensive and can vary both by type of instrument and/or within instrument types. This is particularly the case for financial instruments disclosed in level 2 and 3 in Note 4.5 to the consolidated accounts, the fair value of financial instruments in level 1 being however subject to limited judgment.

The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. An overview of the main valuation techniques used is disclosed in Notes 4.4 and 4.5 to the consolidated accounts. Furthermore, market value adjustments are recognized on certain positions that are measured at fair value with fair value changes reported in profit or loss or in equity. These adjustments are determined by the current market conditions, the evolution in credit risk parameters, the interest rate environment and cost of funding all impacting the fair value measurements of the Group's portfolio measured at fair value. The main market value adjustments applied are disclosed in Note 4.4 to the consolidated accounts. As the use of different assumptions could produce different estimates of fair value, we consider this as a key audit matter.

Our audit approach

We obtained an understanding of the internal control framework related to the valuation of financial instruments, including price testing and model validation. We assessed the appropriateness of the model validation methodology with the assistance of our valuation experts and we performed a recalculation of the fair valuation on a sample basis. This includes the assessment of market data, inputs and key assumptions as critical factors used in the fair value models, based on our experience and market practice.

Based on our procedures we found that management's outcome of the models used for the fair value of the level 2 and 3 financial instruments, in the context of the estimation uncertainty concerned, fell within a reasonable and acceptable range of outcomes.

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Finally, we assessed the completeness and accuracy of the disclosures relating to the fair values of these financial instruments to assess compliance with disclosure requirements included in the International Financial Reporting Standards as adopted by the European Union.

Estimation uncertainty with respect to impairment allowances for loans and receivables

Key audit matter

The appropriateness of the impairment allowances for loans and receivables requires significant judgment of management. Measuring financial assets requires an assessment of the risk that a counterparty will not respect all of its contractual obligations. At year-end 31 December 2017 information regarding impairment allowances for loans and receivables is included in Note 4.2 to the consolidated accounts, in application of the policies as described in Note 1.2.c of the Summary of significant accounting principles on IAS 39. At year-end 31 December 2017 the gross loan and advances amount to EUR 171.516 million, the total impairment at that date amounts to EUR 4.058 million of which EUR 3.843 million are specific impairments and the remainder portfolio-based impairments.

The identification of impairment and the determination of the recoverable amount are part of the estimation process at the Group including, amongst others, the Probability of Default, the assessment of objective evidence for impairment, the financial condition of the counterparty, the expected future cashflows and the value of collateral. The use of different modelling techniques and assumptions could lead to different estimates of impairment charges on loans and receivables. Furthermore, associated risk management disclosures are complex and dependent on high quality data. As the loans and receivables represent the majority of the Group's balance sheet and given the related estimation uncertainty on impairment charges, we consider this as a key audit matter.

Our audit approach

Our audit procedures included an assessment of the overall governance of the credit and impairment process of the Group. We have assessed and tested the design and operating effectiveness of the controls within the loan origination process, risk management process and the estimation process for determining impairment allowances. For loan impairment allowances determined on an individual basis we have performed, for a sample of corporate credit files, a detailed review of loans granted by the Group. We challenged the assumptions underlying the Probability of Default, the impairment identification and quantification including forecasts of future cashflows, valuation of underlying collateral and estimates of recovery on default. We found no material exceptions in these tests. For the loan impairment allowances calculated on a collective basis, we tested the underlying models including the Group's model approval and validation process. We also tested the appropriateness and accuracy of the inputs to those models such as the emergence period, recovery and cure rates, and where available, compared data and assumptions made to external benchmarks.

Finally, we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the International Financial Reporting Standards as adopted by the European Union.

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In our view the recognised impairments of management were within a reasonable range of outcomes in the context of the overall loans and advances and the related uncertainties and sensitivities as disclosed in the consolidated accounts.

Estimation uncertainty with respect to technical insurance provisions

Key audit matter

At year-end 31 December 2017 the technical insurance provisions (before reinsurance) amount to EUR 18.641 million. For detailed information regarding the valuation of the technical insurance provisions, please refer to disclosure Note 1.2.f of the Summary of significant accounting principles on technical provisions and Note 5.6 to the consolidated accounts, as well as to the Technical insurance risk section of the Annual Report.

A liability adequacy test is performed by the Group in order to confirm that the technical insurance provisions are sufficient to cover the estimated future cashflows of the insurance contracts. The calculation of the cashflows arising from insurance contracts is complex, highly judgmental and is based on assumptions which are affected by future economic and political conditions and is also affected by government regulations. The assumptions used for the life insurance business relate to risks regarding mortality, longevity, lapse and expense and other assumptions used in the liability adequacy test. The assumptions used for non-life insurance liabilities mainly relate to the amount of the claim, the number of incurred but not yet reported claims and general expenses. The assumptions and uncertainties also apply for the reinsured part.

Our audit approach

We used our actuarial specialists to assist us in performing our audit procedures. We performed tests on the design and operating effectiveness of the Group's controls to ascertain that the data used in the valuation of the technical provisions arising from insurance contracts are adequate and complete. These procedures include data analysis based on business rules and follow-up procedures on exceptions.

We performed testing of the Group's procedures regarding the determination of the assumptions, testing of the assumptions based on market observable data and actuarial analysis through backtesting of the assumptions used. We discussed the outcome of the actuarial analysis with the internal actuaries and the actuarial function holder. Our procedures have allowed us to assess the valuation and the setting of the technical insurance provisions.

Finally, we assessed the completeness and accuracy of the disclosures regarding technical insurance provisions to assess compliance with disclosure requirements included in the International Financial Reporting Standards as adopted by the European Union.

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Responsibilities of the board of directors for the consolidated accounts

The board of directors is responsible for the preparation of consolidated accounts that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated accounts, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Statutory auditor's responsibilities for the audit of the consolidated accounts

Our objectives are to obtain reasonable assurance about whether the consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

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- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our statutory auditor's report to the related disclosures in the consolidated accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated accounts, including the disclosures, and whether the consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated accounts.

Statutory auditor's responsibilities

In the context of our mandate and in accordance with the Belgian standard (Revised) which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, the directors' report on the consolidated accounts and to report on these matters.

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Aspects related to the directors' report on the consolidated accounts

In our opinion, after having performed specific procedures in relation to the directors' report on the consolidated accounts, this report is consistent with the consolidated accounts for the year under audit, and it is prepared in accordance with article 119 of the Companies' Code.

In the context of our audit of the consolidated accounts, we are also responsible for considering, in particular based on the knowledge acquired resulting from the audit, whether the directors' report on the consolidated accounts, is materially misstated or contains information which is inadequately disclosed or otherwise misleading. In light of the procedures we have performed, there are no material misstatements we have to report to you. We do not express any form of assurance conclusion on this directors' report.

The non-financial information is included in the directors' report on the consolidated accounts. The Company has prepared the non-financial information, based on Global Reporting Initiative (GRI) Standards. However, we do not express an opinion as to whether the non-financial information has been prepared, in all material aspects, in accordance with the Global Reporting Initiative (GRI) Standards as disclosed in the consolidated accounts. Furthermore, we do not express assurance on individual elements included in this non-financial information.

Statement related to independence

- We did not provide services which are incompatible with the statutory audit of the consolidated accounts and we remained independent of the Company in the course of our mandate.
- The fees for additional services which are compatible with the statutory audit of the consolidated accounts referred to in article 134 of the Companies' Code are correctly disclosed and itemized in the notes to the consolidated accounts.

Other statements

- This report is consistent with the additional report to the audit committee referred to in article 11 of the Regulation (EU) N° 537/2014.

Sint-Stevens-Woluwe, 20 March 2018

The statutory auditor
PwC Bedrijfsrevisoren bcvba
represented by

Roland Jeanquart
Accredited auditor

Tom Meuleman
Accredited auditor

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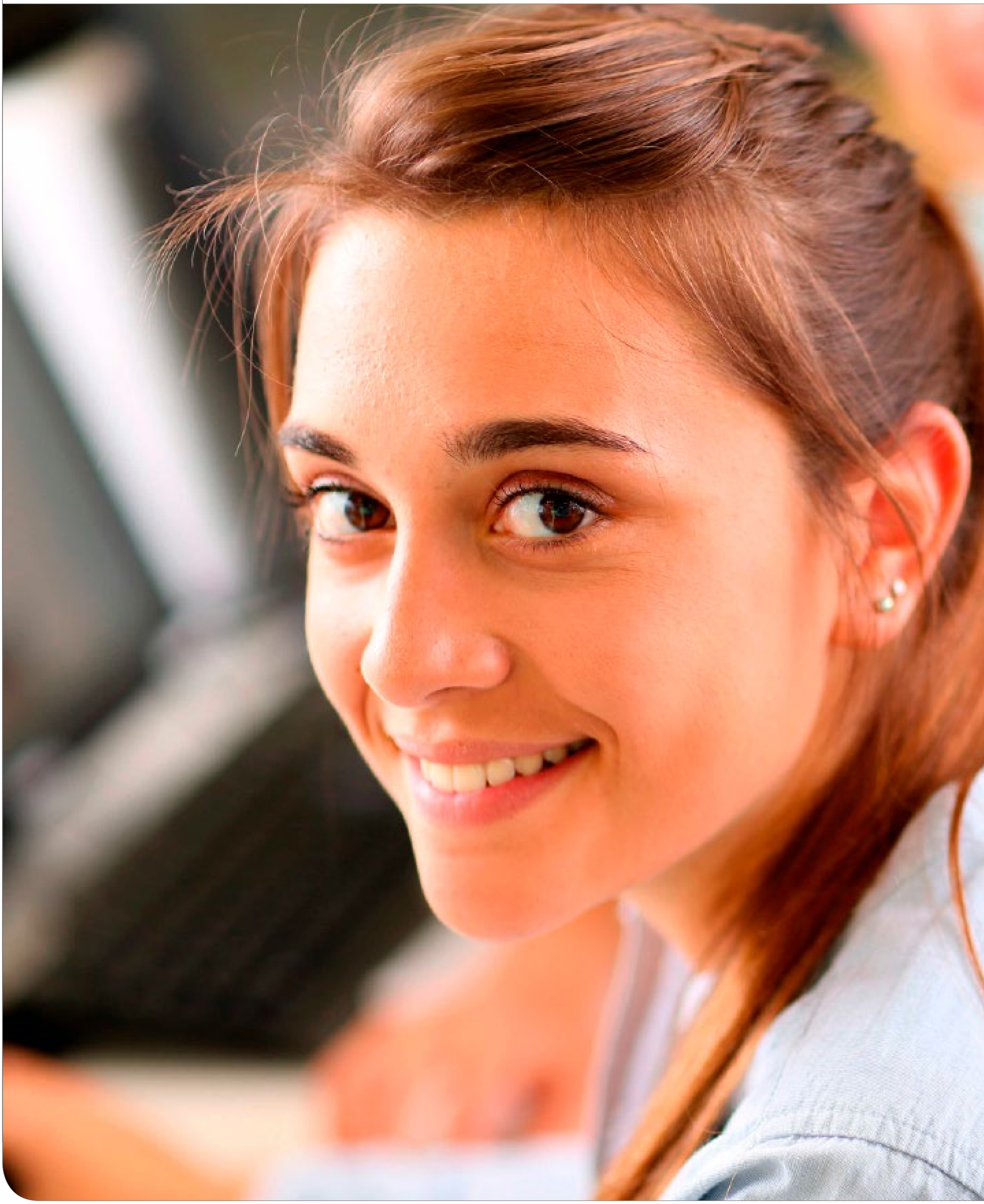
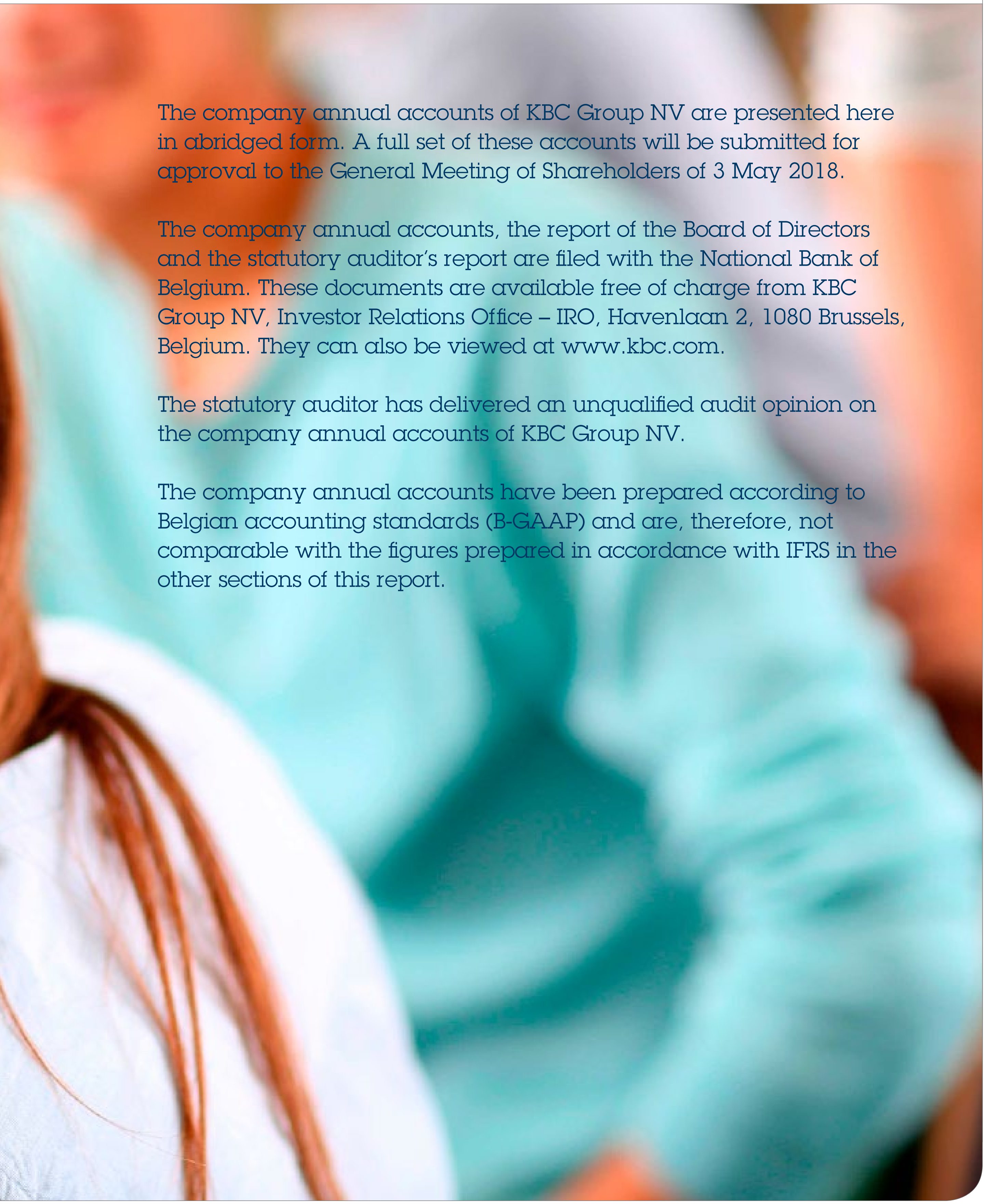
Company annual



accounts and additional information



The company annual accounts of KBC Group NV are presented here in abridged form. A full set of these accounts will be submitted for approval to the General Meeting of Shareholders of 3 May 2018.

The company annual accounts, the report of the Board of Directors and the statutory auditor's report are filed with the National Bank of Belgium. These documents are available free of charge from KBC Group NV, Investor Relations Office – IRO, Havenlaan 2, 1080 Brussels, Belgium. They can also be viewed at www.kbc.com.

The statutory auditor has delivered an unqualified audit opinion on the company annual accounts of KBC Group NV.

The company annual accounts have been prepared according to Belgian accounting standards (B-GAAP) and are, therefore, not comparable with the figures prepared in accordance with IFRS in the other sections of this report.

Company balance sheet, income statement and profit appropriation

Balance sheet after profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2017	31-12-2016
Fixed assets	**21 447**	**19 645**
Intangible fixed assets	212	176
Property and equipment	87	97
Land and buildings	27	29
Plant, machinery and equipment	46	54
Furniture and vehicles	12	12
Other tangible fixed assets	1	1
Assets under construction and advance payments	1	1
Financial fixed assets	21 148	19 372
Affiliated companies	21 147	19 370
Participating interests	14 044	14 044
Amounts receivable	7 103	5 327
Other companies linked by participating interests	1	1
Participating interests	1	1
Amounts receivable	0	0
Current assets	**193**	**135**
Amounts receivable at more than one year	0	0
Trade receivables	0	0
Other amounts receivable	0	0
Stocks and contracts in progress	1	1
Stocks	1	1
Goods purchased for resale	1	1
Amounts receivable within one year	58	36
Trade receivables	45	22
Other amounts receivable	13	14
Current investments	0	0
Own shares	0	0
Other investments	0	0
Cash at bank and in hand	52	31
Deferred charges and accrued income	82	67
Total assets	**21 640**	**19 780**
Equity	**13 468**	**13 683**
Capital	1 456	1 455
Issued capital	1 456	1 455
Share premium account	5 448	5 436
Reserves	1 467	1 466
Legal reserves	146	146
Reserves not available for distribution	1	1
Untaxed reserves	190	190
Reserves available for distribution	1 129	1 129
Profit (Loss (-)) carried forward	5 098	5 326
Provisions and deferred taxes	**17**	**16**
Provisions for liabilities and charges	17	16
Pensions and similar obligations	16	16
Other liabilities and charges	0	0
Amounts payable	**8 155**	**6 081**
Amounts payable at more than one year	7 102	4 576
Financial debt	7 102	4 576
Subordinated loans	3 580	3 081
Non-subordinated bonds	3 522	1 496
Credit institutions	0	0
Amounts payable within one year	983	1 450
Amounts payable at more than one year falling due within the year	0	0
Financial debt	0	558
Credit institutions	0	0
Other loans	0	558
Trade debt	34	31
Advance payments received on orders	0	1
Taxes, remuneration and social security charges	81	79
Income tax expense	15	10
Remuneration and social security charges	65	69
Other amounts payable	868	780
Accrued charges and deferred income	70	55
Total liabilities	**21 640**	**19 780**

Income statement (B-GAAP)

(in millions of EUR)	31-12-2017	31-12-2016
Operating income	**905**	**928**
Turnover	837	859
Increase (decrease (-)) in stocks of finished goods, work and contracts in progress	0	0
Own construction capitalised	52	53
Other operating income	15	16
Non-recurring operating income	0	0
Operating charges	**917**	**957**
Services and other goods	473	487
Remuneration, social security charges and pensions	351	374
Depreciation of and amounts written off formation expenses and intangible and tangible fixed assets	89	84
Provisions for liabilities and charges: amounts set aside (amounts reversed (-))	0	4
Other operating charges	1	1
Non-recurring operating charges	3	8
Operating profit (loss (-))	**-13**	**-29**
Financial income	1 208	1 345
Recurring financial income	1 208	1 345
Income from financial fixed assets	1 048	1 204
Income from current assets	2	0
Other financial income	158	141
Non-recurring financial income	0	0
Financial charges	147	133
Recurring financial charges	147	133
Debt charges	145	129
Amounts written down on current assets: increase (decrease (-))	0	0
Other financial charges	2	4
Non-recurring financial charges	0	0
Profit (Loss (-)) for the period, before tax	**1 048**	**1 184**
Transfers from deferred taxes	0	2
Transfers to deferred taxes	3	0
Income tax	7	4
Profit (Loss (-)) for the period	**1 038**	**1 182**
Profit (Loss (-)) for the period available for appropriation	**1 038**	**1 182**

Profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2017	31-12-2016
Profit (Loss (-)) to be appropriated	**6 364**	**6 508**
Profit (Loss (-)) for the period available for appropriation	1 038	1 182
Profit (Loss (-)) carried forward from the previous period	5 326	5 327
Transfers to equity	**0**	**0**
To the legal reserves	0	0
To other reserves	0	0
Profit (Loss (-)) to be carried forward	**5 098**	**5 326**
Profit to be distributed	**1 266**	**1 182**
Dividends	1 256	1 171
Directors' entitlements	0	0
Employees/other allocations	11	11

We will propose to the General Meeting of Shareholders that the profit for appropriation for the 2017 financial year be distributed as shown in the table. If this proposal is approved, the total gross dividend per share entitled to dividend will amount to 3 euros, 1 euro of which was already paid as an interim gross dividend in November 2017, leaving a final gross dividend of 2 euros.

Proposed buyback of own shares: see 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section.

Notes to the company annual accounts

Note 1: Financial fixed assets (B-GAAP)

(in millions of EUR)	Participating interests in affiliated companies	Amounts receivable from affiliated companies	Participating interests in companies linked by participating interests	Amounts receivable from companies linked by participating interests
Carrying value at 31-12-2016	**14 044**	**5 327**	**1**	**0**
Acquisitions in 2017	0	2 025	0	0
Disposals in 2017	0	-250	0	0
Other changes in 2017	0	0	0	0
Carrying value at 31-12-2017	**14 044**	**7 103**	**1**	**0**

Participating interests in affiliated companies comprise mainly the shareholdings in KBC Bank NV, KBC Insurance NV and KBC Asset Management NV. The amounts receivable from affiliated companies related to loans to KBC Bank NV in the form of additional tier-1 capital (1.4 billion euros), tier-2 capital (1.7 billion euros), tier-3 capital (3.5 billion euros) and a subordinated loan of 0.5 billion euros to KBC Insurance NV. The main changes in 2017 related to additional loans to KBC Bank that qualify as tier-3 capital (2 billion euros) and the repayment by KBC Bank of a subordinated perpetual loan (0.3 billion euros).

Note 2: Changes in equity (B-GAAP)

(in millions of EUR)	31-12-2016	Capital increase for staff	Appropriation of results	31-12-2017
Capital	1 455	1	0	1 456
Share premium account	5 436	13	0	5 448
Reserves	1 466	0	0	1 467
Profit (Loss) carried forward	5 326	0	-228	5 098
Equity	**13 683**	**13**	**-228**	**13 468**

At year-end 2017, the company's issued share capital amounted to 1 456 074 585.67 euros, represented by 418 597 567 shares of no nominal value, and the share premium account came to 5 448 168 873.97 euros. The share capital is fully paid up.

Changes in 2017: A capital increase under the authorisation to increase capital carried out on 21 December 2017 and reserved exclusively for employees of KBC Group NV and its Belgian subsidiaries resulted in 225 485 shares being issued at a price of 59.60 euros per share. These shares are blocked for two years, since the issue price was less than the closing price of the KBC share on 13 November 2017. As a result of this operation, capital was increased by 784 687.80 euros and the share premium account went up by 12 654 218.20 euros. By carrying out this capital increase, the group aims to strengthen ties with its staff and the staff of its Belgian subsidiaries. Given the limited extent of the capital increase, the financial ramifications for existing shareholders are minor. All of the shares issued in 2017 will also be entitled to dividend from the 2017 financial year (but not the interim dividend of 1 euro per share already paid by the company in November 2017).

The authorisation to increase capital may be exercised up to and including 20 May 2018 for an amount of 694 326 862.24 euros. Based on a par value of 3.48 euros a share, a maximum of 199 519 213 new KBC Group NV shares can therefore be issued under this authorisation.

Note 3: Shareholders

The table below gives an overview of the notifications received in 2017 and in the first two months of 2018 pursuant to the Belgian Act of 2 May 2007 concerning the disclosure of significant participations. We publish all such notifications on www.kbc.com. Please note that the number of shares stated in the notifications may differ from the current number in possession, as a change in the number of shares held does not always give rise to a new notification.

The ‘Corporate governance statement’ section contains an overview of the shareholder structure at year-end 2017, based on all the notifications received pursuant to the Belgian Act of 2 May 2007.

Notifications	Notification relating to	Total voting rights on date concerned[1]	% of total voting rights on date concerned[1]
FMR LLC	21 March 2017	–[2]	–[2]
FMR LLC	25 May 2017	12 576 091	3.01%
BlackRock Inc.	4 July 2017	20 885 696 (21 173 750)	4.99% (5.06%)
BlackRock Inc.	10 July 2017	20 571 558 (20 822 413)	4.92% (4.98%)
BlackRock Inc.	11 July 2017	20 742 056 (20 978 918)	4.96% (5.01%)
BlackRock Inc.	12 July 2017	20 669 031 (20 901 721)	4.94% (5.00%)
FMR LLC	1 September 2017	12 526 452	2.99%
FMR LLC	5 September 2017	12 601 646	3.01%
FMR LLC	11 September 2017	–[2]	–[2]
BlackRock Inc.	24 October 2017	20 778 282 (20 936 793)	4.97% (5.00%)
BlackRock Inc.	25 October 2017	20 350 441 (20 506 931)	4.86% (4.90%)
BlackRock Inc.	6 November 2017	15 155 762 (20 966 045)	3.62% (5.01%)
BlackRock Inc.	7 November 2017	14 976 647 (20 731 688)	3.58% (4.96%)
BlackRock Inc.	22 November 2017	20 657 176 (21 098 547)	4.49% (5.04%)
BlackRock Inc.	28 November 2017	20 982 248 (21 138 393)	5.02% (5.05%)

1 The figures between brackets include the 'voting rights that may be acquired if the instrument is exercised' as stated under 'B) Equivalent financial instruments' in the transparency notification.
2 Not disclosed (below the 3% notification threshold).

The following table gives an overview of KBC shares held by KBC group companies. The average par value of the KBC share came to 3.48 euros in 2017.

KBC shares held by KBC group companies	Address	31-12-2017	31-12-2016
KBC Securities NV	Havenlaan 12, 1080 Brussels, Belgium	2	2
KBC Bank NV	Havenlaan 12, 1080 Brussels, Belgium	64 845*	–
Total (as a percentage of the total number of shares)		*0.0%*	*0.0%*

* Used for hedging outstanding derivatives on indices/baskets that include KBC Group shares.

Note 4: Balance sheet

- On 31 December 2017, total assets came to 21 640 million euros, compared with 19 780 million euros a year earlier.
- 'Financial fixed assets' are discussed in Note 1.
- 'Current assets' amounted to 193 million euros, whereas the year-earlier figure was 135 million euros. This change was largely attributable to the higher level of outstanding trade receivables relating to KBC group companies.
- 'Equity' is dealt with in Note 2.
- 'Amounts payable' totalled 8 155 million euros, compared with 6 081 million euros at year-end 2016. The main changes to this item were the issuance of non-subordinated instruments (+2 billion euros), the issuance of subordinated tier-2 instruments (+ 500 million euros) and the reduction in commercial paper (-558 million euros).

Note 5: Income statement

- KBC Group NV generated a net profit of 1 038 million euros in 2017, as opposed to 1 182 million euros a year earlier.
- 'Operating income' fell by 3% and 'Operating charges' by 4% year-on-year, due primarily to the activities of certain shared services being transferred to other KBC group companies.
- The main change in the financial result was the decline of 156 million euros in dividends received.

Note 6: Statutory auditor's remuneration

See Note 6.4 in the 'Consolidated financial statements' section.

Note 7: Branch offices

KBC Group NV had three branch offices (in the Czech Republic, Slovakia and Hungary) at year-end 2017.

Note 8: Additional information

KBC Group NV uses financial instruments to hedge interest rate risks. At year-end 2017, the outstanding notional amount of interest rate swaps used for hedging such risks was 500 million euros.

The information required in accordance with Article 96 of the Belgian Companies Code that has not been provided above (including the non-financial information statement) appears in the 'Report of the Board of Directors' section.

Glossary of financial ratios and terms

Basic and diluted earnings per share

Gives an idea of the amount of profit over a certain period that is attributable to one share (and, where applicable, including dilutive instruments).

Calculation (in millions of EUR)	Reference	2017	2016
Result after tax, attributable to equity holders of the parent (A)	'Consolidated income statement'	2 575	2 427
-			
Coupon on the additional tier-1 instruments included in equity (B)	'Consolidated statement of changes in equity'	-52	-52
/			
Average number of ordinary shares less treasury shares (in millions) in the period (C)	Note 5.10	418	418
or Average number of ordinary shares plus dilutive options less treasury shares in the period (D)	–	*(idem)*	*(idem)*
Basic = (A-B) / (C) (in EUR)		6.03	5.68
Diluted = (A-B) / (D) (in EUR)		6.03	5.68

Combined ratio (non-life insurance)

Gives an insight into the technical profitability (i.e. after eliminating investment returns, among other items) of the non-life insurance business, more particularly the extent to which insurance premiums adequately cover claim payments and expenses. The combined ratio takes ceded reinsurance into account.

Calculation (in millions of EUR or %)	Reference	2017	2016
Technical insurance charges, including the internal cost of settling claims (A)	Note 3.7	813	839
/			
Earned insurance premiums (B)	Note 3.7	1 465	1 387
+			
Operating expenses (C)	Note 3.7	482	460
/			
Written insurance premiums (D)	Note 3.7	1 493	1 406
= (A/B) + (C/D)		88%	93%

We also use the same methodology to calculate this ratio for each business unit.

Common equity ratio

A risk-weighted measure of the group's solvency, based on common equity tier-1 capital (the ratios given here are based on the Danish compromise).

The CRD IV rules are gradually being implemented to allow banks to build up the necessary capital buffers. The capital position of a bank, when account is taken of the transition period, is referred to as the 'phased-in' view. The capital position based on full application of all the rules – as would be the case after this transition period – is referred to as 'fully loaded'.

Calculation	2017	2016
Detailed calculation under 'Solvency at group level' in the 'How do we manage our capital?' section		
Phased-in	16.5%	16.2%
Fully loaded	16.3%	15.8%

Cost/income ratio

Gives an impression of the relative cost efficiency (costs relative to income) of the banking activities.

Calculation (in millions of EUR or %)	Reference	2017	2016
Operating expenses of the banking activities (A)	'Consolidated income statement': component of 'Operating expenses'	3 570	3 437
/			
Total income of the banking activities (B)	'Consolidated income statement': component of 'Total income'	6 587	6 238
= (A) / (B)		54%	55%

We also use the same methodology to calculate this ratio for each business unit.

Where relevant, we also eliminate exceptional and/or non-operating items when calculating the cost/income ratio (55% in 2017 and 57% in 2016). This calculation aims to give a better idea of the relative cost efficiency of the pure business activities. We accordingly eliminate:

- the mark-to-market valuation of ALM derivatives (income equalling 93 en 87 million euros in 2017 and 2016, respectively);
- the impact of liquidating or deconsolidating group companies (income totalling -16 and 16 million euros in 2017 and 2016, respectively);
- a number of smaller items (income totalling 33 and 108 million euros in 2017 and 2016, respectively, and costs totalling 16 and 18 million euros in 2017 and 2016, respectively).

Cover ratio

Indicates the proportion of impaired loans (see 'Impaired loans ratio' for definition) that are covered by impairment charges.
The numerator and denominator in the formula relate to all impaired loans, but may be limited to impaired loans that are more than 90 days past due (the figures for that particular calculation are given in the 'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section).

Calculation (in millions of EUR or %)	**Reference**	**2017**	**2016**
Specific impairment on loans (A)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	4 039	4 874
/			
Outstanding impaired loans (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	9 186	10 583
= (A) / (B)		44%	46%

Credit cost ratio

Gives an idea of loan impairment charges recognised in the income statement for a specific period, relative to the total loan portfolio (see 'Loan portfolio' for definition). In the longer term, this ratio can provide an indication of the credit quality of the portfolio.

Calculation (in millions of EUR or %)	**Reference**	**2017**	**2016**
Net changes in impairment for credit risks (A)	'Consolidated income statement': component of 'Impairment'	-87	126
/			
Average outstanding loan portfolio (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	151 681	146 257
= (A) / (B)		-0.06%	0.09%

We also use the same methodology to calculate this ratio for each business unit.

Dividend payout ratio

Gives an idea of the extent to which KBC Group NV distributes its annual profit (and, therefore, also indirectly the extent to which profits are used to strengthen the capital reserves).
More information on the group's dividend distribution policy can be found under 'Our employees, capital, network and relationships' in the 'Our business model' section.

Calculation (in millions of EUR or %)	**Reference**	**2017**	**2016**
Amount of dividend to be distributed[1] (including interim dividend) (A)	'Consolidated statement of changes in equity'	1 256	1 171
+			
Coupon to be paid/already paid on the additional tier-1 instruments included in equity (B)	'Consolidated statement of changes in equity'	52	52
/			
Net result, group share (C)	'Consolidated income statement'	2 575	2 427
= (A+B) / (C)		51%[2]	50%

1 Subject to the approval of the General Meeting of Shareholders.
2 Taking account of the announced buyback of own shares (approximately 0.2 billion euros), the ratio would come to approximately 59%.

Impaired loans ratio

Indicates the proportion of impaired loans in the loan portfolio (see 'Loan portfolio' for definition) and, therefore, gives an idea of the creditworthiness of the portfolio. Impaired loans are loans where it is unlikely that the full contractual principal and interest will be repaid/paid. These loans have a KBC default status of PD 10, PD 11 or PD 12 and correspond to the definition of 'non-performing' used by the European Banking Authority.
Where appropriate, the numerator in the formula may be limited to impaired loans that are more than 90 days past due (PD 11 + PD 12). Relevant figures for that calculation are given in the 'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section.

Calculation (in millions of EUR or %)	Reference	2017	2016
Amount outstanding of impaired loans (A)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	9 186	10 583
/			
Total outstanding loan portfolio (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	154 160	147 526
= (A) / (B)		6.0%	7.2%

We also use the same methodology to calculate this ratio for each business unit.

Leverage ratio

Gives an idea of the group's solvency, based on a simple non-risk-weighted ratio.

Calculation (in millions of EUR or %)	Reference	2017	2016
Regulatory available tier-1 capital (A)	'Solvency at group level' table in the 'How do we manage our capital?' section	16 504	15 286
/			
Total exposure measures (total of non-risk-weighted on and off-balance sheet items, with a number of adjustments) (B)	'Solvency at group level' table in the 'How do we manage our capital?' section	272 373	251 891
= (A) / (B)		6.1%	6.1%

Liquidity coverage ratio (LCR)

Gives an idea of the bank's liquidity position in the short term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-month period.

Calculation (in millions of EUR or %)	Reference	2017	2016
Stock of high-quality liquid assets (A)	Based on the European Commission's Delegated Act on LCR and the European Banking Authority's guidelines for LCR disclosure	79 850	65 400
/			
Total net cash outflows over the next 30 calendar days (B)	–	57 600	47 100
= (A) / (B)		139%	139%

Under the new guidelines, it is the average of 12 end-of-month LCR figures (as of 31 December 2017). Up to and including 2016, point-in-time (end-of-year) data had been used.

Loan portfolio

Gives an idea of the magnitude of (what are mainly pure, traditional) lending activities.

Calculation (in millions of EUR)	Reference	2017	2016
Loans and advances to customers (related to the group's banking activities) (A)	Note 4.1, component of 'Loans and advances to customers'	139 044	131 415
-			
Reverse repos with customers (B)	Note 4.1	-504	-376
+			
Debt instruments issued by corporates and by credit institutions and investment firms (related to the group's banking activities) (C)	Note 4.1, component of 'Debt instruments issued by corporates and by credit institutions and investment firms'	6 243	7 114
+			
Loans and advances to credit institutions and investment firms (related to the group's banking activities, excluding dealing room activities) (D)	Note 4.1, component of 'Loans and advances to credit institutions and investment firms'	881	952
+			
Financial guarantees granted to clients (E)	Note 6.1, component of 'Financial guarantees given'	8 235	8 279
+			
Impairment on loans (F)	Note 4.2, component of 'Impairment'	4 058	5 094
+			
Other (including accrued interest) (G)	Component of Note 4.1	-3 797	-4 952
= (A) - (B) + (C) + (D) + (E) + (F) + (G)		154 160	147 526

Market capitalisation

Provides an indication of the stock market value of the KBC group.

Calculation (in EUR or quantity)	**Reference**	**2017**	**2016**
Closing price of KBC share (in EUR) (A)	–	71.1	58.8
x			
Number of ordinary shares (in millions) (B)	Note 5.10	418.6	418.4
= (A) X (B) (in billions of EUR)		29.8	24.6

Minimum requirement for own funds and eligible liabilities (MREL)

Indicates the extent to which a bank has sufficient own funds and eligible liabilities available for bail-in. MREL and bail-in are based on the principle that shareholders and debt-holders should bear losses first if a bank fails.

Calculation (in millions of EUR or %)	**2017**	**2016**
Detailed calculation under 'Solvency at group level' in the 'How do we manage our capital?' section	24%	21%

Net interest margin

Gives an idea of the net interest income of the banking activities (one of the most important sources of revenue for the group) relative to the average total interest-bearing assets of the banking activities.

Calculation (in millions of EUR or %)	**Reference**	**2017**	**2016**
Net interest income of the banking activities* (A)	'Consolidated income statement': component of 'Net interest income'	3 513	3 602
/			
Average interest-bearing assets of the banking activities* (B)	'Consolidated balance sheet': component of 'Total assets'	187 216	184 117
= (A) / (B) X 360/number of calendar days		1.85%	1.92%

* After elimination of all divestments and volatile short-term assets used for liquidity management purposes.

We also use the same methodology to calculate this ratio for each business unit.

Net stable funding ratio (NSFR)

Gives an idea of the bank's structural liquidity position in the long term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-year period.

Calculation (in millions of EUR or %)	**Reference**	**2017**	**2016**
Available amount of stable funding (A)	'Basel III: the net stable funding ratio' (Basel Committee on Banking Supervision publication, October 2014)	157 700	144 150
/			
Required amount of stable funding (B)	–	117 300	114 950
= (A) / (B)		134%	125%

Own capital target

We aim to be one of the better capitalised financial institutions in Europe. Each year, therefore, we assess the common equity ratios of a peer group of European banks that are active in the retail, SME, and corporate client segments. We then position ourselves relative to the median fully loaded common equity ratio of that peer group. In 2017, we estimated on the basis of internal benchmarking that KBC would be affected relatively more than the sector average by Basel IV and duly factored in an additional impact equalling 1% of common equity. Following publication of the new Basel IV guidelines, it turned out in 2018 that the impact was more in line with the peer group average and, therefore, an add-on was not required.

We reflect this capital policy in an 'own capital target'.

Calculation (expressed as fully loaded common equity ratio)	**2017** (target)	**2016** (target)
Median fully loaded common equity ratio of a peer group of European banks (A)	14.0%	13.6%
+		
Estimated additional impact of Basel IV (relative to the sector average) (B)	–	1.0%
= (A) + (B)	14.0%	14.6%

Parent shareholders' equity per share

Gives the carrying value of a KBC share, i.e. the value in euros represented by each share in the parent shareholders' equity of KBC.

Calculation (in millions of EUR or quantity)	Reference	2017	2016
Parent shareholders' equity (A)	'Consolidated balance sheet'	17 403	15 957
/			
Number of ordinary shares less treasury shares (in millions at period-end) (B)	Note 5.10	418.5	418.4
= (A) / (B) (in EUR)		41.6	38.1

Reference capital position

We want to maintain an additional flexible buffer of up to 2% of common equity – over and above the 'Own capital target' (see definition) – for potential mergers and acquisitions that would strengthen our position in our core markets. Any such opportunities will be assessed subject to very strict financial and strategic criteria. This buffer is added to KBC's own capital target to form the 'Reference capital position'.

Calculation (expressed as fully loaded common equity ratio)	2017 (target)	2016 (target)
Own capital target (A)	14.0%	14.6%
+		
Additional flexible buffer for mergers and acquisitions (B)	2.0%	2.0%
= (A) + (B)	16.0%	16.6%

Return on allocated capital (ROAC) for a particular business unit

Gives an idea of the relative profitability of a business unit, more specifically the ratio of the net result to the capital allocated to the business unit.

Calculation (in millions of EUR or %)	Reference	2017	2016
BELGIUM BUSINESS UNIT			
Result after tax (including minority interests) of the business unit (A)	Note 2.2: Results by segment	1 575	1 433
/			
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency II) (B)	–	6 007	6 092
= (A) / (B)		26%	24%
CZECH REPUBLIC BUSINESS UNIT			
Result after tax (including minority interests) of the business unit (A)	Note 2.2: Results by segment	702	596
/			
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency II) (B)	–	1 620	1 455
= (A) / (B)		43%	41%
INTERNATIONAL MARKETS BUSINESS UNIT			
Result after tax (including minority interests) of the business unit (A)	Note 2.2: Results by segment	444	428
/			
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency II) (B)	–	2 054	1 959
= (A) / (B)		22%	22%

Return on equity

Gives an idea of the relative profitability of the group, more specifically the ratio of the net result to equity.

Calculation (in millions of EUR or %)	Reference	2017	2016
Result after tax, attributable to equity holders of the parent (A)	'Consolidated income statement'	2 575	2 427
-			
Coupon on the additional tier-1 instruments included in equity (B)	'Consolidated statement of changes in equity'	-52	-52
/			
Average parent shareholders' equity, excluding the revaluation reserve for available-for-sale assets (C)	'Consolidated statement of changes in equity'	14 926	13 415
= (A-B) / (C)		17%	18%

Solvency ratio (insurance)

Measures the solvency of the insurance business, as calculated under Solvency II.

Calculation	2017	2016
Detailed calculation under 'Solvency of KBC Bank and KBC Insurance separately' in the 'How do we manage our capital?' section	212%	203%

Total assets under management

Total assets under management (AuM) comprise third-party assets and KBC group assets managed by the group's various asset management companies (KBC Asset Management, ČSOB Asset Management, etc.), as well as assets under advisory management at KBC Bank. The assets, therefore, consist mainly of KBC investment funds and unit-linked insurance products, assets under discretionary and advisory management mandates of (mainly retail, private banking and institutional) clients, and certain group assets. The size and development of total AuM are major factors behind net fee and commission income (generating entry and management fees) and hence account for a large part of any change in this income line. In that respect, the AuM of a fund that is not sold directly to clients but is instead invested in by another fund or via a discretionary/ advisory management portfolio, are also included in the total AuM figure, in view of the related work and any fee income linked to them.

Calculation (in billions of EUR)	2017	2016
Belgium Business Unit (A)	204.6	198.9
+		
Czech Republic Business Unit (B)	9.6	8.5
+		
International Markets Business Unit (C)	5.0	5.7
= (A) + (B) + (C)	219.2	213.1

Management certification

'I, Rik Scheerlinck, Chief Financial Officer of the KBC group, certify on behalf of the Executive Committee of KBC Group NV that, to the best of my knowledge, the financial statements, which are based on the relevant standards for annual accounts, fairly present in all material respects the assets, the financial condition and results of KBC Group NV, including its consolidated subsidiaries, and that the annual report provides a fair overview of the development, the results and the situation of KBC Group NV, including its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed.'

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Financial calendar for 2018

The most up-to-date version of the financial calendar is available at www.kbc.com.

Publication of the Annual Report and the Risk Report for 2017	29 March 2018
General Meeting of Shareholders (agenda available at www.kbc.com)	3 May 2018
Earnings release for 1Q 2018	17 May 2018
Earnings release for 2Q 2018	9 August 2018
Earnings release for 3Q 2018	15 November 2018

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