KBC Insurance NV

Annual report of the Board of Directors for financial year 2017 to the General Meeting of 25 April 2018

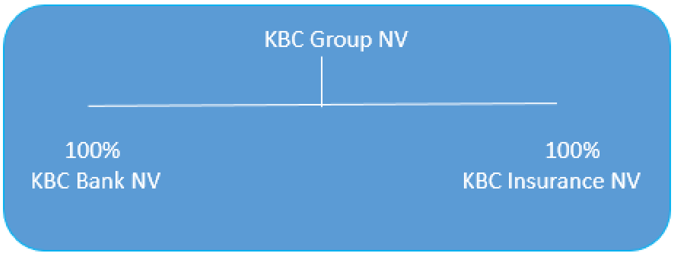
To the reader

Company name

'KBC', 'the group' or 'KBC Insurance' as used in this annual report refer the consolidated insurance entity, i.e. KBC Insurance NV including all its subsidiaries and sub-subsidiaries. 'KBC Insurance NV' refers solely to the non-consolidated entity.

Difference between KBC Insurance and KBC Group

KBC Insurance NV is a subsidiary of KBC Group NV. The KBC group's legal structure is given in the diagram and is made up of one single entity – KBC Group NV – in control of two underlying companies, viz. KBC Bank NV and KBC Insurance NV. All KBC Insurance NV shares are owned (directly and indirectly) by KBC Group NV. Where mention is made of KBC Group or the KBC group in this annual report, KBC Group NV is meant, including all group companies included in the scope of consolidation.



Forward-looking statements

The expectations, forecasts and statements regarding future developments that are contained in this 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.

Translation

This annual report is available in Dutch and English. The Dutch version is the original and the English-language version an unofficial translation. KBC warrants that every reasonable effort has been made to avoid any discrepancies between the different language versions. However, should such discrepancies exist, the Dutch version will take precedence.

Ratios used

You can find an overview of the most important ratios used and terms (including the so-called 'alternative performance measures') at the end of this report.

Articles 96 and 119 of the Belgian Companies Code

These articles specify the minimum content of company and consolidated financial statements required by law. This information has been incorporated into the different sections of the 'Report of the Board of Directors', which also contains additional, non-compulsory information. To avoid repetition, reference is sometimes made to information presented in other sections of this report. Pursuant to Article 119, KBC Insurance NV has combined the reports for its company and consolidated financial statements. The Risk Report, the CSR Report and the www.kbc.com website referred to in certain sections do not form part of the annual report.

Non-financial information statement

As required by Articles 96 §4 and 119 §2 of the Companies Code, we provide a statement on non-financial information at the highest consolidated level for a Belgian entity, i.e. (in the annual report of) KBC Group NV. That particular report is available at www.kbc.com. Nevertheless, most of the information in question is also provided in KBC Insurance's annual report.

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Brief presentation of KBC Insurance (31-12-2017)

Our area of operation

KBC Insurance is an insurance group catering mainly for retail, SME and mid-cap clients. It concentrates on its home markets of Belgium and four countries in Central and Eastern Europe, namely the Czech Republic, Slovakia, Hungary and Bulgaria

Main group companies

Belgium	KBC Insurance NV
Czech Republic	ČSOB Pojišťovna a.s.
Slovakia	ČSOB Poisťovňa a.s.
Hungary	K&H Biztosító
Bulgaria	DZI Insurance

Our shareholders

All KBC Insurance NV shares are owned (directly and indirectly) by KBC Group NV. KBC Group NV is a listed company.

Our clients, staff and network

Clients (estimate)	3.8 million
Number of staff (2017 average in FTEs)	4 167
Insurance network	404 agencies in Belgium, various distribution channels in Central and Eastern Europe

Our long-term credit ratings (15 March 2018)

	Standard & Poor's
KBC Insurance NV	A-

Management

CEO	Johan Thijs
Chairman of the Board of Directors	Thomas Leysen

More information

Website	www.kbc.com

Data relates to year-end 2017, unless otherwise indicated. For definitions and comments, please see the detailed tables and analyses in this report.

Strategy and business model

KBC Insurance NV's strategy is embedded in the strategy of the KBC group. A summary is given below of the strategy of the KBC group, where KBC Bank is essentially responsible for the banking business and KBC Insurance for the insurance business. For more detailed information, please see the KBC Group annual report for 2017.

How do we create value? (KBC Group)

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.

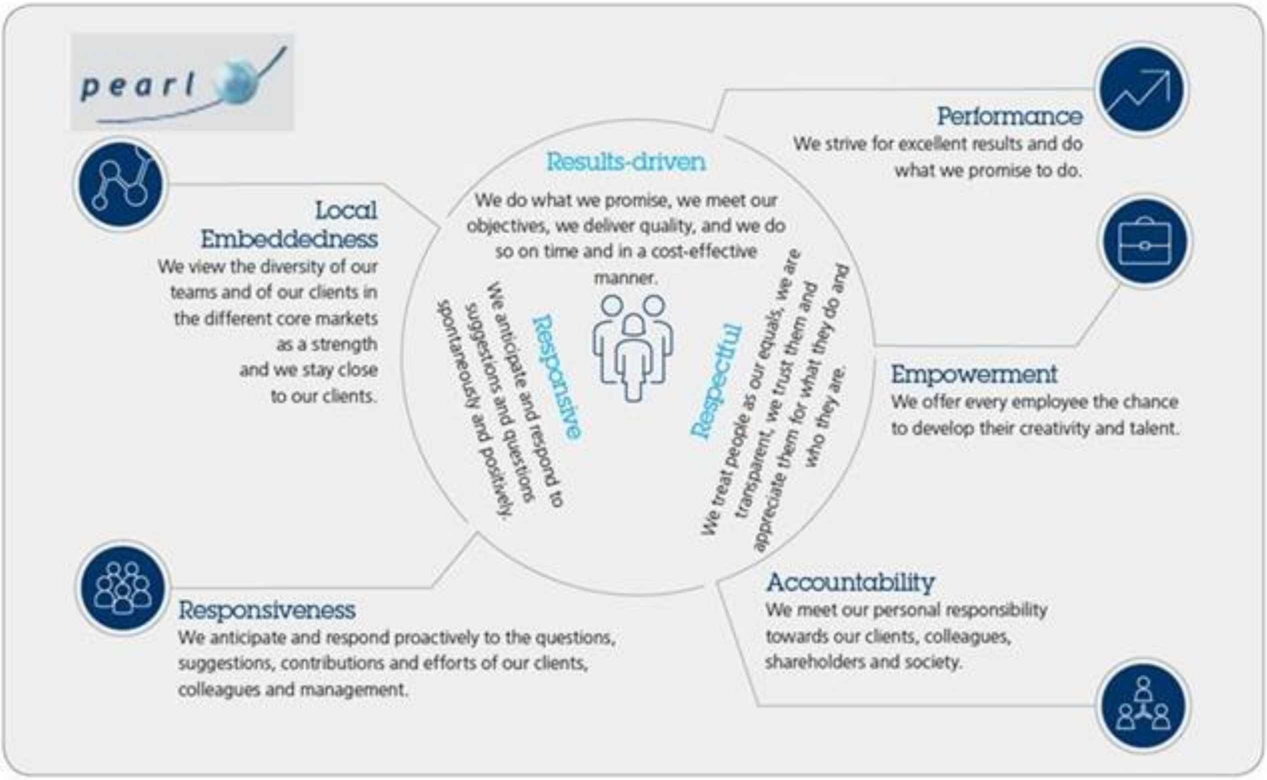
As an insurer, we enable our clients to operate free of worry and to limit their risks. We work hard every day to provide the best insurance cover at a fair price and we invest in a high-quality claims-handling service, because that will always be the litmus test of any non-life policy. What's more, 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.

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 also want to be able to meet the expectations of our other stakeholders in our core countries and to live up to our commitments. This is the core of what we call 'sustainability'. The cornerstones of our sustainability strategy, which we discuss in detail in this report, are 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.

What makes us who we are? (KBC Group)



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, the Czech Republic, Hungary, Slovakia, Bulgaria and Ireland. 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 the shareholder structure of KBC Group 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 of the 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

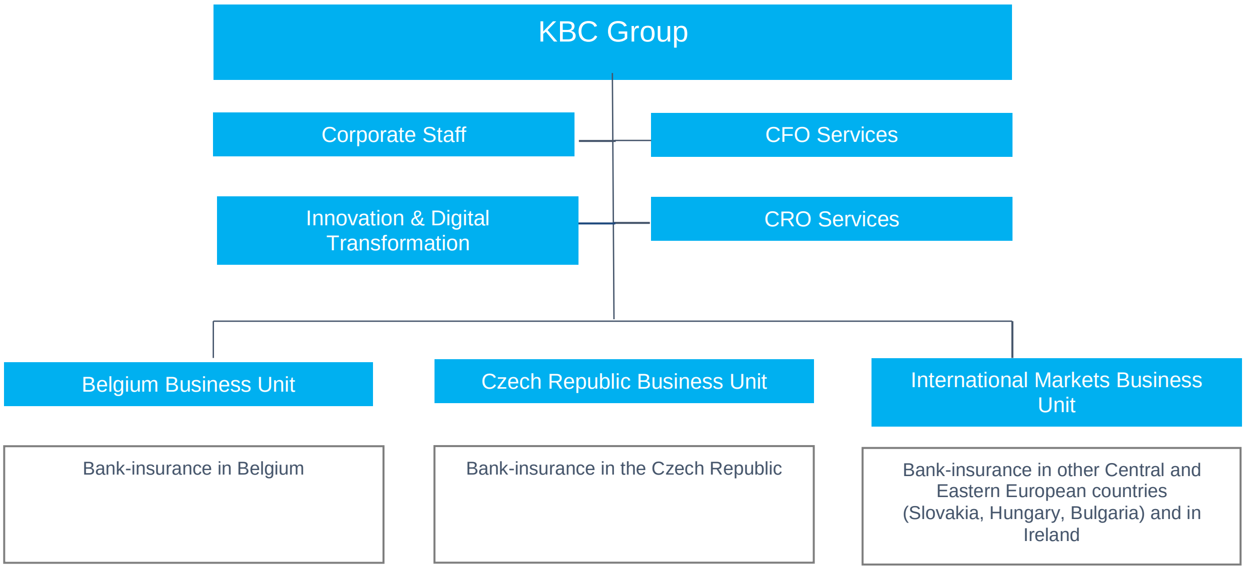
Our challenges

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

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’ section.

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.



In what environment do we operate? (KBC Group)

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. • 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.

Regulation

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 (MiFID2 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.

- 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 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.	• 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 most important countries in 2017 (KBC Group)

A summary of our market position and the economic context of our most important countries are given below. KBC Bank also includes Ireland as a most important country. In Ireland we provide insurance products through co-operation agreements with other parties.

Belgium

Market environment

- Growth supported by domestic demand and net exports, driven by job creation and improved competitiveness
- Inflation again higher than in the rest of the EMU
- Forecast real GDP growth in 2018 of 1.9%

KBC Insurance in Belgium

- Main brands: KBC, KBC Brussels and CBC
- 404 insurance agencies, electronic channels, distribution via the bank branches of sister company, KBC Bank
- 14% estimated share of the market for life insurance and 9% for non-life insurance
- 0.8 million clients
- 29.8 billion euros in technical provisions and liabilities under investment contracts

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
- Forecast real GDP growth in 2018 of 3.0%

KBC Insurance in the Czech Republic

- Main brand: ČSOB
- Various distribution channels for insurance, electronic channels
- 8% estimated share of the market for life insurance and 7% for non-life insurance
- 1.2 million clients
- 1.5 billion euros in technical provisions and liabilities under investment contracts

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
- Forecast real GDP growth in 2018 of 3.8%

KBC Insurance in Slovakia

- Main brand: ČSOB
- Various distribution channels for insurance, electronic channels
- 4% estimated share of the market for life insurance and 3% for non-life insurance
- 0.3 million clients
- 0.3 billion euros in technical provisions and liabilities under investment contracts

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
- Forecast real GDP growth in 2018 of 3.8%

KBC Insurance in Hungary

- Main brand: K&H
- Various distribution channels for insurance, electronic channels
- 3% estimated share of the market for life insurance and 7% for non-life insurance
- 1.1 million clients
- 0.5 billion euros in technical provisions and liabilities under investment contracts

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%
- Forecast real GDP growth in 2018 of 3.9%

KBC Insurance in Bulgaria

- Main brand: DZI Insurance
- Various distribution channels for insurance, electronic channels
- 21% estimated share of the market for life insurance and 11% for non-life insurance
- 0.4 million clients
- 0.2 billion euros in technical provisions and liabilities under investment contracts

Our employees, capital, network and relationships

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 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 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. 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.

The KBC Group annual report contains a table with an overview of the total workforce and a breakdown into various categories.

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 annual capital increase reserved for staff in December. At year-end 2017, KBC Insurance's total equity was 3.1 billion euros. KBC Group is the sole shareholder of KBC Insurance.

The shares of KBC Group 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. More information on the shareholder structure can be found in the KBC Group annual report.

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 most important countries 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.

Our strategy

The strategy, business model and management structure of KBC Insurance is embedded in that of the KBC group. A summary is given below of the strategy of the KBC group, where KBC Bank is essentially responsible for the banking business and KBC Insurance for the insurance business.

For more detailed information, please see the KBC Group annual report.

The core of our strategy for the future (KBC Group)

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 (KBC Group)

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 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 most important Key Performance Indicators (KPIs) relating to the client being put at the heart of everything we do, are set out in the KBC Group annual report.

We offer our clients a unique bank-insurance experience (KBC Group)

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.

The most important Key Performance Indicators (KPIs) relating to bank-insurance are set out in the KBC Group annual report.

We focus on sustainable and profitable growth (KBC Group)

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.

The most important Key Performance Indicators (KPIs) relating to sustainable and profitable growth are set out in the KBC Group annual report.

Our role in society: to be responsive to society's expectations (KBC Group)

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, not just today but also in the future.

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 (https://www.kbc.com/en/policies). More information on our Integrity Policy and its application is provided in the 'Corporate governance statement' section.

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	A few 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.
Environmental responsibility	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.
Stimulating 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. Implementing various European programmes to support 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.
- 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.

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.

2017 KBC Group

632 thousand GJ of electricity used

347 thousand GJ of gas and heating oil used

372 million km in commuter and business travel

3 644 tonnes of paper used

94 thousand tonnes of CO_2e emissions

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. 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).

The most important Key Performance Indicators (KPIs) relating to the society are set out in the KBC Group annual report.

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 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 our 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.

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

The most important Key Performance Indicators (KPIs) relating to the human rights are set out in the KBC Group annual report.

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 guards 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 and 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 aim to achieve our ambitions within a stringent risk management framework (KBC Group)

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.

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.

The most important Key Performance Indicators (KPIs) relating to solvency and liquidity are set out in the KBC Group annual report.

Review of the consolidated financial statements under IFRS

- We review the consolidated results in this section of the annual report. The non-consolidated financial statements and balance sheet can be found in the 'Company annual accounts' section.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was insignificant.
- KBC Insurance and KBC Bank use the same consolidated financial statement and balance sheet layouts as KBC Group, their parent company, reflecting the integrated bank-insurer character of the KBC group.

Consolidated income statement

The consolidated income statement of the KBC Insurance group is as follows:

(in millions of EUR)	2017	2016	Change in amount	Change in %
Net interest income	564	614	- 51	-8%
Interest income	610	654	- 43	-7%
Interest expense	- 47	- 39	- 7	19%
Non-life insurance before reinsurance	722	641	81	13%
Earned premiums Non-life	1 510	1 428	82	6%
Technical charges Non-life	- 788	- 787	- 1	0%
Life insurance before reinsurance	- 60	- 153	92	-60%
Earned premiums Life	1 273	1 579	- 305	-19%
Technical charges Life	- 1 334	- 1 731	398	-23%
Ceded reinsurance result	- 8	- 38	30	-80%
Dividend income	58	66	- 8	-12%
Net result from financial instruments at fair value through profit or loss	- 2	- 10	8	-77%
Net realised result from available-for-sale assets	84	56	28	49%
Net fee and commission income	- 312	- 301	- 11	4%
Fee and commission income	165	126	39	31%
Fee and commission expense	- 477	- 427	- 50	12%
Net other income	63	101	- 38	-38%
TOTAL INCOME	1 108	978	131	13%
Operating expenses	- 463	- 457	- 6	1%
Staff expenses	- 231	- 224	- 7	3%
General administrative expenses	- 215	- 217	2	-1%
Depreciation and amortisation of fixed assets	- 17	- 16	- 1	7%
Impairment	- 12	- 55	43	-78%
on loans and receivables	0	0	0	24%
on available-for-sale assets	- 11	- 55	44	-81%
on goodwill	0	0	0	-
on other	- 2	- 1	- 1	129%
Share in results of associated companies and joint ventures	19	4	15	392%
RESULT BEFORE TAX	652	469	183	39%
Income tax expense	- 187	- 135	- 52	39%
RESULT AFTER TAX	465	334	131	39%
Attributable to minority interest	0	0	0	-145%
Attributable to equity holders of the parent	**465**	**334**	**131**	**39%**

Net result
The consolidated result of the KBC Insurance group came to 465 million euros in 2017, as opposed to a year-earlier figure of 334 million euros.

This 131-million-euro increase came about primarily because of the higher earned premiums in the non-life business, combined with a stable level of claims incurred, a rise in the technical result in the life business and lower impairment charges, offset in part by the decrease in net interest income:

- Overall, earned premiums in non-life insurance went up by 6%, with all entities recording an increase. Despite the increase in premiums, technical charges remained in line with their 2016 level due to the absence of major natural disasters and certain reversals of provisions, whereas 2016 had been impacted by a number of storms and floods, as well as by claims arising from the terrorist attacks in Brussels in March of that year. In addition, the ceded reinsurance result was less negative than in 2016 (owing in part to recoveries relating to number of large claims in Bulgaria). These items were instrumental in achieving the very healthy combined ratio of 87.8% (93.2% for financial year 2016).
- Earned premiums in life insurance amounted to 1 273 million euros in 2017. However, in compliance with IFRS, certain types of life insurance (i.e. unit-linked products) have been excluded from this figure. If the premium income from such products is included, premium income from the life insurance business totalled over 1.9 billion euros, 11% lower than in 2016. Guaranteed-rate products fell sharply (-21%) owing primarily to the less attractive interest rate for these products. Unit-linked products, however, were up on their year-earlier level, mainly because of a recovery on the market in the fourth quarter of 2017.
  The drop in claims incurred was attributable primarily to lower life insurance provisions being set aside as a result of the decline in premiums collected for guaranteed-rate products and lower 'uprenting' costs due to scaling back the Life Capital portfolio in Belgium.
- Investment income was down on its level for 2016, which reflected primarily the decline in interest income (falling return on bonds linked to the general financial climate of low interest rates), partially offset by higher gains realised on the sale of investments.
- Operating expenses were up 1% on their 2016 level, due to the increase in staff expenses (including indexation and additional staff for strategic projects).
- Impairment on available-for-sale assets totalling 11 million euros was recorded in 2017, a decline of 81% on the higher level in 2016.

Review of the technical and non-technical results

In millions of EUR	Life	Non-life	Non-technical account	TOTAL
12M 2017				
Earned premiums, insurance (before reinsurance)	1 273	1 510	0	2 784
Technical charges, insurance (before reinsurance)	- 1 334	- 788	0	- 2 122
Net fee and commission income	- 20	- 292	0	- 312
Ceded reinsurance result	1	- 9	0	- 8
Operating expenses	- 137	- 244	- 3	- 383
Internal costs claim paid	- 8	- 56	0	- 65
Administration costs related to acquisitions	- 31	- 73	0	- 103
Administration costs	- 97	- 115	0	- 212
Management costs investments	0	0	- 3	- 3
Technical result	- 216	178	- 3	- 41
Net interest income			564	564
Dividend income			58	58
Net result from financial instruments at fair value through profit and loss			- 2	- 2
Net realised result from AFS assets			84	84
Net other income			- 17	- 17
Impairments			- 12	- 12
Allocation to the technical accounts	537	87	- 624	0
Technical-financial result	320	265	47	633
Share in results of associated companies and joint ventures			19	19
RESULT BEFORE TAX	320	265	66	652
Income tax expense				- 187
RESULT AFTER TAX				465
attributable to minority interest				0
attributable to equity holders of the parent				465
12M 2016				
Earned premiums, insurance (before reinsurance)	1 579	1 428	0	3 007
Technical charges, insurance (before reinsurance)	- 1 731	- 787	0	- 2 519
Net fee and commission income	- 29	- 272	0	- 301
Ceded reinsurance result	- 1	- 37	0	- 38
Operating expenses	- 132	- 239	- 3	- 374
Internal costs claim paid	- 8	- 54	0	- 62
Administration costs related to acquisitions	- 32	- 80	0	- 112
Administration costs	- 92	- 105	0	- 197
Management costs investments	0	0	- 3	- 3
Technical result	- 315	94	- 3	- 224
Net interest income			614	614
Dividend income			66	66
Net result from financial instruments at fair value through profit and loss			- 10	- 10
Net realised result from AFS assets			56	56
Net other income			18	18
Impairments			- 55	- 55
Allocation to the technical accounts	578	73	- 651	0
Technical-financial result	263	167	35	465
Share in results of associated companies and joint ventures			4	4
RESULT BEFORE TAX	263	167	39	469
Income tax expense				- 135
RESULT AFTER TAX				334
Attributable to minority interest				0
Attributable to equity holders of the parent				334

Results from the non-life insurance business

At 265 million euros, the results generated by the non-life insurance business were 58% higher than those posted for 2016 (167 million euros).

In 2017, earned premiums in non-life insurance totalled 1 510 million euros, a considerable increase of almost 6% on the year-earlier figure. They grew by 3% in Belgium, by 14% in the Czech Republic, and by 13% in the three other Central and Eastern European markets combined. The increase was recorded primarily in (both third-party and comprehensive) 'car insurance' and in 'fire insurance'. These classes of insurance – along with 'general third-party liability', 'accident' and 'health' – accounted for approximately 86% of earned non-life premiums.

Despite the increase in premiums, technical charges in the non-life business amounted to -788 million euros, remaining in line with their 2016 level due to the absence of major natural disasters and certain reversals of provisions, including the release of the indexation provision (26 million euros). Conversely, 2016 had been impacted by a number of storms and floods, as well as by claims arising from the terrorist attacks in Brussels in March of that year. As regards these attacks, KBC Insurance's share of the total market loss (via TRIP) came to 16.5 million euros. The ceded reinsurance result was less negative than in 2016.

General administrative expenses went up by 2%, primarily because of higher administration expenses.

Thanks to the lower level of technical charges and higher level of earned premiums, the combined ratio at group level came to an excellent 87.8% in 2017 (93.2% in 2016). The combined ratio in all markets was well below 100%.

In millions of EUR	2017	2016
Net claim ratio	55,5%	60,5%
Net cost ratio (vs written premium)	32,3%	32,7%
Net combined ratio	87,8%	93,2%

Results from the life insurance business

At 320 million euros, the results generated by the life insurance business were almost 22% higher than those posted for 2016 (263 million euros).

In 2017, earned premiums in life insurance totalled 1 273 million euros, a significant decline of 19% on the year-earlier figure.

Sales of life insurance (including unit-linked products) were down 11% on the previous year, with guaranteed-rate products falling by 21% on account of the less attractive interest rate for these products, but unit-linked products increasing by 4%. This trend was observed mainly in Belgium (guaranteed-rate products -23%, unit-linked products +12%), whereas there was a more mixed picture on our markets in Central and Eastern Europe, with sales of unit-linked products in the Czech Republic, Slovakia and Hungary down on their year-earlier level, but up in Bulgaria. Overall, products offering guaranteed rates accounted for just over 54% of sales in 2017 and unit-linked life insurance for 46% (whereas the share was 60% guaranteed-rate and 40% unit-linked in 2016).

The drop in claims incurred was attributable primarily to lower life insurance provisions being set aside as a result of the decline in premiums collected for guaranteed-rate products and lower 'uprenting' costs due to scaling back the Life Capital portfolio.

The lower financial result (537 million compared to 578 million euros in 2016) was due mainly to the decline in interest income because of the lower return and volume relating to the fixed-income portfolio, partially offset by lower impairment charges (on available-for-sale assets).

Non-technical result

The non-technical result (+66 million euros) in 2017 was up on its year-earlier level and did not include any exceptional items.

Income tax expense

The income tax expense for 2017 totalled -187 million euros, or almost 29%, which is comparable with its level for 2016. However, 2017 was influenced by the one-off impact of the Belgian tax reform on deferred taxes (-7 million euros).

Consolidated balance sheet

ASSETS (in millions of EUR)	31-12-2017	31-12-2016	Change in amount	Change in %
Cash, cash balances at central banks and other demand deposits from credit institutions	312	333	- 21	-6,4%
Financial assets	36 735	37 041	- 306	-0,8%
Held for trading	11	15	- 4	-25,2%
Designated at fair value through profit or loss	14 421	13 702	719	5,2%
Available for sale	14 563	15 718	-1 155	-7,3%
Loans and receivables	2 553	2 177	376	17,3%
Held to maturity	5 185	5 412	- 228	-4,2%
Hedging derivatives	2	16	- 14	-87,2%
Reinsurers' share in technical provisions	131	110	21	19,2%
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	0	0	0	-
Tax assets	33	21	12	58,7%
Current tax assets	28	10	18	188,2%
Deferred tax assets	5	11	- 6	-56,8%
Non-current assets held for sale and assets associated with disposal groups	0	0	0	-
Investments in associated companies and joint ventures	47	45	2	4,6%
Investment property	224	210	14	6,8%
Property and equipment	49	48	1	2,3%
Goodwill and other intangible assets	130	124	6	4,7%
Other assets	733	874	- 141	-16,1%
TOTAL ASSETS	38 395	38 806	- 411	-1,1%

LIABILITIES AND EQUITY (in millions of EUR)	31-12-2017	31-12-2016	Change in amount	Change in %
Financial liabilities	15 571	14 955	616	4,1%
Held for trading	34	34	0	0,3%
Designated at fair value through profit or loss	13 552	12 653	899	7,1%
Measured at amortised cost	1 950	2 196	- 246	-11,2%
Hedging derivatives	36	73	- 37	-50,7%
Technical provisions, before reinsurance	18 721	19 737	-1 016	-5,1%
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	0	0	0	-
Tax liabilities	358	456	- 98	-21,4%
Current tax liabilities	65	57	8	14,6%
Deferred tax liabilies	293	399	- 106	-26,5%
Provisions for risks and charges	5	10	- 5	-46,5%
Other liabilities	688	711	- 24	-3,3%
TOTAL LIABILITIES	35 343	35 869	- 526	-1,5%
Total equity	3 051	2 936	115	3,9%
Parent shareholders' equity	3 052	2 937	115	3,9%
Minority interests	- 1	0	0	207,3%
TOTAL LIABILITIES AND EQUITY	38 395	38 806	- 411	-1,1%

At the end of 2017, the consolidated total assets of KBC Insurance came to 38 395 million euros, down 1.1% year-on-year.
Investments related to unit-linked products and the securities portfolio (bonds and shares) together made up almost 90% of the assets.

Loans and receivables
Mortgage loans rose by 434 million euros year-on-year (because of the purchase of loans granted to private individuals by KBC Bank NV). This movement was partly offset by the lower level of amounts receivable from credit institutions.

Securities portfolio (excluding investments related to unit-linked products)

In millions of EUR	31-12-2017	31-12-2016
Available for sales	14 563	15 718
Held to Maturity	5 185	5 412
Total	19 747	21 130
Shares	7,3%	6,2%
Bonds	92,7%	93,8%

The securities portfolio (excluding investments related to unit-linked products) fell by 1.4 billion euros year-on-year, due primarily to bonds reaching maturity. Most of the securities portfolio continues to be invested in bonds.

Technical provisions and financial liabilities for unit-linked products
Financial liabilities related to unit-linked products rose by just over 7% (an increase of 899 million euros), because of positive price trends, higher sales and increased transfers out of guaranteed-rate products.

Technical provisions for the life insurance business fell by over 6% (-1 058 million euros year-on-year) due to the high volumes that had reached the end of the guaranteed-rate period. Only some of this figure was reinvested in other products (including unit-linked ones).

In millions of EUR	31-12-2017	31-12-2016	Change in amount	Change in %
Liabilities Unit Linked	13 552	12 653	899	7,1%
Technical provisions, before reinsurance (other than Unit Linked)	18 721	19 737	-1.016	-5,1%
Provisions Non Life	3 323	3 280	43	1,3%
Provisions Life	15 398	16 456	-1.058	-6,4%
TOTAL	32 273	32 390	- 117	-0,4%

The reinsurers' share in the technical provisions rose by 21 million euros.

Other financial liabilities
The decline in financial liabilities measured at amortised cost concerned repo-related liabilities that have now been settled and cash collateral with KBC Bank NV.

Tax liabilities
Deferred tax liabilities fell by 106 million euros, primarily on account of the decrease in deferred tax liabilities relating to available-for-sale securities caused by the combined impact of the negative mark-to-market valuation and 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)).

Equity

In millions of EUR	31-12-2017	31-12-2016
Total parent shareholders' equity	3 051	2 936

Consolidated equity went up by 115 million euros, with a number of items offsetting each other, as shown in the table below.

In millions of EUR	31-12-2017
Total change in parent shareholders' equity	115
Share of the group in profit for the period	465
Dividends paid	- 339
Unrealized gains and losses	- 11
Capital reduction	0

These items were:

- A payment of an interim dividend for 2017 in the amount of 236 million euros and a final dividend of 103 million euros in relation to the previous financial year.
- A decline of 11 million euros in the revaluation reserve for available-for-sale assets, primarily relating to bonds (-42 million euros) on account of the increase in long-term interest rates, but largely offset by the reduction in the tax rate in Belgium. The hedging reserve (cashflow hedges) also fell, going down by 9 million euros but partially offset by the reserve for shares (up 31 million euros) and defined benefit plans (up 8 million euros).
- The result of 465 million euros for the financial year.

A detailed overview of changes in equity is provided under ‘Consolidated statement of changes in equity’ in the ‘Consolidated financial statements’ section.

Solvency (according to Solvency II)

In millions of EUR	31-12-2017	31-12-2016
Available capital	3 865	3 637
Solvency Capital Requirement (SCR)	1 823	1 791
Solvency II ratio	212%	203%
Solvency surplus	2 042	1 846

The main factors behind the increase in the solvency ratio from 203% at year-end 2016 to 212% at year-end 2017 were:

- An adjustment for deferred taxes being treated differently when calculating capital requirements (following specific rules that were set by the National Bank of Belgium in this regard). In line with general European standards, Belgian insurance companies may make a higher adjustment for deferred taxes if they pass the recoverability test (which is the case at KBC).
- The positive effect of an increase in interest rates.
- Offset in part by the reform of the corporation tax system in Belgium: the cut in the tax rate to 29.58% as of 2018 and to 25% as of 2020 reduces net deferred tax assets, which has a negative impact on the solvency ratio.

Appropriation of the results of KBC Insurance NV for 2017

The result available for appropriation came to +247 million euros for financial year 2017 (based on the company annual accounts). The Board of Directors will propose to the General Meeting that 244 million euros be paid out in dividends and 3 million euros in the form of an employee profit-sharing bonus. In this regard, an interim dividend of 236 million euros was already paid in the fourth quarter of 2017.

Circumstances that could significantly affect the company's development

Conducting insurance business involves typical risks such as credit risk, market risk, liquidity risk, insurance technical risks and operating risk. Managing those risks is one of management's key tasks. For more information on managing risk, see the 'Risk management' section.

Research & development

We must continue to respond as a group to the shifting needs of our clients and to constantly changing market conditions. The commercial relationship with our clients is increasingly shaped by a strict legal framework that aims to protect them and defend their interests. Compliance with these rules is naturally the minimum requirement. However, trust in KBC will be determined chiefly by client experience and how they perceive KBC’s service.

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.

Information on branch offices

KBC Insurance does not have any branch offices.

Additional information

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 ‘Risk management’ section.

Risk management and capital adequacy

KBC Insurance is exposed to a number of typical industry-specific risks such as movements in interest rates and exchange rates, insurance underwriting risk, credit 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.
More detailed information can be found in the Solvency and Financial Condition Report (SFCR), that will be available end of May 2017 and in KBC's Risk Report, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor).

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.

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

- the 'Risk governance' section;
- the 'Solvency KBC Insurance table (the audited parts are indicated in a footnote to the table), ORSA' and 'Stress testing'
- the 'Technical insurance risk' section.
- 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 yield curve for the KBC Insurance ' table and the 'Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities' table, 'Foreign exchange risk' and Overview of exposure to sovereign Bonds.
- certain parts of the 'Credit risk' section: namely the introduction, the 'Investment portfolio of KBC insurance ' table and the 'Credit exposure to (re)insurance companies by risk class' table;

Risk governance

Risk governance in KBC Insurance is fully embedded in the risk governance of KBC Group. Below, the risk governance model of KBC Group is highlighted.

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.

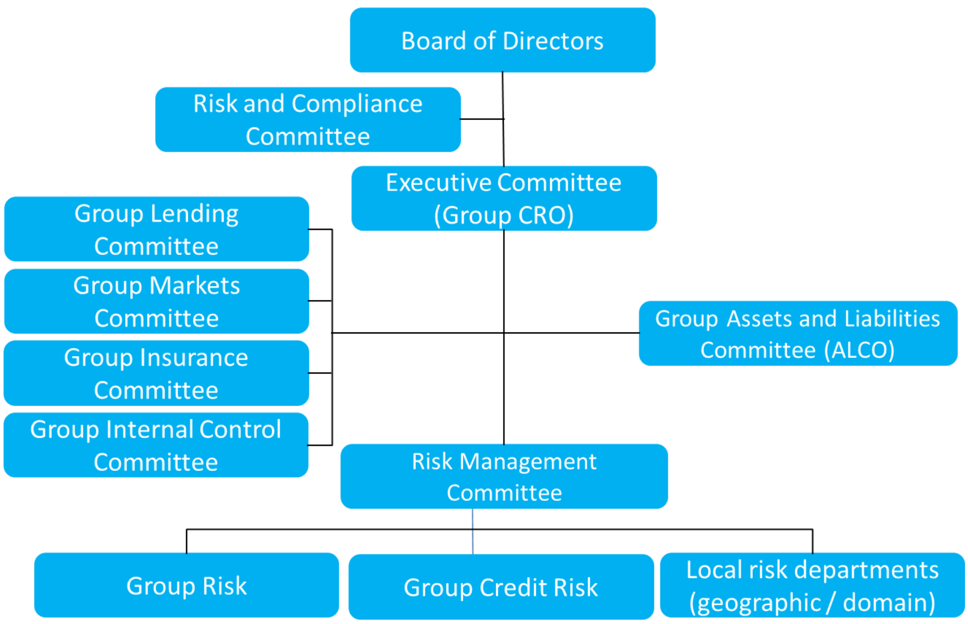
- Group ALCO:
  - is a business committee that assists the Executive Committee in the domain of (integrated) balance sheet management at group level. It handles matters related to ALM and liquidity risk.

- 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 below.



Want to learn more?
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).

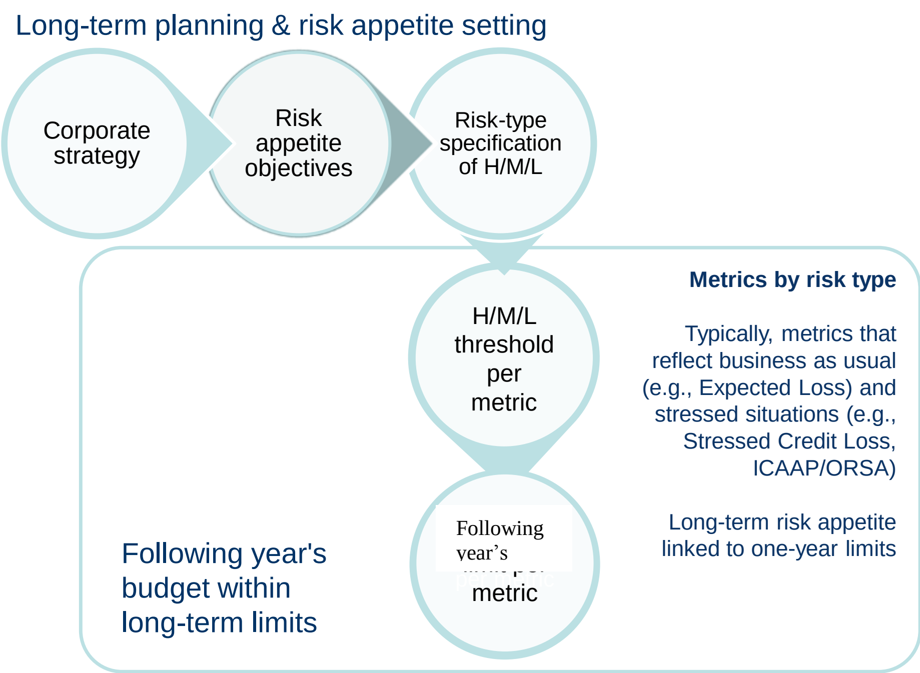
How much risk KBC is prepared to assume and its tolerance for risk is captured in the notion of 'risk appetite'. It is a key instrument in the overall (risk) management function of the KBC group, as it helps us to better understand and manage risks by explicitly expressing – both qualitatively and quantitatively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



The layered nature of the risk appetite statement is illustrated as follows.

Solvency of KBC Insurance

In the table below, we have provided certain solvency information for KBC Insurance.

The solvency of KBC Insurance is calculated on the basis of Solvency II, the new regulatory framework for insurers in Europe that was introduced on 1 January 2016. Whereas Solvency I requirements were volume-based, Solvency II pursues a risk-based approach. It aims to implement solvency requirements that better reflect the risks that companies face and to deliver a supervisory system that is consistent across all EU Member States. KBC is subject to the Solvency II regime as regards all its insurance subsidiaries.

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

For more information see Risk report KBC Group available on www.kbc.com

ORSA

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 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 enough 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.

Technical insurance risk

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.

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.

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	Year of occurrence	Year of occurrence	Year of occurrence	Year of occurrence	Year of occurrence	Year of occurrence	Year of occurrence	Year of occurrence	Year of occurrence	Year of occurrence
(in millions of EUR)	2008	2009	2010	2011	2012	2013	2014	2015	2016	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.

Managing ALM risk

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.

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. Trading activities are consequently not included. Structural exposure can also be described as a combination of:

- 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).

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 up 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 KBC Insurance (in millions of EUR)	Impact on value[1]	
	2017	2016
Total	12	5

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).

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						6.28 years
Mean duration of liabilities						7.39 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	3 108	1 374	0	0	0	4 481	4 752	-347
Czech Rep.	305	353	0	0	0	658	728	-47
Hungary	131	50	0	0	0	181	185	-8
Slovakia	231	167	0	0	0	398	383	-28
Bulgaria	165	15	0	0	1	181	161	-12
Ireland	94	39	0	0	0	133	107	-6
Southern Europe								
Greece	0	0	0	0	0	0	0	0
Portugal	123	0	0	0	0	123	113	-7
Spain	318	0	0	0	0	318	325	-17
Italy	683	32	0	0	0	715	753	-44
Other countries								
France	1 005	869	0	0	0	1874	1952	-153
Poland	281	53	0	0	0	335	347	-20
Germany	140	397	0	0	0	537	564	-37
Austria	160	174	0	0	0	334	320	-28
Netherlands	116	112	0	0	0	228	236	-14
U.S.	0	0	0	0	0	0	0	-1
Rest[2]	746	338	0	0	1	1085	1001	-46
Total carrying value	7 606	3 973	0	0	1	11 580	11 926	
Total nominal value	6 738	3 954	0	0	1	10 693	10 938	

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 ex posure 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 (KBC Group level) 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.

Main changes in 2017:

- The carrying value of the total sovereign bond exposure decreased by 346 million euros, mainly in Belgium (-271 mln euros), the Czech Republic -70 million euros),) and France (-78 million 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 0.6 billion euros, before tax (295 million euros for Belgium, 44 million euros for Italy, 99 million euros for France, 23 million euros for Slovakia, and 179 million euros for the other countries combined).

Portfolio of Belgian government bonds:

- Belgian sovereign bonds accounted for 39% 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' (69%; impact only

upon realisation) and 'Held To Maturity' (31%; no impact on profit or loss); the impact on IFRS unrealised gains on available-for-sale assets is -123 million euros (after tax) for an increase of 100 basis points.

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 Insurance group (breakdown by sector, in %)	Insurance activities	
	31-12-2017	31-12-2016
Financials	24%	21%
Consumer non-cyclical	8%	13%
Communication	2%	2%
Energy	6%	7%
Industrials	39%	34%
Utilities	1%	2%
Consumer cyclical	15%	15%
Materials	6%	6%
Other and not specified	0%	1%
Total	100%	100%
In billions of EUR	1.47	1.35
of which unlisted	0.0	0.0

* The main differences between the 1.47 billion euros in this table and the 1.44 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:

Impact of a 25% drop in equity prices (in millions of EUR)	Impact on value	
	2017	2016
Total	-366	-329

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
Total	81	53	401	375

Real estate risk

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
Total	-67	-55

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 asset 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 the currency price (in millions of EUR)	impact on value	
		Insurance
	31-12-2017	31-12-2016
USD	-30.35	-33.39
GBP	-14.52	-14.42
CZK	0.21	0.30
CHF	-6.46	-7.87
DKK	-1.17	-0.95
RON	0.00	-0.00
SEK	-2.23	-1.83

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

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 investmentance 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.

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	20 777	22 370
Bonds and other fixed-income securities	19 335	21 020
Held to maturity	6 148	6 564
Available for sale	13 128	14 399
At fair value through profit or loss and held for trading	6	8
As loans and receivables	53	48
Shares and other variable-yield securities	1 439	1 323
Available for sale	1 435	1 319
At fair value through profit or loss and held for trading	4	3
Other	3	28
Property and equipment and investment property	352	332
Investment contracts, unit-linked[2]	14 421	13 693
Other	2 978	3 042
Total	38528	39 437
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 37 209 million euros at year-end 2017 and to 37 813 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.

In 2017, KBC Insurance continued to invest in newly originated mortgages of KBC Bank up to a total amount of 759 million-euro at year end, hereby further diversifying its investments.

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

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.

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 assessment on 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.

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 & strategic risk

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 , due to not taking a strategic decision , taking a strategic decision that does not have the intended effect or 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. Climate-related risks for a bankinsurer may consist in, among other things, being able to respond to changing product preferences of our clientele, reporting and stakeholder pressure, exposure to litigation, impact of more extreme weather in our 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 and the indirect impact of our core activities on climate 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.

Liquidity risk

What is it?

Liquidity risk is the risk that an organisation will be unable to meet its liabilities/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.

Insurance entities typically have more stable liabilities than banking entities. An insurance entity's liquidity is managed by matching cashflows and ensuring that sufficient investments are made in liquid assets, thereby guaranteeing that unexpectedly high lapses can be covered by selling or 'repoing' liquid assets. As a result, insurance entities are less sensitive for 'real' liquidity risk.

Corporate governance statement

Composition of the Board and its committees at year-end 2017

Name	Position	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	Members of the EC	AC	RCC
Number of meetings in 2017				10					6	9
LEYSEN Thomas	Chairman	Full year	2019	10	●					
THIJS Johan	President of the Executive Committee/Executive Director	Full year	2021	10				● (c)		
FALQUE Daniel	Executive Director	Full year	2020	10				●		
HOLLOWS John	Executive Director	Full year	2021	9				●		
LUTS Erik	Executive Director	From 5 May	2021	5				●		
POPELIER Luc	Executive Director	Full year	2021	10				●		
SCHEERLINCK Hendrik	Executive Director	From 5 May	2021	6				●		
VAN RIJSSEGHEM Christine	Executive Director	Full year	2018	10				●		
BOSTOEN Alain	Non-Executive Director	Full year	2020	9	●	●				
CALLEWAERT Katelijn	Non-Executive Director	Full year	2021	10	●	●				
DE BECKER Sonja	Non-Executive Director	Full year	2020	9	●	●				
DEPICKERE Franky	Non-Executive Director	Full year	2019	10	●	●				9 (c)
DONCK Frank	Non-Executive Director	Full year	2020	9	●	●				
HÜBBE Morten	Independent Director	From 26 April	2021	6	●		●		3	5
LANGFORD Andrew	Independent Director	Full year	2018	9	●		●		5	8
NONNEMAN Walter	Non-Executive Director	Full year	2021	10	●	●				
ROUSSIS Theodoros	Non-Executive Director	Full year	2020	8	●	●				
VANHOVE Matthieu	Non-Executive Director	Full year	2021	10	●	●				
VLERICK Philippe	Non-Executive Director	Full year	2020	10	●	●				
WITTEMANS Marc	Non-Executive Director	Full year	2020	10	●	●			6 (c)	

Statutory auditor: PricewaterhouseCoopers (PwC), represented by Yves Vandenplas and Tom Meuleman. Secretary to the Board of Directors: Johan Tyteca.
Abbreviations: Board of Directors: Board; Executive Committee: EC; Audit Committee: AC; Risk & Compliance Committee: RCC.
(c) Chairman of this committee.
Luc Gijsens, who was an executive director up to and including 4 May 2017, attended four Board meetings. Koenraad Debackere, who was an independent director until 26 April 2017, attended four Board meetings, three AC meetings and four RCC meetings.

Changes in the composition of the Board in 2017

At the General Meeting of 26 April 2017, Katelijne Callewaert, Walter Nonneman and Matthieu Vanhove were definitively appointed as directors for a period of four years.

At the same General Meeting, Johan Thijs, John Hollows and Luc Popelier were re-appointed for a new four-year term of office, while Hendrik Scheerlinck and Erik Luts were appointed as directors for a period of four years, with effect from 5 May 2017. They all sit on the EC and have the capacity of executive director.

At the same General Meeting, Morten Hübbe was appointed independent director – within the meaning of and in line with the criteria set out in Article 526*ter* of the Companies Code – for a term of four years that will end after the General Meeting of 2021.

Luc Gijsens resigned as executive director with effect on 5 May 2017.

Changes in the composition of the committees of the Board in 2017

Morten Hübbe joined the AC and RCC on 26 April, replacing Koenraad Debackere who resigned as independent director with effect on the same date.

Proposed changes in the composition of the Board in 2018

On the advice of the Nomination Committee, the Board will propose that Andrew Langford be re-appointed as an independent director for a new four-year term of office that will end after the General Meeting of 2022, and that Christine Van Rijsseghem be re-appointed as a director for a new four-year term of office that will likewise end after the General Meeting of 2022.

Composition of the EC

The EC has seven members, viz. Johan Thijs (Group CEO/President of the EC), Daniel Falque (CEO of the Belgium Business Unit), John Hollows (CEO of the Czech Republic Business Unit), Erik Luts (Chief Innovation Officer), Luc Popelier (CEO of the International Market Business Unit), Hendrik Scheerlinck (Chief Financial Officer) and Christine Van Rijsseghem (Chief Risk Officer).

Additional information

- Following the share acquisition transaction on 23 December 2015, KBC Insurance holds 48 889 treasury shares.
- Conflicts of interest that fall within the scope of Articles 523, 524 and 524*ter* of the Belgian Companies Code. There were no such conflicts in 2017.
- Discharge to directors and to the statutory auditor. It will be requested at the General Meeting to grant discharge to the directors and auditor for the performance of their mandate in financial year 2017.
- At year-end 2017, the AC comprised the following members:
    - Marc Wittemans (non-executive director), who holds a Master’s Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences, is Managing Director of MRBB CVBA, the holding company of the Boerenbond (farmers' union), and is the Chairman of the AC.
    - Morten Hübbe (independent director), who holds a Master's Degree in Finance and Accounting (1996), has worked in the insurance sector since 1991. He started his career as a Controller at Zürich Nordic (1991-1997) before moving to Alm. Brand Forsikring AS to take up the position of Financial Analyst (1997-1999). In 1999, he returned to Zürich Nordic as Operations Manager in the Nordic Investment Department (1999-2000) and went on to become vice-CFO (2000-2001) and CFO of the company (2001-2002). In 2002, Mr Hübbe moved to Tryg – a listed Danish insurance company – as Group CFO (2002-2011), where he played an important role in the Risk Committee and Audit Committee. He has been Group CEO there since 2011.
    - Andrew Langford (independent director), who is a graduate in Commerce and a qualified Chartered Accountant, was Finance Director of FBD Insurance (2003-2008), Group Chief Executive of FBD Holding plc and Chief Executive of FBD Insurance plc (until 2015). Since September 2017, he has been an Executive Director of Version

1 Software UK Limited, a technology partner for large domestic and international customers from across the industrial spectrum in the UK and Ireland.

They possess the necessary individual and collective expertise in the activities of KBC Insurance and in the fields of accounting and audit, based on their education and extensive business experience.

- At year-end 2017, the RCC comprised the following members:
  - 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.
  - Andrew Langford (independent director).
  - Morten Hübbe (independent director).

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

- In compliance with the laws on the incompatibility of offices held by executives and managers of insurance institutions and in accordance with National Bank of Belgium Circular PPB-2006-13-CPB-CPA on external offices held by executives and managers of regulated enterprises, Annex contains a list of the external offices held by the executives and directors of KBC Insurance in other companies.

Annex to the annual report of the Board of Directors for the financial year ending on 31 December 2017

Naamloze vennootschap (company with limited liability): KBC Insurance NV
Company number: RLP 0403.552.563

Company name	Registered office	Sector	Office held	Listed (N= not)	Share of capital held (N= none)
Alain Bostoen, Director					
Quatorze Juillet BVBA	Belgium	Accountancy & consulting	Executive Director	N	N
Katelijn Callewaert, Director					
Cera Beheersmaatschappij NV	Belgium	Management	Executive Director	N	N
Almancora Beheersmaatschappij NV	Belgium	Management	Executive Director	N	N
Cera CVBA	Belgium	Management	Member of the Executive Committee	N	N
Sonja De Becker, Director					
SBB Accountants en Belastingconsulenten BV CVBA	Belgium	Accountancy & consulting	Chairman of the Board of Directors	N	N
M.R.B.B. CVBA	Belgium	Holding company	Chairman of the Board of Directors	N	N
SBB Bedrijfsdiensten BV CVBA	Belgium	Accountancy & consulting	Executive Director	N	N
BB-Patrim CVBA	Belgium	Holding company	Chairman of the Board of Directors	N	N
Agri Investment Fund CVBA	Belgium	Holding company	Director	N	N
Acerta CVBA	Belgium	Holding company	Director	N	N
Franky Depickere, Director					
Almancora Beheersmaatschappij NV	Belgium	Management	Executive Director	N	N
Cera CVBA	Belgium	Management	Executive Director	N	N
Cera Beheersmaatschappij NV	Belgium	Management	Executive Director	N	N
Euro Pool System International BV	Netherlands	Packaging	Director	N	N
BRS Microfinance Coop CVBA	Belgium	Finance	Director	N	N
Frank Donck, Director					
3D NV	Belgium	Investment company	Executive Director	N	N
3D Private Equity NV	Belgium	Investment company	Executive Director	N	N
3D Real Estate	Belgium	Intermediation in the purchase of real estate	Director	N	N
Anchorage NV	Belgium	Investment company	Director	N	N
Atenor Groep NV	Belgium	Real estate	Chairman	Euronext	N
Elia System Operator	Belgium	Electricity & gas production, sales and transport	Director	Euronext	N
Elia Asset	Belgium	Electricity & gas production, sales and transport	Director	N	N
Hof Het Lindeken CVBA	Belgium	Agriculture	Executive Director	N	N
Huon & Kauri NV	Belgium	Real estate	Executive Director	N	N
Iberanfra BVBA	Belgium	Real estate	Director	N	N
Ibervest NV	Belgium	Investment company	Executive Director	N	N
Tele Columbus AG	Germany	Cable provider	Chairman	N	N
Ter Wyndt CVBA	Belgium	Golf	Director	N	N
Ter Wyndt NV	Belgium	Golf	Chairman	N	N
Tris NV	Belgium	Real estate	Executive Director	N	N
Winge Golf NV	Belgium	Golf club	Chairman	N	N
Barco NV	Belgium	Technology	Director	Euronext	N
3D Private Investeringen NV	Belgium	Investment company	Executive Director	N	N
Academie Vastgoedontwikkeling NV	Belgium	Real estate	Director	N	N
Bowinvest NV	Belgium	Real estate	Director	N	N
Dragonfly Belgium NV	Belgium	Financial holding company	Independent Director	N	N
Morten Hübbe, Director					
Andrew Langford, Independent Director					
Version 1 Software Limited	Ireland	IT	Executive Director	N	N
Sionnach Limited	Ireland	IT	Executive Director	N	N
Version 1 Software UK Limited	UK	IT	Executive Director	N	N
Version 1 Limited	Ireland	IT services	Executive Director	N	N
Version 1 Solutions Limited	UK	IT	Executive Director	N	N
Version 1 Holdings Limited	Ireland	IT	Executive Director	N	N
Version 1 Community Trust Company Limited by Guarantee	Ireland	IT	Executive Director	N	N
Thomas Leysen, Chairman of the Board of Directors					
Umicore NV	Belgium	Non-ferrous metals	Chairman of the Board of Directors	Euronext	N
Corelio NV	Belgium	Media	Chairman of the Board of Directors	N	N
Booischot NV	Belgium	Real estate	Director	N	N
Mediahuis NV	Belgium	Publishing	Chairman of the Board of Directors	N	N

Company name	Registered office	Sector	Office held	Listed (N= not)	Share capital held (N= none)
Erik Luts, Executive Director					
De Bremberg NV	Belgium	Education	Director	N	N
Belgian Mobile Wallet NV	Belgium	Telecommunications	Director	N	N
Walter Nonneman, Director					
Cera Beheersmaatschappij NV	Belgium	Management	Director	N	N
Fluxys Belgium NV	Belgium	Electricity & gas	Independent Director	Euronext	N
Theo Roussis, Director					
Asphalia NV	Belgium	Management	Executive Director	N	N
Pentahold	Belgium	Investment company	Director	N	N
Matthieu Vanhove, Director					
BRS Microfinance Coop CVBA	Belgium	Finance	Executive Director	N	N
Cera Beheersmaatschappij NV	Belgium	Management	Director	N	N
Philippe Vlerick, Deputy Chairman					
Besix Group NV	Belgium	Construction	Director	N	N
Exmar NV	Belgium	Trade	Director	Euronext	N
Point NV	Belgium	Textiles	Executive Director	N	N
Smartphoto Group NV	Belgium	Photo development	Chairman of the Board of Directors	Euronext	N
Batibic NV	Belgium	Real estate	Chairman of the Board of Directors	N	N
Cecan NV	Belgium	Holding company	Executive Director	N	N
Midelco NV	Belgium	Holding company	Executive Director	N	N
Tessa Lim NV	Belgium	Construction	Director	N	N
VIT NV	Belgium	Holding company	Executive Director	N	N
Vlerick Investeringsmaatschappij CVBA	Belgium	Investment company	Executive Director	N	N
Vlerick Vastgoed NV	Belgium	Real estate	Executive Director	N	N
Raymond UCO Denim Private Ltd	India	Textiles	Executive Director	N	N
Pentahold NV	Belgium	Holding company	Chairman of the Board of Directors	N	N
BMT NV	Belgium	Metallurgical industry	Director	N	N
BMT International	Luxembourg	Mechanical engineering	Director	N	N
ETEX GROUP SA	Belgium	Construction	Director	N	N
Corelio NV	Belgium	Media group	puty Chairman of the Board of Directo	N	N
LVD Company NV	Belgium	Metallurgical industry	Director	N	N
Lurick NV	Belgium	Real estate	Executive Director	N	N
Therick NV	Belgium	Real estate	Executive Director	N	N
Vobis Finance NV	Belgium	Holding company	Chairman of the Board of Directors	N	N
B.I.C. Carpets NV	Belgium	Textiles	Chairman of the Board of Directors	N	N
Concordia Textiles NV	Belgium	Textiles	Director	N	N
Indus Kamdhenu Fund	India	Investment company	Chairman	N	N
Hamon & Cie (International) SA	Belgium	Holding company	Director	Euronext	N
Durabilis	Belgium	Import-export	Deputy Chairman of the Board of Directors	N	N
Lutherick NV	Belgium	Holding company	Executive Director	N	N
De Robaertbeek NV	Belgium	Textiles	Director	N	N
Bareldam SA	Luxembourg	Holding company	Executive Director	N	N
Sapient Investment Managers Ltd	Cyprus	Holding company	Chairman of the Board of Directors	N	N
UCO NV	Belgium	Textiles	Executive Director	N	N
Cecan Invest NV	Belgium	Holding company	Executive Director	N	N
Arteveld BVBA	Belgium	Real estate	Director	N	N
ThromboGenics NV	Belgium	Biopharma	Director	Euronext	N
Marc Wittemans, Director					
Aktiefinvest CVBA	Belgium	Real estate	Executive Director/CEO – Chairman of the Board of Directors	N	N
Arda Immo NV	Belgium	Real estate	Chairman of the Board of Directors	N	19.06%
SBB Accountants en Belastingconsulenten BV CVBA	Belgium	Accountancy & consulting	Director	N	N
SBB Bedrijfsdiensten BV CVBA	Belgium	Accountancy & consulting	Director	N	N
M.R.B.B. CVBA	Belgium	Holding company	Executive Director/CEO	N	N
Agri Investment Fund CVBA	Belgium	Holding company	Director	N	N
Acerta CVBA	Belgium	Holding company	Director	N	N
Acerta Consult CVBA	Belgium	HR services	Director	N	N
Acerta Public NV	Belgium	IT services & software	Director	N	N
Shéhérazade développement CVBA	Belgium	IT services & software	Director	N	N
Aveve NV	Belgium	Agricultural and horticultural	Director	N	N
Hans Verstraete, Senior General Manager					
Groep VAB NV	Belgium	Driving schools	Chairman of the Board of Directors	N	95.00%
ADD NV	Belgium	Insurance broker	Chairman of the Board of Directors	N	100.00%
VAB NV	Belgium	Vehicle assistance	Director	N	95.00%
VAB Fleet Services NV	Belgium	Car park management & transport	Director	N	66.5%
Pensioenfonds KBC OFP	Belgium	Pension fund	Chairman of the Board of Directors	N	N
Pensioenfonds Senior Management OF	Belgium	Pension fund	Chairman of the Board of Directors	N	N
KBC International Pension Fund OFP	Belgium	Pension fund	Chairman of the Board of Directors	N	N

Consolidated financial statements

Consolidated income statement

The consolidated income statement of KBC Insurance has been prepared below in accordance with IFRS. It has been broken down into the technical accounts (life, non-life, non-technical) in Note 3.7.

(in millions of EUR)	Note	2017	2016
Net interest income	3.1	564	614
Interest income	3.1	610	654
Interest expense	3.1	- 47	- 39
Non-life insurance before reinsurance	3.7	722	641
Earned premiums Non-life	3.7	1 510	1 428
Technical charges Non-life	3.7	- 788	- 787
Life insurance before reinsurance	3.7	- 60	- 153
Earned premiums Life	3.7	1 273	1 579
Technical charges Life	3.7	- 1 334	- 1 731
Ceded reinsurance result	3.7	- 8	- 38
Dividend income	3.2	58	66
Net result from financial instruments at fair value through profit or loss	3.3	- 2	- 10
Net realised result from available-for-sale assets	3.4	84	56
Net fee and commission income	3.5	- 312	- 301
Fee and commission income	3.5	165	126
Fee and commission expense	3.5	- 477	- 427
Net other income	3.6	63	101
TOTAL INCOME		1 108	978
Operating expenses	3.8	- 463	- 457
Staff expenses	3.8	- 231	- 224
General administrative expenses	3.8	- 215	- 217
Depreciation and amortisation of fixed assets	3.8	- 17	- 16
Impairment	3.10	- 12	- 55
on loans and receivables	3.10	0	0
on available-for-sale assets	3.10	- 11	- 55
on goodwill	3.10	0	0
on other	3.10	- 2	- 1
Share in results of associated companies and joint ventures	3.11	19	4
RESULT BEFORE TAX		652	469
Income tax expense	3.12	- 187	- 135
RESULT AFTER TAX		465	334
Attributable to minority interest		0	0
Attributable to equity holders of the parent		**465**	**334**

Consolidated statement of comprehensive income

(in millions of EUR)	2017	2016
RESULT AFTER TAX	465	334
Attributable to minority interest	0	0
Attributable to equity holders of the parent	465	334
Other comprehensive income - to be recycled to P&L	- 19	69
Net change in revaluation reserve (AFS assets) - Equity	30	53
Fair value adjustments before tax	95	95
Deferred tax on fair value changes	5	0
Transfer from reserve to net profit	- 70	- 42
Impairment losses	11	31
Net gains/losses on disposal	- 80	- 73
Deferred income tax	0	0
Net change in revaluation reserve (AFS assets) - Bonds	- 39	18
Fair value adjustments before tax	- 130	62
Deferred tax on fair value changes	122	- 19
Transfer from reserve to net profit	- 30	- 24
Impairment losses	0	0
Net gains/losses on disposal	- 4	- 1
Amortization & impairment re assets transferred to L&R and HTM	- 36	- 35
Deferred income tax	10	12
Net change in revaluation reserve (AFS assets) - Other	0	0
Fair value adjustments before tax	0	0
Deferred tax on fair value changes	0	0
Transfer from reserve to net profit	0	0
Net change in hedging reserve (cash flow hedge)	- 9	- 7
Fair value adjustments before tax	- 1	0
Deferred tax on fair value changes	0	0
Transfer from reserve to net profit	- 8	- 8
Gross amount	- 13	- 12
Deferred income tax	4	4
Net change in translation differences	2	0
Gross amount	- 1	0
Deferred income tax	3	0
Net change related to associated companies & joint ventures	- 3	5
Gross amount	- 3	6
Deferred income tax	0	- 1
Other movements	0	0
Other comprehensive income - not to be recycled to P&L	8	- 11
Net change in defined benefit plans	8	- 11
Remeasurements (IAS 19)	16	- 17
Deferred tax on remeasurement	- 8	6
Net change related to associated companies & joint ventures	0	0
Remeasurements (IAS 19)	0	0
Deferred tax on remeasurement	0	0
TOTAL COMPREHENSIVE INCOME	455	393
Attributable to minority interest	0	0
Attributable to equity holders of the parent	455	392

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2017	31-12-2016
Cash, cash balances at central banks and other demand deposits from credit institutions	-	312	333
Financial assets	4.0	36 735	37 041
Held for trading	4.0	11	15
Designated at fair value through profit or loss	4.0	14 421	13 702
Available for sale	4.0	14 563	15 718
Loans and receivables	4.0	2 553	2 177
Held to maturity	4.0	5 185	5 412
Hedging derivatives	4.0	2	16
Reinsurers' share in technical provisions	5.6	131	110
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	-	0	0
Tax assets	5.2	33	21
Current tax assets	5.2	28	10
Deferred tax assets	5.2	5	11
Non-current assets held for sale and assets associated with disposal groups	-	0	0
Investments in associated companies and joint ventures	5.2	47	45
Investment property	5.4	224	210
Property and equipment	5.4	49	48
Goodwill and other intangible assets	5.5	130	124
Other assets	5.1	733	874
TOTAL ASSETS		38 395	38 806

LIABILITIES AND EQUITY (in millions of EUR)	Note	31-12-2017	31-12-2016
Financial liabilities	4.0	15 571	14 955
Held for trading	4.0	34	34
Designated at fair value through profit or loss	4.0	13 552	12 653
Measured at amortised cost	4.0	1 950	2 196
Hedging derivatives	4.0	36	73
Technical provisions, before reinsurance	5.6	18 721	19 737
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	-	0	0
Tax liabilities	5.2	358	456
Current tax liabilities	5.3	65	57
Deferred tax liabilies	5.4	293	399
Provisions for risks and charges	5.7	5	10
Other liabilities	5.8	688	711
TOTAL LIABILITIES		35 343	35 869
Total equity	5.10	3 051	2 936
Parent shareholders' equity	5.10	3 052	2 937
Minority interests	-	- 1	0
TOTAL LIABILITIES AND EQUITY		38 395	38 806

- See Note 1.1 for changes in the above presentation.

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 obligations	Retained earnings	Translation differences	Parent share-holders' equity	Minority interests	Total equity
31-12-2017											
Balance at the beginning of the period (01-01-2017)	**65**	**1.086**	**-203**	**1.116**	**9**	**-26**	**885**	**5**	**2.937**	**0**	**2.936**
Net result for the period	0	0	0	0	0	0	465	0	465	0	465
Other comprehensive income for the period	0	0	0	- 11	- 9	8	0	2	- 11	0	- 11
Total comprehensive income	**0**	**0**	**0**	**- 11**	**- 9**	**8**	**465**	**2**	**455**	**0**	**455**
Dividends	0	0	0	0	0	0	- 339	0	- 339	0	- 339
Total change	**0**	**0**	**0**	**- 11**	**- 9**	**8**	**126**	**2**	**115**	**0**	**115**
Balance at the end of the period	**65**	**1 086**	**- 203**	**1 105**	**0**	**- 18**	**1 010**	**7**	**3 052**	**- 1**	**3 051**
of which revaluation reserve for shares				397							
of which revaluation reserve for bonds				708							
of which revaluation reserve for other assets than bonds and shares				0							
of which relating to equity method				10	0	0	0	0	10		10
31-12-2016											
Balance at the beginning of the period (01-01-2016)	**65**	**1 086**	**- 203**	**1 040**	**16**	**- 15**	**822**	**5**	**2 815**	**0**	**2 815**
Net result for the period	0	0	0	0	0	0	334	0	334	0	334
Other comprehensive income for the period	0	0	0	77	- 7	- 11	0	0	58	0	58
Total comprehensive income	**0**	**0**	**0**	**77**	**- 7**	**- 11**	**334**	**0**	**392**	**0**	**393**
Dividends	0	0	0	0	0	0	- 271	0	- 271	0	- 271
Total change	**0**	**0**	**0**	**77**	**- 7**	**- 11**	**63**	**0**	**121**	**0**	**121**
Balance at the end of the period	**65**	**1 086**	**- 203**	**1 116**	**9**	**- 26**	**885**	**5**	**2 937**	**0**	**2 936**
of which revaluation reserve for shares				367							
of which revaluation reserve for bonds				750							
of which revaluation reserve for other assets than bonds and shares				0							
of which relating to equity method				13	0	0	0	0	13		13

- During 2017, the revaluation reserve (for available-for-sale assets) contracted by 11 million euros, with the decline in the reserve for bonds (-42 million euros) being partly offset by the reserve for shares (+31 million euros). The decline in the reserve for bonds was caused by the increase in long-term interest rates, but was mitigated in part by the lower rate of tax in Belgium.
- The 'Dividends' item in 2017 include the payment of a final dividend for 2016 (103 million euros) and of an interim dividend for 2017 (236 million euros). Subject to the approval of the General Meeting of Shareholders, KBC Insurance plans to pay a final dividend of 8 million euros for financial year 2017.

Consolidated cashflow statement

In millions of EUR	Note[1]	2017	2016
Operating activities			
Result before tax	Inc.statem.	652	469
Adjustments for:	-	- 219	450
Result before tax related to discontinued operations	Inc.statem.	0	0
Depreciation, impairment and amortisation of property and equipment, intangible assets, investment property and securities	3.10, 4.2, 5.4, 5.5	35	80
Profit/Loss on the disposal of investments		5	- 1
Change in impairment on loans and advances	3.10	0	0
Change in gross technical provisions - insurance	5.6	- 147	392
Change in the reinsurers' share in the technical provisions	5.6	- 18	17
Change in other provisions	5.7	1	4
Other non realised gains or losses	-	- 76	- 38
Income from associated companies and joint ventures	3.11	- 19	- 4
Cashflows from operating profit before tax and before changes in operating assets and liabilities	-	433	919
Changes in operating assets (excl. cash & cash equivalents)	-	185	- 318
Loans and receivables	4.1	- 363	121
Available for sale	4.1	1 109	- 64
Held for trading	4.1	5	10
Designated at fair value through P&L	4.1	- 719	- 368
Hedging derivatives	4.1	13	11
Operating assets associated with disposal groups & other assets	6.6	141	- 27
Changes in operating liabilities (excl. cash & cash equivalents)		- 293	- 202
Deposits at amortised cost	4.1	- 236	- 294
Debt certificates at amortised cost	4.1	- 10	10
Financial liabilities held for trading	4.1	0	- 9
Financial liabilities designated at fair value through P&L	4.1	899	266
Liability-derivatives hedge accounting	4.1	- 37	14
Technical provisions, before reinsurance [3]	5.6	- 869	- 269
Operating liabilities associated with disposal groups & other liabilities	-	- 41	79
Income taxes paid	3.12	- 149	- 169
Net cash from (used in) operating activities		177	230
Investing activities			
Purchase of held-to-maturity securities	4.1	- 67	- 87
Proceeds from the repayment of held-to-maturity securities at maturity	4.1	268	255
Acquisition of a subsidiary or a business unit, net of cash acquired (increase in participation intrests included)	-	0	0
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed (decrease in participation intrests included)	-	0	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	-	2	4
Purchase of investment property	5.4	- 25	0
Proceeds from the sale of investment property	5.4	2	6
Purchase of intangible fixed assets (excl. goodwill)	5.5	- 10	- 4
Proceeds from the sale of intangible fixed assets (excl. goodwill)	5.5	0	0
Purchase of property and equipment	5.4	- 15	- 14
Proceeds from the sale of property and equipment	5.4	- 1	1
Net cash from (used in) investing activities		154	160

In millions of EUR	Note[1]	2017	2016
Financing activities			
Purchase or sale of treasury shares	Changes equity	0	0
Issue or repayment of promissory notes and other debt securities	4.1	0	0
Proceeds from or repayment of subordinated liabilities	4.1	0	0
Principal payments under finance lease obligations	-	0	0
Proceeds from the issuance of share capital	Changes equity	0	0
Proceeds from the issuance or repayment of preference shares	Changes equity	0	0
Dividends paid	Changes equity	- 339	- 271
Net cash from (used in) financing activities		- 339	- 271
Change in cash and cash equivalents			
Net increase or decrease in cash and cash equivalents	-	- 9	119
Cash and cash equivalents at the beginning of the period	-	342	223
Effects of exchange rate changes on opening cash and cash equivalents	-	1	0
Cash and cash equivalents at the end of the period	-	334	342
Additional information			
Interest paid [2]	3.1	- 47	- 39
Interest received [2]	3.1	610	654
Dividends received (including equity method)	3.2, 5.3	60	69
Components of cash and cash equivalents			
Cash and cash balances with central banks	Balance sheet	312	0
Loans and advances to banks repayable on demand and term loans to banks < 3 months	-	23	342
Deposits from banks repayable on demand and redeemable at notice	4.1	0	0
Cash and cash equivalents included in disposal groups	-	0	0
Total	-	334	342
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 '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 do not differ much from the accrued interest expense and accrued interest income, as most rate products pay interest regularly within the year.
3 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.

- KBC uses the indirect method to report on cashflows from operating activities.
- There were no material acquisitions or divestments of group companies or activities in 2016 or 2017.

1.0 Notes on the accounting policies

Note 1.1: Statement of compliance

The consolidated financial statements of KBC Insurance 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.
- 'Disclosure Initiative' amendments to IAS 7 (Statement of Cash Flows)

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 (also of KBC Insurance) 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 333 million euros shifting mainly from 'Loans and receivables'). The change concerns the balance sheet and the related notes in 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 the reversal of frozen available-for-sale reserves and the recognition of unrealised gains and losses on a limited number of investments that have failed the contractual cashflow characteristics test. 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.
- 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.
- Overall, the first time application of IFRS 9 will have an estimated pre-tax, negative impact of approximately 0.2 billion euros on equity, due essentially to the reversal of frozen available-for-sale reserves for securities that had historically been reclassified out of the 'Available-for-sale' category to the 'Held-to-maturity' category.

- IFRS 15
  - In May 2014, the IASB issued IFRS 15 (Revenue from Contracts with Customers) concerning the recognition of revenue. The new standard will become 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. There are no major cases where KBC Insurance acts as a lessee or lessor.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.
- 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 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.

I. 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, 5.4–5.7 and 5.9.

2.0 Notes on segment reporting

Applies to KBC Group and KBC Bank, but not to KBC Insurance.

3.0 Notes to the income statement

Note 3.1: Net interest income

In millions of EUR	2017	2016
Total	564	614
Interest income	610	654
Available-for-sale assets	302	326
Loans and receivables	70	78
Held-to-maturity investments	199	209
Other assets not at fair value	16	17
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*586*	*631*
of which interest income on impaired financial assets	0	0
Financial assets held for trading	22	21
Hedging derivatives	2	2
Interest expense	- 47	- 39
Financial liabilities measured at amortised cost	- 8	- 9
Other	- 4	- 10
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*- 12*	*- 19*
Financial liabilities held for trading	- 30	- 15
Hedging derivatives	- 3	- 3
Net interest expense on defined benefit plans	- 1	- 1

Note 3.2: Dividend income

In millions of EUR	2017	2016
Total	58	66
Breakdown by type	58	66
Held-for-trading shares	0	0
Shares initially recognised at fair value through profit or loss	0	0
Available-for-sale shares	58	65

Note 3.3: Net result from financial instruments at fair value through profit or loss

In millions of EUR	2017	2016
Total	- 2	- 10
Breakdown by type		
Trading instruments (including interest* and fair value changes in trading derivatives)	2	- 9
Other financial instruments initially recognised at fair value through profit or loss	- 3	2
Of which: gains/losses own credit risk	0	0
Foreign exchange trading	- 6	0
Fair value adjustments in hedge accounting	5	- 3
Division hedge accounting		
Micro fair value hedges	5	- 3
Changes in the fair value of the hedged item	- 25	8
Changes in the fair value of the hedging derivatives	29	- 11
Cashflow hedges	0	0
Changes in the fair value of the hedging derivatives, ineffective portion	0	0
Hedges of net investments in foreign operation, ineffective portion	0	0
Portfolio fair value hedge of interest rate risk	0	0
Changes in the fair value of the hedged item	0	0
Changes in the fair value of the hedging derivatives	0	0
Discontinuation of hedge accounting in the case of a fair value hedge	0	0
Discontinuation of hedge accounting in the case of a cash flow hedge	0	0

Note 3.4: Net realised result from available-for-sale assets

In millions of EUR	2017	2016
Total	84	56
Breakdown by portfolio		
Fixed-income securities	3	3
Shares	81	53

Note 3.5: Net fee and commission income

In millions of EUR	2017	2016
Total	- 312	- 301
Income	165	126
Expense	- 477	- 427
Breakdown by type		
Asset Management Services	49	30
Income	68	48
Expense	- 19	- 18
Banking Services	- 3	- 2
Income	4	2
Expense	- 6	- 4
Distribution	- 358	- 329
Income	94	76
Expense	- 452	- 405

- See Note 1.1 for changes in the above presentation.

Note 3.6: Other net income

In millions of EUR	2017	2016
Total	63	101
Of which net realised result following		
The sale of loans and receivables	0	0
The sale of held-to-maturity investments	- 4	1
The repurchase of financial liabilities measured at amortised cost	0	0
Other: of which:	67	100
Income from Group VAB	64	69
Impact of surrender of a reinsured contract	1	25
Net rental income	12	11

- 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.

Note 3.7: Insurance results

Note 3.7.1: Breakdown of technical accounts

In millions of EUR	Life	Non-life	Non-technical account	TOTAL
12M 2017				
Earned premiums, insurance (before reinsurance)	1 273	1 510	0	2 784
Technical charges, insurance (before reinsurance)	- 1 334	- 788	0	- 2 122
Net fee and commission income	- 20	- 292	0	- 312
Ceded reinsurance result	1	- 9	0	- 8
Operating expenses	- 137	- 244	- 3	- 383
Internal costs claim paid	- 8	- 56	0	- 65
Administration costs related to acquisitions	- 31	- 73	0	- 103
Administration costs	- 97	- 115	0	- 212
Management costs investments	0	0	- 3	- 3
Technical result	- 216	178	- 3	- 41
Net interest income			564	564
Dividend income			58	58
Net result from financial instruments at fair value through profit and loss			- 2	- 2
Net realised result from AFS assets			84	84
Net other income			- 17	- 17
Impairments			- 12	- 12
Allocation to the technical accounts	537	87	- 624	0
Technical-financial result	320	265	47	633
Share in results of associated companies and joint ventures			19	19
RESULT BEFORE TAX	320	265	66	652
Income tax expense				- 187
RESULT AFTER TAX				465
attributable to minority interest				0
attributable to equity holders of the parent				465
12M 2016				
Earned premiums, insurance (before reinsurance)	1 579	1 428	0	3 007
Technical charges, insurance (before reinsurance)	- 1 731	- 787	0	- 2 519
Net fee and commission income	- 29	- 272	0	- 301
Ceded reinsurance result	- 1	- 37	0	- 38
Operating expenses	- 132	- 239	- 3	- 374
Internal costs claim paid	- 8	- 54	0	- 62
Administration costs related to acquisitions	- 32	- 80	0	- 112
Administration costs	- 92	- 105	0	- 197
Management costs investments	0	0	- 3	- 3
Technical result	- 315	94	- 3	- 224
Net interest income			614	614
Dividend income			66	66
Net result from financial instruments at fair value through profit and loss			- 10	- 10
Net realised result from AFS assets			56	56
Net other income			18	18
Impairments			- 55	- 55
Allocation to the technical accounts	578	73	- 651	0
Technical-financial result	263	167	35	465
Share in results of associated companies and joint ventures			4	4
RESULT BEFORE TAX	263	167	39	469
Income tax expense				- 135
RESULT AFTER TAX				334
Attributable to minority interest				0
Attributable to equity holders of the parent				334

- 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'.
- 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.

- '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.

Note 3.7.2: Earned premiums, life insurance

In millions of EUR	2017	2016
Total	1 273	1 579
Breakdown by IFRS category		
Insurance contracts	893	920
Investment contracts with discretionary participation	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	285	624
Periodic	665	642
Premiums under group contracts	312	309
Single	60	48
Periodic	252	261
Sales volume life	1 881	2 114
Unit linked contracts	856	820
Guaranteed interest products	1 025	1 295

- As required under IFRS, we use deposit accounting for certain investment contracts without DPF. This means that the premium income (and technical charges) from these contracts is not recognised under ‘Earned premiums, insurance (before reinsurance)’ (and ‘Technical charges, insurance (before reinsurance)’), 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.
- Under deposit accounting, premium income generated by investment contracts without DPF is included in the life sales volumes in the table above. These sale volumes, therefore, comprise earned insurance premiums plus premiums from contracts that are subject to deposit accounting.

Note 3.7.3: Non-life insurance per class of business

In millions of EUR	Earned premiums, before reinsurance	Claims incurred, before reinsurance	Working expenses, before reinsurance	Ceded reinsurance	Total
2017					
Total	1 510	- 788	- 536	- 9	178
Accepted reinsurance	39	- 5	- 16	- 23	- 4
Primary business	1 472	- 784	- 520	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	- 169	- 171	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	- 787	- 510	- 37	94
Accepted reinsurance	36	- 2	- 14	- 15	6
Primary business	1 392	- 785	- 496	- 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	- 188	- 162	- 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	- 463	- 457
Breakdown by type		
Staff expenses	- 231	- 224
General administrative expenses	- 215	- 217
Of which levies	- 20	- 20
Depreciation and amortisation of fixed assets	- 17	- 16

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.

Note 3.9: Personnel

	2017	2016
Total average number of persons employed (in full-time equivalents)	4 167	4 100
Breakdown by employee classification		
Blue-collar staff	299	296
White-collar staff	3 842	3 777
Senior management	26	27

Note 3.10: Impairment (income statement)

In millions of EUR	2017	2016
Total	- 12	- 55
Impairment on loans and receivables	0	0
Breakdown by type		
Specific impairments for on-balance-sheet lending	0	0
Provisions for off-balance-sheet credit commitments	0	0
Portfolio-based impairments	0	0
Impairment on available-for-sale assets	- 11	- 55
Breakdown by type		
Shares	- 11	- 57
Other	0	3
Impairment on goodwill	0	0
Impairment on other	- 2	- 1
Intangible assets, other than goodwill	0	0
Property and equipment and investment property	0	0
Held-to-maturity assets	0	- 1
Associated companies and joint ventures	0	0
Other	- 1	0

Note 3.11: Share in results of associated companies and joint ventures

In millions of EUR	2017	2016
Total	19	4
of which NLB Vita	4	4
of which KBC Asset Management SA	16	0

- 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	- 187	- 135
Breakdown by type	- 187	- 135
Current taxes on income	- 149	- 169
Deferred taxes on income	- 38	34
Tax components		
Profit before tax	652	469
Income tax at the Belgian statutory rate	33,99%	33,99%
Income tax calculated	- 222	- 159
Plus/minus tax effects attributable to	35	25
Differences in tax rates, Belgium - abroad	14	12
Tax-free income	54	48
Adjustments related to prior years	- 2	0
Adjustments, opening balance of deferred taxes due to change in tax rate	- 7	0
Unused tax losses and unused tax credits to reduce current tax expense	0	0
Unused tax losses and unused tax credits to reduce deferred tax expense	0	0
Reversal of previously recognised deferred tax due to tax losses	0	0
Other (mainly non-deductible expenses)	- 25	- 35
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 recognized*	0	25

* 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). As of 2018, these dividends are 100% definitely taxed.

- For information on tax assets and tax liabilities, see Note 5.2.
- Adjustments to deferred taxes due to change in the tax rate concern the reform of the Belgian corporation tax regime, 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 had a one-off negative impact on the income statement at the end of 2017 (-7 million euros due to a reduction in the amount of deferred tax assets). 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.

4.0 Notes on the financial assets and liabilities on the balance sheet

These notes need to 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	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2017							
Loans and advances to credit institutions and investment firms [a c]	1	0	0	580	-	-	581
Loans and advances to customers [b]	0	0	0	1 919	-	-	1 919
Excluding reverse repos	*0*	*0*	*0*	*1 919*	-	-	*1 919*
Trade receivables	0	0	0	1	-	-	1
Consumer credit	0	0	0	0	-	-	0
Mortgage loans	0	0	0	787	-	-	787
Term loans	0	0	0	1 055	-	-	1 055
Finance leasing	0	0	0	0	-	-	0
Current account advances	0	0	0	0	-	-	0
Securitised loans	0	0	0	0	-	-	0
Other	0	0	0	77	-	-	77
Equity instruments	4	0	1 435	-	-	-	1 439
Investment contracts (insurance)	-	14 421	-	-	-	-	14 421
Debt securities issued by	6	0	13 128	53	5 185	-	18 371
Public bodies	1	0	7 604	0	3 973	-	11 578
Credit institutions and investment firms	4	0	1 758	0	674	-	2 437
Corporates	1	0	3 766	53	537	-	4 357
Derivatives	1	-	-	-	-	2	3
Other	0	0	0	0	0	0	0
Total carrying value	11	14 421	14 563	2 553	5 185	2	36 735
[a] *Of which reverse repos*							*0*
[b] *Of which reverse repos*							*0*
[c] *Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months*							*23*
FINANCIAL ASSETS, 31-12-2016							
Loans and advances to credit institutions and investment firms [a c]	0	1	0	680	-	-	681
Loans and advances to customers [b]	0	0	0	1 440	-	-	1 440
Excluding reverse repos	*0*	*0*	*0*	*1 440*	-	-	*1 440*
Trade receivables	0	0	0	0	-	-	0
Consumer credit	0	0	0	0	-	-	0
Mortgage loans	0	0	0	352	-	-	352
Term loans	0	0	0	1 030	-	-	1 030
Finance leasing	0	0	0	0	-	-	0
Current account advances	0	0	0	0	-	-	0
Other	0	0	0	58	-	-	58
Equity instruments	2	2	1 319	-	-	-	1 323
Investment contracts (insurance)	-	13 693	-	-	-	-	13 693
Debt securities issued by	2	7	14 399	48	5 412	-	19 868
Public bodies	1	0	7 803	0	4 122	-	11 926
Credit institutions and investment firms	0	6	1 905	0	746	-	2 657
Corporates	0	1	4 691	48	545	-	5 285
Derivatives	12	-	-	-	-	16	28
Other	0	0	0	9	-	-	9
Total carrying value	15	13 702	15 718	2 177	5 412	16	37 041
[a] *Of which reverse repos*							*0*
[b] *Of which reverse repos*							*0*
[c] *Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months*							*342*

In millions of EUR	Held for trading	Designated at fair value	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL LIABILITIES, 31-12-2017					
Deposits from credit institutions and investment firms [a c]	0	0	-	1 450	1 450
Deposits from customers and debt certificates [b]	0	0	-	500	500
Excluding repos	*0*	*0*	-	*500*	*500*
Demand deposits	0	0	-	0	0
Time deposits	0	0	-	0	0
Saving accounts	0	0	-	0	0
Special deposits	0	0	-	0	0
Other deposits	0	0	-	0	0
Certificates of deposit	0	0	-	0	0
Customer savings certificates	0	0	-	0	0
Non-convertible bonds	0	0	-	0	0
Non-convertible subordinated liabilities	0	0	-	500	500
Liabilities under investment contracts	-	13 552	-	0	13 552
Derivatives	34	0	36	-	70
Short positions	0	0	-	-	0
in equity instruments	0	0	-	-	0
in debt instruments	0	0	-	-	0
Other	0	0	-	0	0
Total carrying value	34	13 552	36	1 950	15 571
[a] *Of which repos*					*1 442*
[b] *Of which repos*					*0*
[c] *Of which deposits from banks repayable on demand*					*0*
FINANCIAL LIABILITIES, 31-12-2016					
Deposits from credit institutions and investment firms [a c]	0	0	-	1 577	1 577
Deposits from customers and debt certificates [b]	0	0	-	609	609
Excluding repos	*0*	*0*	-	*609*	*609*
Demand deposits	0	0	-	0	0
Time deposits	0	0	-	108	108
Saving accounts	0	0	-	0	0
Special deposits	0	0	-	0	0
Other deposits	0	0	-	0	0
Certificates of deposit	0	0	-	0	0
Customer savings certificates	0	0	-	0	0
Non-convertible bonds	0	0	-	0	0
Non-convertible subordinated liabilities	0	0	-	500	500
Liabilities under investment contracts	-	12 653	-	0	12 653
Derivatives	34	-	73	-	106
Short positions	0	0	-	-	0
in equity instruments	0	0	-	-	0
in debt instruments	0	0	-	-	0
Other	0	0	-	10	10
Total carrying value	34	12 653	73	2 196	14 955
[a] *Of which repos*					*1 577*
[b] *Of which repos*					*0*
[c] *Of which deposits from banks repayable on demand*					*0*

At year-end 2017, deposits from credit institutions were almost entirely accounted for by repo transactions with KBC Bank NV. The non-convertible subordinated liabilities were issued by KBC Group NV.

At year-end 2017, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions with a carrying value of 1 235 (2016: 1 501) million euros (classified as 'available for sale': 639 million euros (2016: 967 million euros) and 'held to maturity': 596 million euros (2016: 534 million euros)) and an associated financial liability with a carrying value of 1 422 (2016: 1 668) million euros (659 million euros classified as 'available for sale' (2016: 985 million euros) and 763 million euros 'held to maturity' (2016: 683 million euros)).

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 receiva-bles	Held to maturity	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2017							
Unimpaired assets	11	14 421	14 337	2 553	5 186	2	36 510
Impaired assets			304	1	0		305
Impairment			- 79	0	- 1		- 80
Total carrying value	11	14 421	14 563	2 553	5 185	2	36 735
FINANCIAL ASSETS, 31-12-2016							
Unimpaired assets	15	13 702	15 475	2 177	5 413	16	36 798
Impaired assets			337	0	0		338
Impairment			- 94	0	- 1		- 95
Total carrying value	15	13 702	15 718	2 177	5 412	16	37 041

- *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.

Note 4.2.2: Impairment details

in millions of EUR	Available for sale		Held to maturity	Loans and receivables		Provision, off-balance-sheet credit commit-ments*
	Fixed-income securities	Shares	Fixed-income securities	Specific impairment	Portfolio-based impairment	
Impairments 31-12-2017						
Opening balance	0	94	1	0	0	0
Movements with an impact on results						
Impairment recognised	0	11	0	0	0	0
Impairment reversed	0	0	0	0	0	0
Movements without an impact on results						
Write-offs	0	0	0	0	0	0
Change in the scope of consolidation	0	- 5	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0	0
Other	0	- 21	0	0	0	0
Closing balance	0	79	1	0	0	0
Impairments 31-12-2016						
Opening balance	3	66	0	0	0	0
Movements with an impact on results						
Impairment recognised	0	57	1	0	0	0
Impairment reversed	- 3	0	0	0	0	0
Movements without an impact on results						
Write-offs	0	0	0	0	0	0
Change in the scope of consolidation	0	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0	0
Other	0	- 29	0	0	0	0
Closing balance	0	94	1	0	0	0

* 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.

Note 4.2.3: Past due, but not impaired assets

- There were no significant past due, but not impaired assets at KBC Insurance, though there were at KBC Group NV and KBC Bank.

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 Gross amount	31-12-2017 Collateral received to mitigate the maximum exposure to credit risk	31-12-2017 Net amount	31-12-2016 Gross amount	31-12-2016 Collateral received to mitigate the maximum exposure to credit risk	31-12-2016 Net amount
Equity	1 439	0	1 439	1 323	0	1 323
Debt securities	18 371	0	18 371	19 868	0	19 868
Loans & advances	2 501	517	1 984	2 121	221	1 900
Of which designated at fair value through profit or loss	0	0	0	1	0	1
Derivatives	3	0	3	28	0	28
Other	47	0	47	56	0	56
Total	22 361	517	21 844	23 395	221	23 174

- 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’.
- 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 agreements (in millions of EUR)	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
				Financial instruments	Received cash collateral	Received securities collateral	
FINANCIAL ASSETS, 31-12-2017							
Derivatives	3	0	3	1	0	0	2
Derivatives (excluding central clearing houses)	3	0	3	1	0	0	2
Derivatives with central clearing houses (1)	0	0	0	0	0	0	0
Reverse repurchase, securities borrowing and lending and similar agreements	0	0	0	0	0	0	0
Reverse repurchase	0	0	0	0	0	0	0
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	3	0	3	1	0	0	2
FINANCIAL ASSETS, 31-12-2016							
Derivatives	28	0	28	27	0	0	1
Derivatives (excluding central clearing houses)	28	0	28	27	0	0	1
Derivatives with central clearing houses (1)	0	0	0	0	0	0	0
Reverse repurchase, securities borrowing and lending and similar agreements	0	0	0	0	0	0	0
Reverse repurchase	0	0	0	0	0	0	0
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	28	0	28	27	0	0	1
FINANCIAL LIABILITIES, 31-12-2017							
Derivatives	70	0	70	1	0	0	68
Derivatives (excluding central clearing houses)	70	0	70	1	0	0	68
Derivatives with central clearing houses (1)	0	0	0	0	0	0	0
Repurchase, securities lending and borrowing and similar agreements	1 442	0	1 442	0	0	1 442	0
Repurchase	1 442	0	1 442	0	0	1 442	0
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	1 511	0	1 511	1	0	1 442	68
FINANCIAL LIABILITIES, 31-12-2016							
Derivatives	106	0	106	27	0	0	79
Derivatives (excluding central clearing houses)	106	0	106	27	0	0	79
Derivatives with central clearing houses (1)	0	0	0	0	0	0	0
Repurchase, securities lending and borrowing and similar agreements	1 685	0	1 685	0	108	1 577	0
Repurchase	1 577	0	1 577	0	0	1 577	0
Securities lending	108	0	108	0	108	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	1 792	0	1 792	27	108	1 577	79

(1) Cash collateral account with central clearinghouses included in gross amount

- 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.
- 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 deposits (i.e. 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 instruments which are not recognised at fair value in the balance sheet, in millions of eur	Loans and advances Carrying value	Loans and advances Fair value	Financial assets held to maturity Carrying value	Financial assets held to maturity Fair value	Financial liabilities at amortised cost Carrying value	Financial liabilities at amortised cost Fair value
FINANCIAL ASSETS, 31-12-2017						
Loans and advances to credit institutions and investment firms	580	726	-	-	-	-
Loans and advances to customers	1 919	2 059	-	-	-	-
Debt securities	53	29	5 185	6 145	-	-
Other	0	0	-	-	-	-
Total	2 553	2 815	5 185	6 145	-	-
Of which level 1		16		4 744		
Of which level 2		1 599		1 375		
Of which level 3		1 200		26		
FINANCIAL ASSETS, 31-12-2016						
Loans and advances to credit institutions and investment firms	680	825	-	-	-	-
Loans and advances to customers	1 440	1 588	-	-	-	-
Debt securities	48	48	5 412	6 564	-	-
Other	9	9	-	-	-	-
Total	2 177	2 470	5 412	6 564	-	-
Of which level 1		76		6 002		
Of which level 2		1 483		462		
Of which level 3		911		100		
FINANCIAL LIABILITIES, 31-12-2017						
Deposits from credit institutions and investment firms	-	-	-	-	1 450	1 450
Deposits from customers and debt certificates	-	-	-	-	500	501
Liabilities under investment contracts	-	-	-	-	0	0
Other	-	-	-	-	0	0
Total	-	-	-	-	1 950	1 950
Of which level 1						0
Of which level 2						1 950
Of which level 3						0
FINANCIAL LIABILITIES, 31-12-2016						
Deposits from credit institutions and investment firms	-	-	-	-	1 577	1 577
Deposits from customers and debt certificates	-	-	-	-	609	608
Liabilities under investment contracts	-	-	-	-	0	0
Other	-	-	-	-	10	10
Total	-	-	-	-	2 196	2 196
Of which level 1						108
Of which level 2						2 087
Of which level 3						0

Note 4.5: Financial assets and liabilities measured at fair value – fair value hierarchy

Fair value hierarchy	31-12-2017				31-12-2016			
In millions of EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Held for trading	5	6	0	11	3	11	1	15
Loans and advances to credit institutions and investment firms	0	1	0	1	0	0	0	0
Loans and advances to customers	0	0	0	0	0	0	0	0
Equity instruments	4	0	0	4	2	0	0	2
Equity instruments								
Debt securities	2	5	0	6	1	0	0	2
Of which government securities	1	0	0	1	1	0	0	1
Derivatives	0	1	0	1	0	11	1	12
Other	0	0	0	0	0	0	0	0
Designated at fair value	13 935	486	0	14 421	13 333	366	3	13 702
Loans and advances to credit institutions and investment firms	0	0	0	0	0	1	0	1
Loans and advances to customers	0	0	0	0	0	0	0	0
Equity instruments	0	0	0	0	2	0	0	2
Investment contracts	13 935	486	0	14 421	13 331	362	0	13 693
Debt securities	0	0	0	0	0	4	3	7
Of which government securities	0	0	0	0	0	0	0	0
Available for sale	10 026	3 917	620	14 563	12 764	2 076	877	15 718
Equity instruments	1 325	14	95	1 435	1 235	8	77	1 319
Debt securities	8 700	3 903	524	13 128	11 529	2 068	801	14 399
Of which government securities	5 878	1 332	394	7 604	6 536	1 124	142	7 803
Hedging derivatives	0	2	0	2	0	16	0	16
Derivatives	0	2	0	2	0	16	0	16
Total	23 966	4 411	620	28 997	26 100	2 469	882	29 451
Financial liabilities measured at fair value								
Held for trading	0	34	0	34	0	34	0	34
Deposits from credit institutions and investment firms	0	0	0	0	0	0	0	0
Deposits from customers and debt certificates	0	0	0	0	0	0	0	0
Derivatives	0	34	0	34	0	34	0	34
Short positions	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
Designated at fair value	13 544	7	0	13 552	12 652	0	0	12 653
Deposits from credit institutions and investment firms	0	0	0	0	0	0	0	0
Deposits from customers and debt certificates	0	0	0	0	0	0	0	0
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	0	36	0	36	0	73	0	73
Derivatives	0	36	0	36	0	73	0	73
Total	13 544	77	0	13 621	12 652	107	0	12 759

- 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 measurement of financial instruments

with quoted prices is 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 observable or 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. Observable inputs reflect an active market. 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, reference to the current or recent fair value of a similar instrument, or third-party pricing, provided that the third-party price is in line with alternative observable market data.

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.

Overview at KBC Group level

	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 Insurance transferred 1 827 million euros’ worth of debt instruments (classified as ‘available for sale’) out of level 1 and into level 2 and 56 million euros' worth out of level 2 into level 1. Most of these reclassifications were attributable to a change in the valuation method, driven by the implementation in the third quarter of BVAL to price debt instruments. Provided by Bloomberg, BVAL is a fully transparent and automated service that sets prices on the basis of various sources. Its use impacts fair value hierarchy levelling.
- In 2016, KBC Insurance transferred 47 million euros’ worth of debt instruments (mainly classified as ‘available for sale’) out of level 1 and into level 2. It also reclassified approximately 27 million euros' worth of debt instruments from level 2 to level 1 because the market for those instruments became more active in 2016. Most of these reclassifications were attributable to a change in market activity for primarily 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:
  - The carrying value of debt instruments classified as ‘available-for-sale’ fell by 257 million euros:
    - a net 93 million euros' worth of bonds was transferred out of level 3, with most of these reclassifications accounted for by the use of BVAL to price debt instruments.
    - the carrying value fell by a further 200 million euros as a result of the settlement and disposal of positions.
  - The carrying value of unlisted shares in the ‘available-for-sale’ category increased by 18 million euros primarily on account of acquisitions.

- In 2016, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - In the 'available-for-sale' category, a net 201 million euros' worth of bonds was transferred out of level 3, most of which was due to a change in the liquidity of those bonds. This was partly offset by a 23-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 increased, rising by 14 million euros primarily on account of purchases.

Note 4.8: Changes in own credit risk

- Applies to KBC Group and KBC Bank, but not to KBC Insurance.

Note 4.9: Reclassification of financial assets and liabilities

- There were no reclassifications between IFRS portfolios in 2016 and 2017.

Note 4.10: Derivatives

In millions of EUR	Held for trading				Microhedge: Fair value hedge				Cash flow hedge *				Portfolio hedge			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold
31-12-2017																
Total	1	34	932	939	1	35	383	383	1	1	231	239	0	0	0	0
Breakdown by type																
Interest rate contracts	1	33	720	720	0	33	335	335	0	0	0	0	0	0	0	0
Of which Interest rate swaps	1	33	720	720	0	33	335	335	0	0	0	0	0	0	0	0
Of which Options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	0	0	212	219	1	1	48	48	1	1	231	239	0	0	0	0
Of which Currency and interest rate swaps	0	0	212	219	1	1	48	48	1	1	231	239	0	0	0	0
Of which Options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Of which Equity swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Of which Options	0	0	0	0	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	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
31-12-2016																
Total	12	34	624	295	1	68	829	829	15	5	668	669	0	0	0	0
Breakdown by type																
Interest rate contracts	11	33	293	293	0	61	824	824	14	0	300	300	0	0	0	0
Of which Interest rate swaps	11	33	293	293	0	61	824	824	14	0	300	300	0	0	0	0
Of which Options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	0	1	2	3	1	7	6	6	1	5	368	369	0	0	0	0
Of which Currency and interest rate swaps	0	1	2	3	1	7	6	6	1	5	368	369	0	0	0	0
Of which Options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	1	0	330	0	0	0	0	0	0	0	0	0	0	0	0	0
Of which Equity swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Of which Options	1	0	330	0	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	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

* including hedges of a net investment in a foreign operation

- 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:
  - 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 insurer (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 (in millions of EUR)	**Inflow**	**Outflow**
Not more than three months	0	0
More than three but not more than six months	5	- 5
More than six months but not more than one year	0	0
More than one but not more than two years	0	- 1
More than two but not more than five years	12	- 11
More than five years	5	- 5

5.0 Notes on other balance sheet items

Note 5.1: Other assets

(in millions of EUR)	31-12-2017	31-12-2016
Total	733	874
Breakdown by type	733	874
Debtors arising out of direct insurance operations	346	402
Debtors arising out of reinsurance operations	12	16
Deposits with ceding companies	174	158
Income receivable (other than interest income from financial assets)	8	4
Other	193	294

Note 5.2: Tax assets and tax liabilities

In millions of EUR	31-12-2017	31-12-2016
CURRENT TAXES		
Current tax assets	28	10
Current tax liabilities	65	57
DEFERRED TAXES	- 289	- 388
Tax assets by type of temporary difference	111	150
Employee benefits	23	36
Losses carried forward	1	5
Tangible and intangible fixed assets	5	3
Provisions for risks and charges	1	1
Impairment for losses on loans and advances	1	2
Financial instruments at fair value through profit or loss and fair value hedges	49	60
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	24	20
Technical provisions	6	24
Other	1	1
Deferred tax liabilities by type of temporary difference	399	539
Employee benefits	0	0
Losses carried forward	0	0
Tangible and intangible fixed assets	4	5
Provisions for risks and charges	7	0
Impairment for losses on loans and advances	0	0
Financial instruments at fair value through profit or loss and fair value hedges	38	34
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	252	392
Technical provisions	90	97
Other	7	10
Recognised in the balance sheet as follows:		
Deferred tax assets	5	11
Deferred tax liabilities	293	399
Unused tax losses and unused tax credits	0	0

- 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).
- The net change in deferred taxes (+100 million euros in 2017) breaks down as follows:
  - a decrease in deferred tax assets: -40 million euros;
  - a decrease in deferred tax liabilities: -139 million euros.
- The change in deferred tax assets was accounted for chiefly by:
  - the decrease in deferred tax assets via the income statement: -38 million euros (owing to technical and other provisions (-18 million euros), financial instruments at fair value through profit or loss (-11 million euros), remeasurement of defined benefit plans (-5 million euros) and losses carried forward (-4 million euros));
  - other items (including exchange differences): 1 million euros.
- The change in deferred tax liabilities was accounted for chiefly by:
  - the decrease in deferred tax liabilities relating to available-for-sale securities: -133 million euros caused by the combined impact of the negative mark-to-market valuation and 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));
  - the decrease in deferred tax liabilities consequent on movements in the market value of cashflow hedges: -4 million euros;
  - the decrease in deferred tax liabilities on account of changes in the revaluation reserve for hedges of net investments in foreign operations: -3 million euros;
  - other items (including exchange differences): +1 million euros.

Note 5.3: Investments in associated companies and joint ventures

(in millions of EUR)	31-12-2017	31-12-2016
Total	47	45
Overview of investments including goodwill		
CSOB Property Fund	0	13
NLB Vita	31	32
KBC Asset Management SA	17	0
Goodwilll on associated companies and joint ventures	0	0
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	47	45
Listed	0	0
Fair value of investments in listed associated companies	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, the one being NLB Vita.
- 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 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	49	48
Investment property	224	210
Rental income	16	17
Direct operating expenses from investments generating rental income	4	6
Direct operating expenses from investments not generating rental income	0	0

MOVEMENTS TABLE	Land and buildings	IT equipment	Total Other equipment	Total property and equipment	Investment property
2017					
Opening balance	28	1	19	48	210
Acquisitions	2	1	12	15	25
Disposals	0	0	- 5	- 6	- 1
Depreciation	- 6	- 1	- 7	- 13	- 6
Other movements	5	0	0	5	- 4
Closing balance	28	2	19	49	224
of which accumulated depreciation and impairment	33	7	27	66	172
Fair value 31-12-2017					310
2016					
Opening balance	30	1	17	48	222
Acquisitions	0	1	13	14	0
Disposals	0	0	- 4	- 4	0
Depreciation	- 6	- 1	- 6	- 13	- 8
Other movements	4	0	0	4	- 4
Closing balance	28	1	19	48	210
of which accumulated depreciation and impairment	30	8	25	63	165
Fair value 31-12-2016					291

- 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 were no significant commitments for the acquisition of property and equipment and no significant 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 inhouse	Software developed externally	Other	Total
2017					
Opening balance	115	0	5	3	124
Acquisitions	0	0	4	6	10
Disposals	0	0	0	0	0
Amortisation	0	0	- 3	- 1	- 4
Other movements	0	0	0	0	0
Closing balance	115	0	7	8	130
of which accumulated amortisation and impairment	199	0	29	23	52
2016					
Opening balance	116	0	6	2	124
Acquisitions	0	0	2	2	4
Disposals	0	0	0	0	0
Amortisation	0	0	- 2	- 1	- 3
Other movements	0	0	0	0	0
Closing balance	115	0	5	3	124
of which accumulated amortisation and impairment	199	0	27	22	248

- 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.
- 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. This 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 16), 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
DZI Insurance	74	74	9,2%-8,1%	9,6%-7,7%
ČSOB Pojišťovna	18	18	8,8%-8,0%	8,3%-7,7%
Rest	23	24		
Total	115	115		

- 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).
- 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. A sensitivity analysis was not carried out for DZI Insurance either because the recoverable amount was only just higher than the carrying value and, therefore, any adverse change in the key assumptions would lead to impairment.

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]
DZI Insurance	0.6%	–	78.9%	8.90%	-

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 9.8%-8.7% bracket.
3 Not relevant as it would mean that the terminal growth rate will be negative.
4 Absolute increase in the solvency capital requirement.
5 Not relevant.

Note 5.6: Technical provisions, insurance

In millions of EUR	31-12-2017	31-12-2016
Technical provisions, before reinsurance	18 721	19 737
Insurance contracts	10 931	10 794
Provisions for unearned premiums and unexpired risk	650	692
Life insurance provision	7 172	7 015
Provision for claims outstanding	2 653	2 544
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
Provisions 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

	2017		2016	
MOVEMENTS TABLE	Before re-insurance	Re-insurance	Before re-insurance	Re-insurance
INSURANCE CONTRACTS, LIFE				
Opening balance	7 514	3	7 225	3
Deposits of the period less fees	694	0	774	0
Provisions paid out	- 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
Transfer to or from liabilities associated with disposal groups	0	0	0	0
Change in consolidation scope	0	0	0	0
Other movements	- 270	3	- 128	0
Closing balance	7 608	6	7 514	3
INSURANCE CONTRACTS, NON-LIFE				
Opening balance	3 280	107	3 153	124
Change in provisions for unearned premiums	32	0	24	0
Payments regarding claims of previous years	- 236	- 10	- 223	- 5
Surplus/shortfall of claims provision in previous years	- 90	- 1	- 135	- 8
Provisions for new claims	322	26	406	32
Exchange differences	14	1	2	0
Transfer to or from non-current liabilities regarding disposal groups	0	0	0	0
Change in consolidation scope	0	0	0	0
Other movements [a]	0	4	54	- 36
Closing balance	3 323	126	3 280	107
INVESTMENT CONTRACTS WITH DPF, LIFE				
Opening balance	8 942	0	9 235	0
Deposits of the period less fees	361	0	632	0
Provisions paid out	-1 004	0	- 800	0
Credit of interest	168	0	214	0
Cost of profit sharing	0	0	0	0
Exchange differences	2	0	0	0
Transfer to or from non-current liabilities regarding disposal groups	0	0	0	0
Change in consolidation scope	0	0	0	0
Other movements [b]	- 679	0	- 339	0
Closing balance	7 790	0	8 942	0

a In 2016, the ‘Other movements’ item under ‘Insurance contracts, Life’ included the surrender of a large, reinsured savings policy.
b The ‘Other movements’ item under ‘Investment contracts with DPF, Life’ included transfers to unit-linked products.

- 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 (including assumptions in respect of 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 and 2016, 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	Provision for restruc-turing	Provision for taxes and pending legal disputes	Other	Subtotal	Provision, off-balance-sheet credit commit-ments	Total
2017						
Opening balance	0	3	8	10	0	10
Movements with an impact on result						
Amounts allocated	0	2	1	3	0	3
Amounts used	0	- 2	- 4	- 6	0	- 6
Unused amounts reversed	0	0	0	0	0	0
Transfer to or from non-current liabilities regarding disposal groups	0	0	0	0	0	0
Change in consolidation scope	0	0	0	0	0	0
Other movements	0	0	- 2	- 2	0	- 2
Closing balance	0	3	3	5	0	5
2016						
Opening balance	0	3	7	10	0	10
Movements with an impact on result						
Amounts allocated	0	0	5	5	0	5
Amounts used	0	0	- 5	- 5	0	- 5
Unused amounts reversed	0	0	0	0	0	0
Transfer to or from non-current liabilities regarding disposal groups	0	0	0	0	0	0
Change in consolidation scope	0	0	0	0	0	0
Other movements	0	0	2	1	0	1
Closing balance	0	3	8	10	0	10

- 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 and future expenditure.

Note 5.8: Other liabilities

in millions of EUR	31-12-2017	31-12-2016
Total	688	711
Breakdown by type		
Retirement benefit plans or other employee benefits	90	92
Deposits from reinsurers	70	73
Accrued charges (other than from interest expenses on financial liabilities)	58	54
Other	470	492

- 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	202	150
Current service cost	9	7
Interest cost	3	3
Plan amendments	0	0
Actuarial gain or loss arising from changes in demographic assumptions	0	0
Actuarial gain or loss arising from changes in financial assumptions	- 3	24
Experience adjustments	2	7
Past-service cost	0	0
Benefits paid	- 5	- 7
Exchange differences	0	0
Curtailments	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	1	0
Other	- 1	17
Defined benefit obligation at end of the period	208	202
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	141	115
Actual return on plan assets	17	15
Expected return on plan assets	*2*	*3*
Employer contributions	8	7
Plan participant contributions	0	0
Benefits paid	- 5	- 7
Exchange differences	0	0
Settlements	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	1	0
Other	1	11
Fair value of plan assets at the end of the period	163	141
of which financial instruments issued by the group	0	0
of which property occupied by KBC	1	1
Funded Status		
Plan assets in excess of defined benefit obligations	- 45	- 60
Reimbursement rights	0	0
Asset ceiling limit	0	0
Unfunded accrued/prepaid pension cost	- 45	- 60
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 60	- 34
Amounts recognised in the income statement	- 10	- 8
Amounts recognised in other comprehensive income	16	- 17
Employer contributions	8	7
Exchange differences	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	2	- 7
Unfunded accrued/prepaid pension cost at the end of the period	- 45	- 60

in millions of EUR	31-12-2017	31-12-2016
DEFINED BENEFIT PLANS		
Amounts recognised in the income statement	**10**	**8**
Current service cost	9	7
Past-service cost	0	0
Interest cost	1	1
Plan participant contributions	0	0
Curtailments	0	0
Settlements	0	0
Changes in the scope of consolidation	0	0
Changes to the amounts recognised in other comprehensive income	**- 16**	**17**
Actuarial gain or loss arising from changes in demographic assumptions	0	0
Actuarial gain or loss arising from changes in financial assumptions	- 3	24
Actuarial result on plan assets	- 16	- 13
Experience adjustments	2	7
Adjustments to limits of the asset ceiling	0	0
Other	0	- 2
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	0	1

- 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.

Additional information regarding retirement benefit obligations (in millions of EUR)

Changes in main headings in the main table	2017	2016	2015	2014	2013
Defined benefit obligations	208	202	150	166	131
Fair value of plan assets	163	141	115	111	96
Unfunded accrued/prepaid pension cost	- 45	- 60	- 34	- 55	- 34

Note 5.10: Parent shareholders' equity

in number of shares	31-12-2017	31-12-2016
Ordinary shares	**1 050 906**	**1 050 906**
of which ordinary shares that entitle the holder to a dividend payment	*1 050 906*	*1 050 906*
of which treasury shares	*48 889*	*48 889*
Other information		
Par value per ordinary share (in EUR)	62,00	62,00
Number of shares issued but not fully paid up	0	0

- The share capital of KBC Insurance NV consists of ordinary shares of no nominal value.

Note 5.11: Non-current assets held for sale and discontinued operations (IFRS 5)

No principal 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
Credit commitments - undrawn amount		
Given	0	0
Irrevocable	0	0
Revocable	0	0
Received	0	0
Financial guarantees		
Given	1	2
Guarantees received / collateral	968	503
For impaired and past due assets	0	0
For assets that are not impaired or past due assets	968	503
Other commitments		
Given	45	46
Irrevocable	45	46
Revocable	0	0
Received	0	0
Carrying value of financial assets pledged as collateral for		
Liabilities	1 256	1 400
Contingent liabilities	0	0

- Fair value of financial guarantees: based on the available market value.

Note 6.2: Leasing

There are no significant cases in which KBC Insurance is the lessee or lessor.

Note 6.3: Related-party transactions

Transactions with related parties, excluding key management personnel (in millions of EUR)

	31-12-2017						31-12-2016					
	Parent enitities with joint control	Subsi-diaries	Associa-ted com-panies	Joint Ventures	Other	Total	Parent enitities with joint control	Subsi-diaries	Associa-ted com-panies	Joint Ventures	Other	Total
Assets	0	85	32	0	597	715	0	41	34	0	1 200	1 275
Loans and advances	0	0	0	0	561	562	0	0	0	0	999	999
Equity instruments	0	85	32	0	7	124	0	41	34	0	4	78
Other receivables	0	0	0	0	28	29	0	0	0	0	198	198
Liabilities	508	1	0	0	1 593	2 102	501	1	0	0	1 872	2 374
Deposits	0	0	0	0	1 450	1 450	0	0	0	0	1 685	1 685
Other financial liabilities	500	0	0	0	0	500	500	0	0	0	0	500
Other liabilities (including accrued expense)	8	1	0	0	144	152	1	1	0	0	186	188
Income statement	- 111	1	0	- 4	- 94	- 208	- 109	1	0	- 3	30	- 81
Net interest income	- 8	0	0	0	75	66	- 9	0	0	0	145	137
Interest income	0	0	0	0	76	76	0	0	0	0	153	153
Interest expense	- 8	0	0	0	- 1	- 10	- 9	0	0	0	- 8	- 16
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0
Technical charges, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0
Dividend income	0	2	0	0	1	3	0	2	0	0	21	23
Net fee and commission income	0	0	0	- 4	- 152	- 156	0	0	0	- 3	- 123	- 127
Fee and commission income	0	0	0	0	1	1	0	0	0	0	2	2
Fee and commission expense	0	0	0	- 4	- 153	- 157	0	0	0	- 3	- 125	- 129
Net other income	3	- 1	0	0	6	9	3	- 1	0	0	5	7
General administrative expenses	- 106	0	0	0	- 24	- 130	- 103	0	0	0	- 18	- 121
Undrawn portion of loan commitments, financial guarantees and other commitments												
Issued by the group	0	0	0	0	0	0	0	0	0	0	0	0
Received by the group	0	0	0	0	0	0	0	0	0	0	0	0

The ‘Parent entities with joint control’ heading in the first column of the table includes transactions with KBC Group NV.

Transactions with key management personnel (members of the Board of Directors and the Executive Committee of KBC Group), in millions of EUR	31-12-2017	31-12-2016
Total[1]	0,4	0,4
Breakdown by type of remuneration		
Short-term employee benefits	0,4	0,4
Post-employment benefits	0,0	0,0
Defined benefit plans	0,0	0,0
Defined contribution plans	0,0	0,0
Other long-term employee benefits	0,0	0,0
Termination benefits	0,0	0,0
Share-based payments	0,0	0,0
Share options, in units		
At the beginning of the period	0,0	0,0
Granted	0,0	0,0
Exercised	0,0	0,0
Changes in composition of directors	0,0	0,0
At the end of the period	0,0	0,0
Advances and loans granted to the directors and partners	0,0	0,0

[1]Remuneration to directors 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 directors or partners 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 comprises primarily KBC Bank.
- All related-party transactions occur at arm's length.
- Key management comprises the members of the Board of Directors and Executive Committee of KBC Insurance.
- There were no significant impairment charges vis-à-vis related parties.

Note 6.4: Statutory auditor's remuneration

Statutory auditor's remuneration

In EUR	31-12-2017	31-12-2016
Standard audit services	1 092 891	1 035 762
of which KBC Insurance NV	*529 240*	*486 000*
Other services	128 994	50 366
of which KBC Insurance NV	*20 309*	*10 000*
Other certifications	120 309	35 627
Tax advice	8 290	3 039
Other non-audit assignments	395	11 700

Note 6.5: Subsidiaries, joint ventures and associated companies at year-end 2017

Complete list of companies of KBC Insurance included in or excluded from the scope of consolidation as at 31 December 2017

Company	Registered office	Company number	Share of capital held at group level (in %)	Activity
KBC Insurance: subsidiaries that are fully consolidated				
KBC Insurance NV	Leuven – BE	0403.552.563	100.00	insurance company
ADD NV	Heverlee – BE	0406.080.305	100.00	insurance broker
KBC Group Re SA	Luxembourg – LU	--	100.00	reinsurance company
ČSOB Pojišťovna a.s.	Pardubice – CZ	--	99.76	insurance company
ČSOB Poisťovňa a.s.	Bratislava – SK	--	100.00	insurance company
Double U Building BV	Rotterdam – NL	--	100.00	real estate
DZI Life Insurance Jsc	Sofia – BG	--	100.00	life insurance
DZI – GENERAL INSURANCE JSC	Sofia – BG	--	100.00	non-life insurance
Groep VAB NV	Zwijndrecht – BE	0456.920.676	95.00	holding company
VAB Rijschool NV	Sint-Niklaas – BE	0448.109.811	95.00	driving school
VAB NV	Zwijndrecht – BE	0436.267.594	95.00	travel assistance
K&H Biztosító Zrt.	Budapest – HU	--	100.00	insurance company
KBC Verzekeringen Vastgoed Nederland I BV	Rotterdam – NL	--	100.00	real estate
KBC Insurance: subsidiaries that are not fully consolidated[1]				
Algemene Maatschappij voor Risicobeheer NV	Merelbeke – BE	0420.104.030	100.00	insurance broker
ČSOB Pojišťovací servis, s.r.o.	Pardubice – CZ	--	100.00	insurance broker
Depannage 2000 NV	Hoboken – BE	0403.992.429	95.00	vehicles
KBC Zakenkantoor NV	Leuven – BE	0462.315.361	100.00	insurance broker
Maatschappij voor Brandherverzekering CVBA	Leuven – BE	0403.552.761	90.18	reinsurance
Omnia NV	Leuven – BE	0413.646.305	99.99	travel agency
Pardubická Rozvojová, a.s.	Pardubice – CZ	--	100.00	real estate
Probemo Dubbele Bedieningen NV	Sint-Niklaas – BE	0435.357.180	95.00	driving school
Rijscholen Sanderus NV	Mechelen - BE	0413.004.719	95.00	driving school
Sportcomplex Aalst NV	Brussels – BE	0506.736.215	100.00	real estate
Sportcomplex Heist-op-den-Berg NV	Brussels – BE	0841.432.438	100.00	real estate
VAB Banden Peeters NV	Overijse – BE	0459.070.118	80.81	vehicles
VAB Fleet Services NV	Zwijndrecht – BE	0866.583.053	66.50	vehicles
24+ NV	Zwijndrecht – BE	0895.810.836	47.50	insurance broker
KBC Insurance: joint ventures accounted for using the equity method				
NLB Vita d.d.	Ljubljana – SI	--	50.00	life insurance
KBC Insurance: joint ventures not accounted for using the equity method[1]				
Macadam VAB Inspection NV	Vilvoorde – BE	0836.746.447	33.25	vehicles
KBC Insurance: associated companies accounted for using the equity method				
KBC Asset Management SA	Luxembourg – LU	--	10.71	asset management
KBC Insurance: associated companies not accounted for using the equity method[1]				
AIA-Pool CVBA	Brussels – BE	0453.634.752	33.47	insurance broker
AssurCard NV	Leuven – BE	0475.433.127	20.00	automated third-party payment system
Olympos Mobility NV	Brussels – BE	0638.809.930	49.76	computer programming
Optimobil Belgium NV	Brussels – BE	0471.868.277	24.06	vehicles
Traject NV	Ghent – BE	0448.394.475	47.50	mobility

1 Immaterial.

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.

Interests in unconsolidated structured entities

Sponsored unconsolidated structured entities are defined as structured entities where KBC Insurance 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 Insurance or one of its subsidiaries. As a result, these entities are not consolidated.
More information on unconsolidated structured entities is provided in the KBC Group annual report.

At year-end 2017, KBC Insurance had received income from unconsolidated structured entities in the form of management fees (27 million euros).

At year-end 2017, KBC Insurance held 5.8 billion euros' worth of notes issued by the unconsolidated structured entities.

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.

Note 6.6: Main changes in the scope of consolidation

There were no significant changes in the scope of consolidation in 2017, apart from the equity method being applied to KBC Asset Management SA and the annulation of the application of the equity method on CSOB Property Fund.

Note 6.7: Risk management

Capital management is a key management process relating to all decisions on the level and composition of our capital. 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).

ORSA (Own Risk and Solvency Assessment) 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.

We report the solvency of the insurance company based on IFRS data and according to the rules imposed by the regulator. 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 KBC Insurance

(in millions of EUR)	KBC Insurance (consolidated) Solvency II	
	31-12-2017	31-12-2016
Total regulatory capital, after profit appropriation	3 865	3 637
Tier-1 capital	3 365	3 137
Parent shareholders' equity	3 051	2 936
Solvency adjustments	314	200
Tier-2 capital	500	500
Solvency capital requirement	1 823	1 791
Solvency II ratio	212%	203%

More detailed information is provided in the 'Risk management and capital adequacy' chapter.

The information required in relation to risks (in accordance with IFRS 4 and IFRS 7) is provided in those parts of the 'Risk management and capital adequacy' chapter that have been audited by the statutory auditor.

Note 6.8: Post-balance-sheet events

The most 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 (IAS 1)

Name KBC Insurance NV.

Incorporation 24 October 1922.

Country of incorporation Belgium.

Registered office KBC Insurance NV, Professor Roger Van Overstraetenplein 2, 3000 Leuven, Belgium.

VAT BE0403.552.563.

RLP Leuven.

Legal form *naamloze vennootschap* (company with limited liability) under Belgian law; the company is an insurance company that is subject to the prudential supervision of the National Bank of Belgium.

Life Undefined.

Object The company has as object the transaction of all insurance, co-insurance, reinsurance and capitalisation business and the management of group pension funds (Article 2 of the Articles of Association).

Documents open to public inspection

The Articles of Association of the company are open to public inspection at the Registry of the Leuven Commercial Court. The financial statements are filed with the National Bank of Belgium. Decisions on the appointment and the termination of the offices of members of the Executive Committee and of the Board of Directors are published in the *Appendices to the Belgian Official Gazette*. Copies of the company's annual reports are available at its registered office. They are sent annually to the holders of registered shares and to those who have requested a copy.

General Meeting of Shareholders

A General Meeting is held every year at the company's registered office or at any other place indicated in the convening notice, at 2 p.m. on the Wednesday immediately prior to the last Thursday of April, or, if this day is a statutory public holiday or bank holiday, at 2 p.m. on the business day immediately before it.

Each share gives entitlement to one vote.

Holders of bonds, warrants or certificates issued in co-operation with the company, shall be entitled to attend the General Meeting of Shareholders, but have only advisory voting capacity.

Holders of registered bonds, warrants or certificates issued in co-operation with the company must also notify the registered office of KBC Insurance NV in writing, at least four business days prior to the General Meeting, of their intention to attend the General Meeting.

Holders of book-entry bonds, warrants or certificates issued in co-operation with the company must, within the same timeframe, deposit at the registered office or at another place designated in the convening notice, a certificate drawn up by the recognised account holder or by the clearing house, attesting to the non-availability of the bonds, warrants or certificates until the date of the General Meeting.

Holders of bearer bonds, warrants or certificates issued in co-operation with the company must, within the same timeframe, deposit their securities at the registered office or at another location specified in the convening notice. They will receive a certificate attesting to the fact that their bonds, warrants or certificates were deposited on time. They will be admitted to the General Meeting upon presentation of proof of their identity and this certificate.

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KBC VERZEKERINGEN NV

Statutory auditor's report to the general shareholders' meeting on the consolidated accounts for the year ended 31 December 2017

20 March 2018

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STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING OF THE COMPANY KBC VERZEKERINGEN 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 Verzekeringen 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 27 April 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 Verzekeringen 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 38.395 million and a profit for the year (share of the Group) of EUR 465 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.

PwC Bedrijfsrevisoren cvba, burgerlijke vennootschap met handelsvorm - PwC Reviseurs d'Entreprises scrl, société civile à forme commerciale - Financial Assurance Services
Maatschappelijke zetel/Siège social: Woluwe Garden, Woluwedal 18, B-1932 Sint-Stevens-Woluwe
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BTW/TVA BE 0429.501.944 / RPR Brussel - RPM Bruxelles / ING BE43 3101 3811 9501 - BIC BBRUBEBB / BELFIUS BE92 0689 0408 8123 - BIC GKCC BEBB

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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 technical insurance provisions

Key audit matter

At year-end 31 December 2017 the technical insurance provisions (before reinsurance) amount to EUR 18.721 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 insurane 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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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.

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.

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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.

Regarding non-financial information, as mentioned in the directors' report, the information is provided at the level of the highest Belgian consolidating entity, KBC Group NV in the directors' report on the consolidated accounts.

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

Yves Vandenplas
Accredited auditor

Tom Meuleman
Accredited auditor

Company annual accounts

Additional information

Ratios used

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
/		1 465	1 387
Earned insurance premiums (B)	Note 3.7		
+			
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%

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Solvency ratio

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%

Management certification

'I, Rik Scheerlinck, Chief Financial Officer of KBC Insurance, certify on behalf of the Executive Committee of KBC Insurance 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 Insurance NV and its consolidated subsidiaries, and that the annual report provides a fair overview of the development, results and the situation of KBC Insurance NV and its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed.'