KBC Group Quarterly Report 1Q2018

Report for 1Q2018

Consolidated financial statements

Additional information

KBC Group

Report for 1Q2018

Management certification

'I, Rik Scheerlinck, Chief Financial Officer of the KBC Group, certify on behalf of the Executive Committee of KBC Group NV that, to the best of my knowledge, the abbreviated financial statements included in the quarterly report are based on the relevant accounting standards and fairly present in all material respects the financial condition and results of KBC Group NV including its consolidated subsidiaries, and that the quarterly report provides a fair view of the main events, the main transactions with related parties in the period under review and their impact on the abbreviated financial statements, and an overview of the main risks and uncertainties for the remainder of the current year.'

Forward-looking statements

The expectations, forecasts and statements regarding future developments that are contained in this report are, of course, based on assumptions and are contingent on a number of factors that will come into play in the future. Consequently, the actual situation may turn out to be (substantially) different.

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This report contains information that is subject to transparency regulations for listed companies. Date of release: 17 May 2018

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First-quarter result of 556 million euros

KBC Group - overview (consolidated, IFRS)	1Q2018 (IFRS 9)	4Q2017 (IAS 39)	1Q2017 (IAS 39)
Net result (in millions of EUR)	556	399	630
Basic earnings per share (in EUR)	1.30	0.92	1.47
Breakdown of the net result by business unit (in millions of EUR)			
Belgium	243	336	301
Czech Republic	171	167	181
International Markets	137	74	114
Group Centre	5	-179	33
Parent shareholders' equity per share (in EUR, end of period)	40.9	41.6	39.4

We recorded a net profit of 556 million euros in the first quarter of 2018. A very good result indeed, despite the fact that we booked the bulk of the bank taxes for the full year in the first quarter (371 million euros in 1Q2018). Driven by the commercial performance of our core activities, our total income was up quarter-on-quarter, while costs – excluding bank taxes – were down on the seasonally high last quarter of the year. Both our life and non-life businesses grew significantly year-on-year. Finally, we were able to release some loan loss provisions once again, due mainly to our Irish mortgage book.

In the quarter under review, we completed the acquisition of the remaining 40% stake in the life insurance joint venture between our subsidiary UBB and MetLife in Bulgaria. This reaffirms our position as a strong, local market player that is able to offer a full range of bank-insurance products to our Bulgarian clients in an omni-channel environment. It will undoubtedly help in making UBB and DZI a genuine reference bank-insurance group in Bulgaria, which will ultimately benefit its clients, employees and all other stakeholders.

With the aim of further improving client experience, we have continued developing innovative client-centric solutions that make our clients' lives easier. To name just one example, we were the first bank in Belgium to add multi-banking possibilities to our KBC Mobile app following the opportunities created by PSD2. A few weeks after their introduction, we are delighted to say that we received an enthusiastic response from our clients.

We also strive to make a positive contribution to society through our financing activities. For example, it is our ambition to increase our renewable energy portfolio to over 50% of our total energy sector portfolio by 2030 (currently this stands at 41%). Moreover, at the beginning of this year, we decided to update various KBC sustainability policies, which will be implemented in June. Finally, as part of our new KBC credit energy policy, we announced that we would exit the coal sector and reduce the current exposure to coal-based electricity production to zero by 2023 at the latest.

Last but not least, the European economic environment has remained attractive, with solid growth and low inflation. However, now that sentiment indicators have fallen from their recent highs, the period of accelerating growth has probably come to an end. The risk of further economic de-globalisation, with escalating trade conflicts and geopolitical tensions are the main factors that could impede European economic growth. We are convinced, however, that we have a more than solid starting position in that economic arena, thanks to the sustained efforts we have made in recent years to put the client at the centre of everything we do, coupled with our excellent solvency and liquidity position.

In closing, I'd like to take this opportunity again to thank all the stakeholders who have put their trust in us and assure them that we will do everything possible to move even closer to achieving our ultimate goal of being the reference bank-insurer in all our core markets.

Johan Thijs
Chief Executive Officer

Important. We have started applying IFRS 9 as of this quarter. In simplified terms, this means that the classification of financial assets and liabilities, as well as the impairment methodology, have changed significantly. As a result, some of the profit and loss and balance sheet figures are not fully comparable to the 2017 reference figures (which are still based on IAS 39, as KBC is making use of transition relief for comparative data). In order to enhance transparency, we have also, in line with IFRS 9, moved interest accruals for FX derivatives in the banking book from 'fair value income' to 'net interest income'. We also shifted network income (income received from margins earned on FX transactions carried out by the network for our clients) from 'trading and fair value income' to 'net fee and commission'. A short overview is provided in the annex, and a more comprehensive overview is given in Note 1.1 of the consolidated financial statements and in the company presentation (available at www.kbc.com). Furthermore, related to IFRS 9, we changed the definition of our loan portfolio from outstanding to gross carrying amount (i.e. incl. reserved and accrued interests) and slightly amended the scope. In order to enhance comparability, we have added certain comparisons with pro forma (recalculated) figures for 2017 (unaudited) in the analysis below. When this is done, it is indicated by the words 'on a comparable basis'.

Financial highlights in the first quarter of 2018

- Good performance turned in by the commercial bank-insurance franchises in our core markets and core activities.
- Lending volumes went up 1% quarter-on-quarter and 5% year-on-year, with year-on-year increases in all business units. Deposits – excluding debt certificates – rose by 2% quarter-on-quarter and by 7% year-on-year, again with year-on-year increases in all business units.
- On a comparable basis, net interest income remained virtually unchanged (-1%) quarter-on-quarter, and improved by 4% year-on-year, thanks in part to lower funding costs, repo rate increases in the Czech Republic, loan volume growth, and the positive effect of the consolidation of UBB/Interlease.
- The technical income from our non-life insurance activities increased by 7% quarter-on-quarter, but was down 16% year-on-year (due to several factors, including the January storms in Belgium). The combined ratio for the first quarter of the year amounted to 90%, compared to 88% for full year 2017. Sales of our life insurance products fell by 15% on the seasonally strong previous quarter, but were up 5% on the first quarter of 2017.
- Our net fee and commission income remained strong. It was down slightly (-1%) on its quarter-earlier level, and down 3% on its year-earlier level, both on a comparable basis.
- On a comparable basis, all other income items combined were up 60% quarter-on-quarter, as the last quarter of 2017 had included an additional provision of 61.5 million euros related to the industry wide review of tracker rate mortgages originated in Ireland before 2009. Year-on-year, all other income items combined fell by 20%, due primarily to the lower level of trading and fair value income.
- The comparison of costs is distorted by the fact that the bulk of special bank taxes for full year 2018 are booked in the first quarter. Disregarding bank taxes, costs were down 6% quarter-on-quarter. Year-on-year, they increased by 6%, though that was caused in part by the inclusion of UBB/Interlease. When bank taxes are spread evenly throughout the year, the cost/income ratio amounted to 55% in the quarter under review, in line with the figure recorded for full year 2017.
- The quarter benefited from a 63-million-euro release of loan loss provisions, mainly on account of Ireland. Consequently, our annualised cost of credit amounted to a very favourable -0.15% (a negative figure indicates a positive impact on the results), compared to -0.06% registered for full year 2017.
- Our liquidity position remained strong, as did our capital base, with a common equity ratio of 15.9% (fully loaded, Danish compromise).

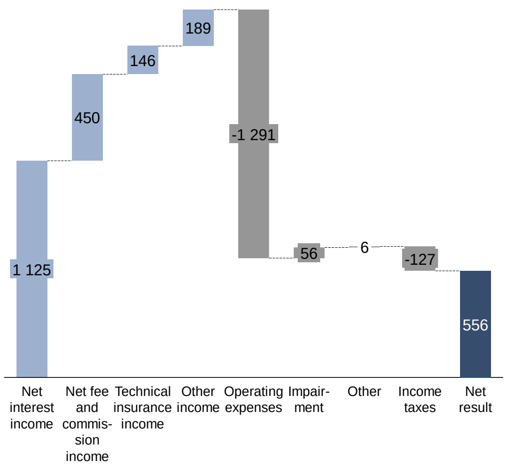
The cornerstones of our strategy

Our strategy rests on four principles:

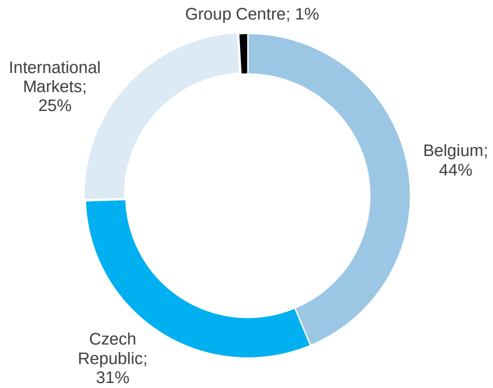
- We place our clients at the centre of everything we do.
- We look to offer our clients a unique bank-insurance experience.
- We focus on our group's long-term development and aim to achieve sustainable and profitable growth.
- We meet our responsibility to society and local economies.

Breakdown of the 1Q2018 result

(in millions of EUR)



Contribution of the business units to the group result (1Q2018)



Overview of results and balance sheet

Consolidated income statement, IFRS KBC Group (in millions of EUR)	1Q2018 (IFRS 9)	4Q2017 (IAS 39)	3Q2017 (IAS 39)	2Q2017 (IAS 39)	1Q2017 (IAS 39)
Net interest income	1 125	1 029	1 039	1 028	1 025
Non-life insurance (before reinsurance)	162	152	188	179	187
Earned premiums	*378*	*384*	*378*	*369*	*360*
Technical charges	*-216*	*-232*	*-190*	*-190*	*-173*
Life insurance (before reinsurance)	-7	-3	-3	-24	-28
Earned premiums	*336*	*410*	*282*	*267*	*312*
Technical charges	*-343*	*-414*	*-284*	*-291*	*-341*
Ceded reinsurance result	-9	-10	16	-10	-4
Dividend income	21	8	11	30	15
Net result from financial instruments at fair value through P&L[1]	96	235	182	249	191
Net realised result from available-for-sale assets	-	51	51	52	45
Net realised result from debt instruments at fair value through other comprehensive income	1	-	-	-	-
Net fee and commission income	450	430	408	430	439
Other net income	71	-14	4	47	77
Total income	1 912	1 878	1 896	1 980	1 946
Operating expenses	-1 291	-1 021	-914	-910	-1 229
Impairment	56	-2	-31	71	-8
Of which: on loans and receivables	-	30	-15	78	-6
Of which: on financial assets at amortised cost	63	-	-	-	-
Share in results of associated companies and joint ventures	6	-5	8	3	5
Result before tax	683	850	959	1 144	715
Income tax expense	-127	-451	-268	-288	-85
Result after tax	556	398	691	855	630
attributable to minority interests	0	0	0	0	0
attributable to equity holders of the parent	**556**	**399**	**691**	**855**	**630**
Basic earnings per share (EUR)	1.30	0.92	1.62	2.01	1.47
Diluted earnings per share (EUR)	1.30	0.92	1.62	2.01	1.47

Key consolidated balance sheet figures KBC Group (in millions of EUR)	31-03-2018 (IFRS 9)	31-12-2017 (IAS 39)	30-09-2017 (IAS 39)	30-06-2017 (IAS 39)	31-03-2017 (IAS 39)
Total assets	304 022	292 342	296 885	296 479	287 293
Loans and advances to customers, excluding reverse repos	142 512	140 999	139 538	138 522	134 047
Securities (equity and debt instruments)	66 050	67 743	69 273	70 898	72 329
Deposits from customers and debt certificates, excluding repos	188 034	193 708	188 962	188 708	181 107
Technical provisions, before reinsurance	18 754	18 641	18 696	18 905	19 234
Liabilities under investment contracts, insurance	13 338	13 552	13 294	13 339	13 128
Parent shareholders' equity	17 119	17 403	17 003	16 665	16 506

Selected ratios KBC group (consolidated)	1Q2018	FY2017
Return on equity	14%	17%
Cost/income ratio, banking	70%	54%
(when excluding certain non-operating items and evenly spreading the banking tax)	(55%)	(55%)
Combined ratio, non-life insurance	90%	88%
Common equity ratio Basel III Danish Compromise (fully loaded)	15.9%	16.3%
Common equity ratio FICOD (fully loaded)	14.9%	15.1%
Leverage ratio Basel III (fully loaded)	5.7%	6.1%
Credit cost ratio[2]	-0.15%	-0.06%
Impaired loans ratio	5.9%	6.0%
for loans more than 90 days overdue	3.5%	3.4%
Net stable funding ratio (NSFR)	137%	134%
Liquidity coverage ratio (LCR)	139%	139%

1 Also referred to as 'trading and fair value income'
2 A negative figure indicates a net impairment release (with a positive impact on the results).

We provide a full overview of our IFRS consolidated income statement and balance sheet in the 'Consolidated financial statements' section of the quarterly report. Condensed statements of comprehensive income, changes in shareholders' equity, as well as several notes to the accounts, are also available in the same section. As regards the (changes in) definition of ratios, see 'Details of ratios and terms' in the quarterly report.

Analysis of the quarter (1Q2018)

Total income

1 912 million euros

Total income was slightly up on the figure for the previous quarter. On a comparable basis, improved technical insurance income, net other income and dividend income more than offset the decrease in trading and fair value income and the slight decline in net interest income and net fee and commission income.

Net interest income amounted to 1 125 million euros in the quarter under review. On a comparable basis, it remained virtually unchanged (-1%) quarter-on-quarter and was up 4% year-on-year. In general, the pressure on commercial loan margins in most core countries, the negative effect of the low reinvestment yield, the lower number of days in the first quarter and a lower netted positive impact of ALM forex swaps (quarter-on-quarter) were offset by loan volume growth, lower funding costs thanks in part to the contingent capital note (CoCo) being called in January, higher repo rates in the Czech Republic, exchange rate movements (CZK) and the consolidation of UBB/Interlease (year-on-year). As already mentioned, interest income continued to be supported by loan volume growth: the total volume of customer lending rose by 1% quarter-on-quarter and by 5% year-on-year, with increases in all business units for the year-on-year figures. Customer deposits including debt certificates fell by 3% quarter-on-quarter, but increased by 3% year-on-year. Excluding debt certificates (down due to lower certificates of deposits, repayment of the CoCo, etc.), deposits increased by 2% quarter-on-quarter and by 7% year-on-year, with increases in all business units. The net interest margin came to 2.01% for the quarter under review, up 4 and 8 basis points respectively on the previous and year-earlier quarter's figure, on a comparable basis.

Technical income from our insurance activities (earned premiums less technical charges, plus the ceded reinsurance result) stood at 146 million euros in the quarter under review. Non-life insurance activities contributed 153 million euros to technical insurance income, 7% more than in the previous quarter but 16% less year-on-year. While the quarter-on-quarter increase was accounted for mainly by a 7% decrease in technical charges (the negative impact of the January storms in Belgium was more than offset by a drop in other claims), the year-on-year decrease was caused by a combination of a lower ceded reinsurance result and higher technical charges (+25% owing to the January storms, among other things), which outweighed the 5% increase in earned premiums. Consequently, the combined ratio for the first quarter of 2018 came to 90%, compared to 88% for full year 2017 (which had benefited from some reserve releases).
Technical insurance income from our life insurance activities stood at -7 million euros, compared to -4 million euros in the previous quarter and -28 million in the year-earlier quarter. Sales of life insurance products (498 million euros) were 15% lower than in the seasonally strong previous quarter (decline in both guaranteed interest and unit-linked products), but were up 5% on the year-earlier quarter (with stronger sales of both guaranteed interest and unit-linked products). Overall, the share of guaranteed interest products in total life insurance sales stood at 56% in the first quarter of 2018, with unit-linked products accounting for the remaining 44%.

At 450 million euros, net fee and commission income remained robust. On a comparable basis, there was only a minor decrease of 1% on the previous quarter's level, caused mainly by slightly lower management fees related to our asset management activities (due, inter alia, to a decrease in AUM, see below) and lower payment, securities and credit-related fees, offset to a certain extent by the lower level of commissions paid on insurance sales and higher asset management-related entry fees. Year-on-year, net fee and commission income fell 3% on a comparable basis (lower asset management entry fees and a decline in securities and credit-related fees, partly offset by the inclusion of UBB/Interlease and higher payment-related fees). At the end of March 2018, our total assets under management stood at 213 billion euros, more or less stable year-on-year and down 1.5% quarter-on-quarter due to the negative price performance.

All other remaining income items amounted to an aggregate 189 million euros, compared to 118 million euros in the previous quarter and 236 million euros in the year-earlier quarter (on a comparable basis). The figure for the first quarter of 2018 included 21 million euros in dividend income and 1 million euros net realised result from debt instruments at fair value. It also included 71 million euros in other net income, 85 million euros more than in the previous quarter, which had been impacted by the booking of an additional provision of 61.5 million related to the industry wide review of tracker rate mortgages originated in Ireland before 2009. Other net income in the first quarter of 2018 moreover benefited from positive one-offs related to the settlement of an old legal file and the sale of a building. The other remaining income items also included a 96-million-euro net result from financial instruments at fair value (trading and fair value income). On a comparable basis, this was 19% lower than the previous quarter and 26% lower than a year earlier, due in both cases to lower dealing room results and the aggregate negative impact of various (market, credit and funding) value adjustments.

Operating expenses

1 291 million euros

Expenses were distorted by the traditional upfront booking of the bulk of bank taxes for the full year. Excluding bank taxes, expenses were down 6% on the seasonally high level of the previous quarter

Operating expenses in the first quarter of 2018 stood at 1 291 million euros. The quarter-on-quarter comparison is distorted by the traditional upfront recognition in the first quarter of most of the banking taxes for the full year (371 million euros in the first quarter of 2018, 41 million euros in the fourth quarter of 2017, 361 million euros in the first quarter of 2017). Excluding bank taxes, costs fell 6% quarter-on-quarter – despite a negative one-off item of 12 million euros in the quarter under review – as the previous quarter had included the traditional seasonal uptick in expenses, specifically in marketing expenses (year-end campaigns) and in professional fees. Costs excluding bank taxes went up 6% year-on-year, largely due to the inclusion of UBB/Interlease, with the rest of the increase being accounted for by *inter alia* higher ICT costs, slightly higher staff expenses (mainly in the Czech Republic and Ireland), higher depreciation expenses, exchange rate movements (CZK) and a negative one-off item.

As a result, the cost/income ratio of our banking activities stood at 70% in the quarter under review. When the bank taxes are spread evenly throughout the year and certain non-operational items are excluded, the cost/income ratio came to 55%, fully in line with the figure recorded for full year 2017.

Loan loss impairments

63 million euros net release

Another net release of loan loss impairments, thanks primarily to Ireland. Very favourable credit cost ratio of -0.15%.

In the first quarter of 2018, we recorded a 63-million-euro net release of loan loss impairments. This compares with a net release of 30 million euros in the previous quarter and a net addition of 6 million euros in the first quarter of 2017. The net release of loan loss impairments in the quarter under review was mainly attributable to a 43-million-euro release in Ireland, which came about mainly because of the increase in house prices, and – to a lesser extent – improved portfolio performance. Moreover, in all other core countries, there was either a small loan loss impairment release (Bulgaria, Hungary, Slovakia, Group Centre) or a generally very low level of loan loss impairment charges (Belgium, Czech Republic). Consequently, the credit cost ratio for the entire group amounted to a very favourable -0.15% for the quarter under review (a negative figure indicates a net release and, hence, has a positive impact on the results), compared to -0.06% in full year 2017.
The impaired loans ratio improved further. At the end of March 2018, some 5.9% of our loan book was classified as impaired, compared with 6.0% at year-end 2017. Some 3.5% of the loan book concerned impaired credits that are more than 90 days past due.

Income taxes

127 million euros

Income taxes were down as the previous quarter was adversely impacted by the upfront effect of the new corporate tax system in Belgium.

Income taxes amounted to 127 million euros, compared to 451 million euros in the fourth quarter of 2017 and 85 million euros in the first quarter of 2017. The significant quarter-on-quarter drop was caused primarily by the fact that the fourth quarter of 2017 had been impacted by the upfront booking of -211 million euros related to the reform of the Belgian corporation tax system as of 2018 (which impacted the existing amount of deferred tax assets, among other things). The year-on-year increase was partly related to the fact that the first quarter of 2017 had benefited from a one-off, 66-million-euro deferred tax asset related to the liquidation of a group company.

Net result by business unit

Belgium	Czech Republic	International Markets	Group Centre
243 million euros	171 million euros	137 million euros	5 million euros

Belgium: at first sight, the net result was down 28% quarter-on-quarter, but this was distorted by the upfront booking in the first quarter of 2018 of most of the bank tax for the full year and the upfront effect of the change in the corporate tax system in the last quarter of 2017. Excluding both items, the net result was up 3% quarter-on-quarter, and included (on a comparable basis) lower net interest income, virtually unchanged net fee and commission income, higher technical insurance income (despite the impact of the January storms), lower trading and fair value income, higher dividend income and higher net other income (thanks to a one-off item related to the settlement of an old legal file). Costs – excluding bank taxes – fell (partly a seasonal effect) and the loan loss impairment charges remained at a very low level.

Czech Republic: the net result was up 2% on its level for the previous quarter. Excluding bank taxes, the net result was up by as much as 16%, thanks mainly, on a comparable basis, to higher net interest income, lower but still good trading and fair value income and increased net fee and commission income. Loan loss impairments remained extremely low and costs – excluding bank taxes – fell (partly a seasonal effect).

International Markets: the 137-million-euro net result breaks down as follows: 23 million euros for Slovakia, 34 million euros for Hungary, 21 million euros for Bulgaria and 57 million euros for Ireland. For the business unit as a whole, the net result went up 85% quarter-on-quarter. This improvement relates primarily to Ireland, where the previous quarter's result had been negatively impacted by additional provisioning of 61.5 million euros for an industry wide review of tracker rate mortgages originated before 2009. As was the case in the previous quarter, the result for Ireland also continued to benefit from significant loan loss impairment releases (43 million euros, compared to 52 million euros in the previous quarter).

Group Centre: the net result was up 184 million euros on the level recorded in the previous quarter, which had been negatively impacted by the upfront effect of the reform of the corporate tax system in Belgium. Moreover, the quarter under review included, on a comparable basis, lower total income, a decrease in expenses and a net release of loan loss impairments (17 million euros, compared to a net addition of 4 million euros in the previous quarter).

Selected ratios by business unit	Belgium 1Q2018	Belgium FY2017	Czech Republic 1Q2018	Czech Republic FY2017	International Markets 1Q2018	International Markets FY2017
Cost/income ratio, banking excluding certain non-operating items and spreading the bank tax evenly throughout the year	56%	53%	42%	43%	64%	72%
Combined ratio, non-life insurance	93%	86%	93%	97%	86%	93%
Credit cost ratio[1]	0.05%	0.09%	0.01%	0.02%	-0.86%	-0.74%
Impaired loans ratio[2]	2.6%	2.8%	2.4%	2.4%	20.4%	19.7%

1 A negative figure indicates a net impairment release (with a positive impact on the results). See 'Details of ratios and terms' in the quarterly report.
2 Since 2018 based on a slightly changed definition of the loan portfolio. See 'Credit risk' in the quarterly report.

A full results table is provided in the 'Additional information' section of the quarterly report. A short analysis of the results per business unit is provided in the analyst presentation (available at www.kbc.com).

Equity, solvency, liquidity

Total equity	Common equity ratio (fuly loaded)	Liquidity coverage ratio	Net stable funding ratio
18.5 billion euros	15.9%	139%	137%

At the end of March 2018, total equity stood at 18.5 billion euros (17.1 billion euros in parent shareholders' equity and 1.4 billion euros in additional tier-1 instruments), up 0.5 billion euros on its level at the beginning of the year on a like-for-like basis (i.e. after adjustment for the impact of the first-time application of IFRS 9, which led to a drop of 0.7 billion euros). The 'like-for-like' increase of 0.5 billion euros during the first quarter of the year resulted from the inclusion of the profit for the first quarter (+0.6 billion euros), changes in the various revaluation reserves (an aggregate -0.1 billion euros) and a number of minor items. We have provided details of the changes in the 'Consolidated financial statements' section of the quarterly report (under 'Consolidated statement of changes in equity').

At 31 March 2018, our fully loaded common equity ratio (Basel III, under the Danish compromise) stood at a strong 15.9%, compared to 16.3% three months earlier. The difference is almost entirely accounted for by the effects of the first-time application of IFRS 9 (-41 basis points). Our leverage ratio (Basel III, fully loaded) came to 5.7%. The solvency ratio for KBC Insurance under the Solvency II framework was a sound 218% at 31 March 2018. Our liquidity position remained excellent too, as reflected in an LCR ratio of 139% and an NSFR ratio of 137% at the end of March 2018.

Risk statement, economic views and guidance

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

At present, a number of items are considered to constitute the main challenges for the financial sector in general and, as a consequence, are also relevant to us. Regulatory uncertainty remains a dominant theme for the sector (even though the 'Basel IV' agreement in December has brought some clarification as regards future capital requirements), as does enhanced consumer protection. Another ongoing challenge remains the low interest rate environment, combined with the increased risk of asset bubbles. The financial sector also faces the potential systemic consequences of political and financial developments like Brexit or protectionist measures in the US, which will have an impact on the European economy. Technology used in the financial industry is an additional challenge for the business model of traditional financial institutions. Finally, cyber risk has become one of the main threats during the past few years, not just for the financial sector, but for the economy as a whole.

We provide risk management data in our annual reports, quarterly reports and dedicated risk reports, all of which are available at www.kbc.com.

Our view on interest rates and foreign exchange rates: we expect the ECB to continue its QE programme until at least September 2018, after which the programme may be gradually phased out ('tapering'). We forecast the ECB to wait until 2019 to raise its policy rate. In the meantime, we expect the Fed to carry out two more rate hikes in 2018 (i.e. three for the whole year), each time by 25 basis points. Consequently, we believe that the US dollar will appreciate against the euro in the short term, as it will benefit from short-term interest rate support. From mid-2018 on, however, the euro will start appreciating again. Given the low inflation environment and still highly accommodating monetary policy of the ECB, German long-term bond yields are expected to rise only modestly in the period ahead. Unlike the dovish stance of the ECB, the Czech National Bank has already begun to tighten its monetary policy and is expected to continue doing so in 2018 given the Czech growth and inflation environment. We forecast one more rate hike for this year in the Czech Republic, which will bring the repo rate to 1% by the end of 2018. As a result, we expect the Czech koruna to appreciate moderately to 25 CZK per EUR by the end of 2018.

Our view on economic growth: the European economic environment remains attractive, with solid growth and low inflation. The positive labour developments and domestic demand continue to be growth drivers. But now that sentiment indicators have fallen from their recent highs, the period of accelerating growth has probably come to an end. The risk of further economic de-globalisation, with escalating trade conflicts and geopolitical tensions could create additional uncertainty and hence further affect economic sentiment and growth.

Guidance for the remainder of 2018

- Solid returns for all business units
- For Ireland, our guidance for loan impairments for full year 2018 is for a net release of 100 to 150 million euros.
- For Belgium, we expect a recurring positive impact on results from the reform of the Belgian income tax system. The negative upfront effect in the last quarter of 2017 should be fully recuperated in roughly three years' time.

Annex

Pro forma recalculation of reference figures for the main income lines, KBC Group (in millions of EUR, unaudited figures)	1Q2018	4Q2017	3Q2017	2Q2017	1Q2017
Net interest income	1 125	1 029	1 039	1 028	1 025
+ interest accrual FX derivatives		+108	+75	+66	+56
= pro forma reference figure (used in our results analysis)		=1 137	=1 114	=1 094	=1 081
Net result from financial instruments at fair value through P&L (FIFV)	96	235	182	249	191
- interest accrual FX derivatives		-108	-75	-66	-56
- network income		-26	-25	-24	-24
+ result on equity instruments ('overlay approach')		+17	+12	+21	+19
= pro forma reference figure (used in our results analysis)		=118	=94	=180	=130
Net fee and commission income	450	430	408	430	439
+ network income		+26	+25	+24	+24
= pro forma reference figure (used in our results analysis)		=456	=433	=454	=463

Interest accrual on FX derivatives: moved from FIFV to 'net interest income' (in line with the transition to IFRS 9).
Network income (income received from margins earned on FX transactions carried out by the network for clients): moved from FIFV to 'net fee and commission income'.
Result on equity instruments: in line with the IFRS 9 'overlay approach', realised gains and losses and impairment on what used to be available-for-sale shares in the insurance portfolio have been moved from 'net result from available-for-sales assets' and 'impairment on available-for-sale assets' to FIFV. Please note that, under IFRS 9, realised and unrealised gains/losses on what used to be available-for-sale shares in the banking portfolio are recorded in other comprehensive income (i.e. eliminated from the net result).

KBC Group

Consolidated financial statements according to IFRS

1Q 2018

Section reviewed by the Auditor

Glossary

AC: amortised cost
AFS: Available For Sale (IAS 39)
ALM: Asset Liability Management
ECL: Expected Credit Loss
FA: Financial Assets
FTA: First Time Application/Adoption
FV: Fair Value
FVA: Funding Value Adjustment
FVI: Fair Value through Profit or Loss – overlay
FVO: Fair Value Option, Designated at initial recognition at fair value through profit or loss
FVOCI: Fair Value through Other Comprehensive Income
FVPL: Fair Value through Profit or Loss
GCA: Gross Carrying Amount
HFT: Held For Trading
HTM: Held To Maturity (IAS 39)
MFVPL: Mandatorily at Fair Value through Profit or Loss
OCI: Other Comprehensive Income
POCI: Purchased or Originated Credit Impaired Assets
SPPI: Solely payments of principal and interest
SRB: Single Resolution Board
R/E: Retained Earnings

Consolidated income statement

(in millions of EUR)	Note	1Q 2018 IFRS 9	4Q 2017 IAS 39	1Q 2017 IAS 39
Net interest income	3.1	1 125	1 029	1 025
Interest income	3.1	1 682	1 590	1 576
Interest expense	3.1	- 557	- 561	- 551
Non-life insurance before reinsurance	3.7	162	152	187
Earned premiums Non-life	3.7	378	384	360
Technical charges Non-life	3.7	- 216	- 232	- 173
Life insurance before reinsurance	3.7	- 7	- 3	- 28
Earned premiums Life	3.7	336	410	312
Technical charges Life	3.7	- 343	- 414	- 341
Ceded reinsurance result	3.7	- 9	- 10	- 4
Dividend income		21	8	15
Net result from financial instruments at fair value through profit or loss	3.3	96	235	191
Of which Result on equity instruments (overlay)		19	-	-
Net realised result from available-for-sale assets		-	51	45
Net realised result from debt instruments at fair value through other comprehensive income		1	-	-
Net fee and commission income	3.5	450	430	439
Fee and commission income	3.5	648	641	620
Fee and commission expense	3.5	- 197	- 210	- 181
Net other income	3.6	71	- 14	77
TOTAL INCOME		1 912	1 878	1 946
Operating expenses	3.8	- 1 291	- 1 021	- 1 229
Staff expenses	3.8	- 583	- 584	- 565
General administrative expenses	3.8	- 640	- 368	- 601
Depreciation and amortisation of fixed assets	3.8	- 68	- 70	- 63
Impairment	3.10	56	- 2	- 8
on loans and receivables	3.10	-	30	- 6
on financial assets at amortised cost	3.10	63	-	-
on available-for-sale assets	3.10	-	- 3	- 1
on financial assets at fair value through other comprehensive income	3.10	0	-	-
on goodwill	3.10	0	0	0
on other	3.10	- 6	- 29	0
Share in results of associated companies and joint ventures		6	- 5	5
RESULT BEFORE TAX		683	850	715
Income tax expense		- 127	- 451	- 85
RESULT AFTER TAX		556	398	630
Attributable to minority interest		0	0	0
Attributable to equity holders of the parent		**556**	**399**	**630**
Earnings per share (in EUR)				
Basic		1,30	0,92	1,47
Diluted		1,30	0,92	1,47

As of 2018, the financial information is prepared in accordance with IFRS 9.

For more information see ‘Statement of compliance and (changes in) accounting policies’ (note 1.1) further in this report, including transition disclosures. KBC has opted to use transition relief for disclosing comparative information.

Overview impact of the overlay approach on the consolidated income statement

The equity instruments of the insurance companies within the Group are designated under the overlay approach. These equity instruments, mainly classified as AFS under IAS 39, would have been measured at fair value through P&L under IFRS 9. The overlay approach reclassifies from the income statement to OCI the extra volatility related to the adoption of IFRS 9 as long as IFRS 17 is not in place, until 1st January 2021.

The extra volatility due to IFRS 9, and reclassified out of the net result from financial instruments at fair value through profit or loss to the revaluation reserves of equity instruments (overlay approach) refers to the unrealised fair value fluctuations amounting to -88 million euros. It can be summarized as the difference between

- IFRS 9 result (without applying the overlay): -68 million euros of realised and unrealised fair value adjustments included in ‘net result from financial instruments at fair value through profit or loss’
- IAS 39 result: 19 million euros including net realised result amounting to 24 million euros and impairment loss of 5 million euros.
- The tax impact on this reclassification amounts to -1 million euros.

For more information see note ‘Summary of significant accounting policies’ (note 1.2) further in this report.

Consolidated statement of comprehensive income (condensed)

(in millions of EUR)	1Q 2018 IFRS 9	4Q 2017 IAS 39	1Q 2017 IAS 39
RESULT AFTER TAX	556	398	630
attributable to minority interest	0	0	0
attributable to equity holders of the parent	556	399	630
Other comprehensive income - to be recycled to P&L	- 75	- 23	- 106
Net change in revaluation reserve (AFS assets) - Equity	-	- 12	37
Net change in revaluation reserve (AFS assets) - Bonds	-	153	- 214
Net change in revaluation reserve (FVOCI debt instruments)	- 33	-	-
Net change in revaluation reserve (AFS assets) - Other	-	0	0
Net change in revaluation reserve (FVPL equity instruments - overlay approach)	- 88	-	-
Net change in hedging reserve (cash flow hedge)	48	- 174	79
Net change in translation differences	0	11	- 2
Hedge of net investments in foreign operations	- 1	0	0
Net change related to associated companies & joint ventures	0	1	- 7
Other movements	- 1	- 1	0
Other comprehensive income - not to be recycled to P&L	0	22	38
Net change in revaluation reserve (FVOCI equity instruments)	3	-	-
Net change in defined benefit plans	- 3	23	41
Net change on own credit risk - liabilities designated at FVPL	0	- 1	- 2
Net change related to associated companies & joint ventures	0	0	0
TOTAL COMPREHENSIVE INCOME	482	398	562
attributable to minority interest	0	0	0
attributable to equity holders of the parent	482	398	562

As of 2018, the financial information is prepared in accordance with IFRS 9. For more information see 'Statement of compliance and (changes in) accounting policies' (note 1.1) further in this report, including transition disclosures. KBC has opted to use transition relief for disclosing comparative information.

The largest movements in other comprehensive income (1Q 2018 vs. 1Q 2017):

- Net change in revaluation reserve (FVPL equity instruments – overlay approach): the -88 million euros in 1Q 2018 can be explained for a large part by negative fair value movements. In 1Q 2017, net change in revaluation reserve (AFS assets) – Equity of +37 million euros was affected by positive fair value movements.
- The revaluation reserve (FV OCI debt instruments) lowered in 1Q 2018 by 33 million euros, while the hedging reserve (cash flow hedge) had an offsetting impact of 48 million euros. Both changes were primarily influenced by the unwinding effect. In 1Q 2017, the net change in revaluation reserve (AFS assets) – Bonds and in hedging reserve (cash flow hedge) amounted to respectively -214 million euros +79 million euros, which were both mainly explained by an increase in long-term interest rates.
- Net change in defined benefit plans: +41 million euro for 1Q 2017: due to an increase in discount rate.

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-03-2018 IFRS 9	31-12-2017 IAS 39	*1-1-2018 IFRS9*
Cash, cash balances at central banks and other demand deposits from credit institutions		32 642	29 727	
Financial assets	4.0	262 748	254 753	*253 817*
Held for trading	4.0	-	7 431	-
Designated at fair value through profit or loss	4.0	-	14 484	-
Available for sale	4.0	-	34 156	-
Loans and receivables	4.0	-	167 458	-
Held to maturity	4.0	-	30 979	-
Amortised cost	4.0	220 190	-	*210 865*
Fair value through other comprehensive income	4.0	18 713	-	*19 516*
Fair value through profit or loss	4.0	23 629	-	*23 191*
of which held for trading	4.0	7 869	-	*7 148*
Hedging derivatives	4.0	217	245	*245*
Reinsurers' share in technical provisions		141	131	
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		150	- 78	
Tax assets		1 722	1 625	
Current tax assets		88	82	
Deferred tax assets		1 634	1 543	
Non-current assets held for sale and assets associated with disposal groups		13	21	
Investments in associated companies and joint ventures		227	240	
Property, equipment and investment property		3 245	3 207	
Goodwill and other intangible assets		1 219	1 205	
Other assets		1 915	1 512	
TOTAL ASSETS		304 022	292 342	

LIABILITIES AND EQUITY (in millions of EUR)	Note	31-03-2018	31-12-2017	*1-1-2018*
Financial liabilities	4.0	262 515	251 260	251 260
Amortised cost	4.0	240 280	227 944	
Fair value through profit or loss	4.0	21 007	22 032	
of which held for trading	4.0	6 236	6 998	
Hedging derivatives	4.0	1 228	1 284	
Technical provisions, before reinsurance		18 754	18 641	
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		130	- 86	
Tax liabilities		522	582	
Current tax liabilities		195	148	
Deferred tax liabilies		327	434	
Liabilities associated with disposal groups		0	0	
Provisions for risks and charges		348	399	
Other liabilities		3 233	2 743	
TOTAL LIABILITIES		285 503	273 540	
Total equity	5.10	18 519	18 803	
Parent shareholders' equity	5.10	17 119	17 403	*16 658*
Additional Tier-1 instruments included in equity	5.10	1 400	1 400	
Minority interests		0	0	
TOTAL LIABILITIES AND EQUITY		304 022	292 342	

As of 2018, the financial information is prepared in accordance with IFRS 9. For more information see ‘Statement of compliance and (changes in) accounting policies’ (note 1.1) further in this report, including transition disclosures. KBC has opted to use transition relief for disclosing comparative information, but for transparency reasons the opening balance sheet positions for the mostly impacted balance sheet lines is provided (for more details see transition disclosures further in this report).

Consolidated statement of changes in equity

31-03-2018

In millions of EUR	Issued and paid up share capital	Share premium	Treasury shares	Retained earnings	Total revaluation reserves	Parent shareholders' equity	Additional Tier-1 instruments included in equity	Minority interests	Total equity
IFRS 9									
Balance at the end of the period (31-12-2017)	**1 456**	**5 467**	**- 5**	**10 101**	**383**	**17 403**	**1 400**	**0**	**18 803**
Impact transition to IFRS 9	0	0	0	- 247	- 499	- 746	0	0	- 746
Balance at the beginning of the period (01-01-2018) after impact IFRS 9	**1 456**	**5 467**	**- 5**	**9 854**	**- 116**	**16 658**	**1 400**	**0**	**18 057**
Net result for the period	0	0	0	556	0	556	0	0	556
Other comprehensive income for the period	0	0	0	- 1	- 74	- 74	0	0	- 74
Total comprehensive income for the period	**0**	**0**	**0**	**555**	**- 74**	**482**	**0**	**0**	**482**
Dividends	0	0	0	0	0	0	0	0	0
Coupon additional Tier-1 instruments	0	0	0	- 14	0	- 14	0	0	- 14
Incorporation impact realisations in retained earnings	0	0	0	- 7	0	- 7	0	0	- 7
Purchases/sales of treasury shares	0	0	1	0	0	1	0	0	1
Change in minorities	0	0	0	0	0	0	0	0	0
Total change	**0**	**0**	**1**	**535**	**- 74**	**462**	**0**	**0**	**462**
Balance at the end of the period	**1 456**	**5 467**	**- 4**	**10 389**	**- 189**	**17 119**	**1 400**	**0**	**18 519**
of which relating to equity method					27	27			27

In millions of EUR	Revaluation reserve (AFS assets)	Revaluation reserve FVOCI debt instruments	Revaluation reserve FVPL equity instruments - overlay approach	Revaluation reserve FVOCI equity instruments	Hedging reserve (cashflow hedges)	Translation differences	Hedge of net investments in foreign operations	Remeasurement of defined benefit obligations	Own credit risk (through OCI)	Total revaluation reserves
IFRS 9										
Balance at the end of the period (31-12-2017)	**1 751**	**0**	**0**	**0**	**- 1 339**	**- 11**	**45**	**- 52**	**- 10**	**383**
Impact transition to IFRS 9	- 1 751	837	387	29	0		0		0	- 499
Balance at the beginning of the period (01-01-2018) after impact IFRS 9	**0**	**837**	**387**	**29**	**- 1 339**	**- 11**	**45**	**- 52**	**- 10**	**- 116**
Net result for the period	0	0	0	0	0	0	0	0	0	0
Other comprehensive income for the period	0	- 34	- 88	3	48	0	- 1	- 3	0	- 74
Total comprehensive income for the period	**0**	**- 34**	**- 88**	**3**	**48**	**0**	**- 1**	**- 3**	**0**	**- 74**
Dividends	0	0	0	0	0	0	0	0	0	0
Coupon additional Tier-1 instruments	0	0	0	0	0	0	0	0	0	0
Incorporation impact realisations in retained earnings	0	0	0	0	0	0	0	0	0	0
Purchases/sales of treasury shares	0	0	0	0	0	0	0	0	0	0
Change in minorities	0	0	0	0	0	0	0	0	0	0
Total change	**0**	**- 34**	**- 88**	**3**	**48**	**0**	**- 1**	**- 3**	**0**	**- 74**
Balance at the end of the period	**0**	**803**	**300**	**32**	**- 1 291**	**- 11**	**44**	**- 55**	**- 10**	**- 189**
of which relating to equity method	0	9	0	1	0	16	0	0	0	27

31-03-2017	Issued and paid up share capital	Share premium	Treasury shares	Retained earnings	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Translation differences	Remeasurement of defined benefit obligations	Own credit risk (through OCI)	Total revaluation reserves	Parent share-holders' equity	Additional Tier-1 instruments included in equity	Minority interests	Total equity
IAS 39														
Balance at the beginning of the period (01-01-2017)	**1 455**	**5 453**	**0**	**8 751**	**1 756**	**- 1 347**	**31**	**- 138**	**- 4**	**298**	**15 957**	**1 400**	**0**	**17 357**
Net result for the period	0	0	0	630	0	0	0	0	0	0	630	0	0	630
Other comprehensive income for the period	0	0	0	0	- 184	79	- 2	41	- 2	- 68	- 68	0	0	- 68
Total comprehensive income	**0**	**0**	**0**	**630**	**- 184**	**79**	**- 2**	**41**	**- 2**	**- 68**	**562**	**0**	**0**	**562**
Dividends	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Coupon additional Tier-1 instruments	0	0	0	- 13	0	0	0	0	0	0	- 13	0	0	- 13
Capital increase	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in minorities	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total change	**0**	**0**	**0**	**617**	**- 184**	**79**	**- 2**	**41**	**- 2**	**- 68**	**549**	**0**	**0**	**549**
Balance at the end of the period	**1 455**	**5 453**	**0**	**9 368**	**1 572**	**- 1 268**	**29**	**- 97**	**- 7**	**230**	**16 506**	**1 400**	**0**	**17 906**
of which revaluation reserve for shares					527									
of which revaluation reserve for bonds					1 045									
of which relating to equity method					19	0	7	0		25	25			25

As of 2018, the financial information is prepared in accordance with IFRS 9. For more information see ‘Statement of compliance and (changes in) accounting policies’ (note 1.1) further in this report, including transition disclosures. KBC has opted to use transition relief for disclosing comparative information.

Dividend over 2017: in line with our dividend policy, KBC paid an interim dividend of 1 euro per share (418 million euros in total), as an advance payment on the total dividend (deducted from retained earnings in 2017). Furthermore, for 2017 the board of directors has additionally proposed to the general meeting of shareholders, which was approved on 3 May 2018, a closing dividend of 2 euro per share (a total of 837 million euros will be deducted from retained earnings in 2Q 2018; see also note Post balance sheet events). Also a buy-back of 2.7 million shares (roughly 0.2bn EUR) was proposed to the Annual Meeting which was approved on 3 May 2018 (i.e. a pay-out ratio of 59% including the total dividend, AT1 coupon and share buy-back).

Condensed consolidated cash flow statement

	1Q 2018 IFRS9	1Q 2017 IAS39
Cash and cash equivalents at the beginning of the period	40 413	26 747
Net cash from (used in) operating activities	11 341	9 163
Net cash from (used in) investing activities	942	533
Net cash from (used in) financing activities	- 148	80
Effects of exchange rate changes on opening cash and cash equivalents	78	1
Cash and cash equivalents at the end of the period	52 627	36 524

As of 2018, the financial information is prepared in accordance with IFRS 9. For more information see 'Statement of compliance and (changes in) accounting policies' (note 1.1) further in this report, including transition disclosures. KBC has opted to use transition relief for disclosing comparative information.

The net cash flow from financing activities in 1Q 2018 includes the call by KBC Bank of the 1-billion-US-dollar contingent capital note (CoCo) that had been issued in January 2013, but this was largely offset by the issuance of covered bonds 750 million euros.

Notes on statement of compliance and changes in accounting policies

Statement of compliance (note 1.1 in the annual accounts 2017)

The condensed interim financial statements of the KBC Group for the first quarter ended 31 March 2018 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ('endorsed IFRS').

The following IFRS standards became effective on 1 January 2018 and have been applied in this report:

- IFRS 9
    - IFRS 9 (Financial instruments) on the classification and measurement of financial instruments has been implemented as per 1st January 2018 as a replacement of IAS 39 (Financial Instruments: Recognition and Measurement). KBC applies IFRS 9 also to its insurance entities and, therefore, does not make use of the possibility offered by the IAS Board to temporarily defer implementation of IFRS 9 for its insurance entities.
    - 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. For equity instruments not held for trading situated in our insurance activities, KBC applies the overlay approach to eligible equity instruments (reflecting a consistent treatment under IAS 39). 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 are 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 is used for the investment portfolio, except that KBC uses 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 recorded 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'. 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.

  - Hedge accounting: KBC uses the option to continue with hedge accounting under IAS 39 and awaits further developments at the IASB regarding macro hedging.
  - As a result of the application of IFRS 9, the income statement, balance sheet, statement of comprehensive income and the statement of changes in equity, together with the Notes have changed significantly. KBC has opted to use transition relief for disclosing comparative information. The accounting policies in Note 1.2 are adjusted to include IFRS 9, and are re-designed. For the accounting policies, applicable on the comparative figures, we refer to the Group's annual accounts as at 31 December 2017. The transition disclosures are included in Note 1.4 and additional explanations are given in the notes, where relevant.
  - For financial liabilities, the aspects of IFRS 9 relating to the presentation of gains and losses on own credit risk for financial instruments designated at fair value through profit or loss were early adopted with effect from 1 January 2017.
  - Presentation change of interest accruals for FX derivatives, which are shifted from 'Net result from financial instruments at fair value through profit or loss' to 'Net interest income'. This new presentation is connected to IFRS 9 due to a decision from IFRIC (International Financial Reporting Interpretation Committee) from 20 November 2017. This avoids an asymmetric presentation as the interest accrual of the underlying transaction is also presented under 'Net interest income'. If 2017 would have been restated for this item, the impact of the shift to Net interest income would have been 56 million euro in 1Q 2017, 66 million euro in 2Q 2017, 75 million euro in 3Q 2017, 108 million euro in 4Q 2017 and 305 million euro in FY 2017.
  - KBC does not make use of any transitional arrangements with regard to the impact of IFRS 9 on capital, as it wants to provide full transparency. Consequently, own funds, capital and the leverage ratio reflects the full impact of IFRS 9.

- IFRS 15 (Revenue from Contract with Customers) provides guidance on the recognition of revenue. 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. The new requirements had no material impact on the revenue recognition of KBC.

The following other change in presentation and accounting policies is applied in 2018:

  - A change in presentation was made with regard to 'Network income' which is shifted from 'Net result from financial instruments at fair value through profit or loss' to 'Net fee and commission income'. 'Network income' is income received from margins earned on FX transactions (related to payments, credits, deposits, investments) and performed by the network (branches, online) for clients. The new presentation better reflects the business reality it concerns income received from margins earned on FX transactions carried out by the network for clients. 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 25 million euros in 1Q 2018, before tax).

The following IFRS standards were issued but not yet effective in 2018. KBC will apply these standards when they become mandatory.

- 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 (since KBC mainly acts as a lessor rather than a lessee). An analysis of its impact is ongoing.
- IFRS 17
  - In May 2017, the IASB issued IFRS 17 (Insurance Contracts), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 (Insurance Contracts) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts. IFRS 17 will become effective for reporting periods beginning on or after 1 January 2021 (subject to EU endorsement), with comparative figures being required. An impact study is an inherent part of the IFRS 17 project that is currently underway at KBC.
- Other
  - The IASB published several limited amendments to existing IFRSs. They will be applied when they become mandatory, but their impact is currently estimated to be negligible.

Summary of significant accounting policies (note 1.2 in the annual accounts 2017)

The significant accounting policies were adjusted to take into account IFRS 9 and were re-designed.

1. General / Basic principle

The general accounting principles of KBC Group (hereunder referred as "KBC") are based on the International Financial Reporting Standards (IFRS), as adopted by the European Union and IFRS Framework. The financial statements of KBC are prepared based on the going concern assumption.
KBC presents each material class of similar items separately, presents separately any dissimilar items unless they are immaterial and offsets only in cases when it is specifically required or permitted by the relevant IFRS.

2. Financial Assets

KBC applies all the requirements of IFRS 9 as from 1 January 2018, except for the hedge accounting transactions which continued to be accounted for in accordance with IAS 39.

- **Financial assets – recognition and derecognition**
  - *Recognition*
    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 are measured initially at fair value plus transaction costs that are directly attributable to its acquisition; with the exception of financial assets measured at fair value through profit or loss.
  - *Derecognition and Modification*
    KBC derecognises a financial asset when the contractual cash flows from the asset expire or KBC transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred.
    When during the term of a financial asset there is a change in the terms and conditions, then KBC assesses whether the new terms are substantially different to the original terms indicating that the rights to the cash flows of the initial instruments have expired. In case the conclusion is that the terms are substantially different then the transaction is accounted for as financial asset derecognition, which requires derecognising the existing financial asset and recognising a new financial asset based on the revised terms. Conversely, when KBC assesses that the terms are not substantially different than the transaction is accounted for as financial asset modification.

- **Equity and debt instruments classification**
  On initial recognition of a financial asset, KBC first assesses the contractual terms of the instrument in order to classify it as an equity or debt instrument. An equity instrument is defined as any contract that evidences a residual interest in another entity's net assets. In order to satisfy this condition, KBC reviews whether the instrument includes no contractual obligation for the issuer to deliver cash or exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.
  Any instruments which do not meet the criteria of equity instruments are classified as debt instruments by KBC.

- **Classification and Measurement – debt instruments**
  When KBC concludes that the financial asset is a debt instrument then on initial recognition, it can be categorised in one of the following categories:
  - Mandatorily measured at fair value through profit or loss (FVPL);
  - Designated at initial recognition at fair value through profit or loss (FVO);
  - Fair value through other comprehensive income (FVOCI);
  - Amortised cost (AC); or
  - Fair value through profit or loss – overlay approach (only possible for debt instruments held in an activity connected with the insurance activity which do not pass the SPPI test).

  Debt instruments have to be classified in the FVPL category when (i) they are not held in business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets or alternatively (ii) they are held in such business model but the contractual terms of the instrument give rise on specified dates to cash flows that are not solely payments of principal and interest on the principal amount outstanding.

  Further, KBC may in some cases, on initial recognition, irrevocably designate a financial asset that otherwise meets the requirements to be measured at AC or at FVOCI as at fair value (FVO) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVO:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at AC only if it meets both of the following conditions and is not designated as at FVO:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is categorised as FVI when it is held in respect of a business activity that is connected to contracts in scope of IFRS 4 and if it is measured at fair value through profit or loss applying IFRS 9 but would not have been measured at fair value through profit or loss in its entirety in accordance with IAS 39 and for which KBC elected using the overlay approach. Regarding the application of the overlay approach more information is provided in section “*Overlay approach*”.

- Business model assessment

The business model assessment is relevant for debt instruments to assess whether they are allowed to be measured at AC and FVOCI. In performing the assessment, KBC reviews the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to KBC’s Group Executive Committee and Board of Directors;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how KBC’s stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or whose performance is evaluated on a fair value basis are measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

- Assessment whether contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, KBC considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, KBC considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit KBC’s claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

- Reclassifications

  Financial assets are not reclassified subsequent to their initial recognition, except in the period after KBC changes its business model for managing financial assets which could occur when KBC begins or ceases to perform an activity that is significant to its operations (e.g.: when KBC acquires, disposes of, or terminates a business line). The reclassification takes place from the start of the first reporting period following the change.

- Classification and Measurement – equity instruments

  Financial equity instruments are categorised in one of the following categories:
  - Mandatorily measured at fair value through profit or loss (FVPL);
  - Equity instruments elected for fair value through other comprehensive income (FVOCI); or
  - Equity instruments held under an activity connected with the insurance activity, KBC applies the fair value through profit or loss – overlay (FVI).

  KBC can designate equity instruments of the insurance activity in the FVI category, until the effective date of IFRS 17, 1 January 2021 . The equity investments that KBC insurance activity classifies as FVI shall meet both of the following criteria:
  - it is measured at fair value through profit or loss applying IFRS 9 but would not have been measured at fair value through profit or loss in its entirety applying IAS 39; and
  - it is not held in respect of an activity that is unconnected with insurance contracts.

  Regarding the application of the overlay approach more information is provided in section "*Overlay approach*"
  In the banking activity the rebuttable presumption is that all equity instruments is included in the FVOCI category when the investments is neither held for trading nor a contingent consideration in a business combination to which IFRS 3 applies. The election to include equity instruments in the FVOCI category is irrevocable on initial recognition and can be done on an investment-by-investment basis which is interpreted by KBC as share-by-share basis. Equity categorised in the FVOCI category is subsequently measured at fair value with all changes recognised in other comprehensive income and without any recycling into the income statement even when the investments is disposed. The only exception applies to the dividend income which are recognised in the income statement under the line item "*Dividend Income*".

- Classification and Measurement – derivatives (trading and hedging)

  KBC can recognise derivative instruments either for trading purpose or as hedging derivatives. Derivatives can have asset or liability positions depending on their actual market value.
  - **Trading derivatives**

    Derivative instruments are always measured at fair value and KBC makes a distinction as follows:
    - Derivatives that are held with a hedging intent but for which hedge accounting cannot be or is not applied (economic hedge): Hedging instruments can be acquired with the intention of economically hedging an external exposure but without the application of hedge accounting. The interest component on these derivatives is recognised under "*Net Interest Income*" while all other fair value changes are recognised under "*Net result from financial instruments at fair value through profit or loss*"
    - Derivatives held without hedging intent (trading derivative): KBC entities can also enter into a derivative position without any intention to hedge economically a position. Such activity can relate to closing / selling an external position in the near term or for short-term profit taking purposes. All fair value changes on such derivatives are recognised under "*Net result from financial instruments at fair value through profit or loss*".

  - **Hedging derivatives**

    Hedging derivatives are derivatives which are specifically designated in a hedge relationship. The accounting process of the such derivatives are detailed in the section "*Hedge Accounting – Hedging Instrument*".

3. Financial Assets – Impairments

- Definition of default

  KBC uses the definition for defaulted financial assets which is used for internal risk management purposes and it is in line with guidance and standards of the financial industry regulators. A financial asset is considered as defaulted if one or more of the following conditions are fulfilled:
  - A significant deterioration in creditworthiness
  - The asset is flagged as non-accrual
  - The asset is flagged as a forborne asset in line with the internal policies for forbearance
  - KBC has filed for client's bankruptcy
  - The counterparty has filed for bankruptcy or sought similar protection measures.
  - The credit facility towards the customer is terminated.

KBC applies a backstop for facilities that have at least 90 days past due status. In this context a backstop is used as a final control to ensure that all the assets that should have been designated as defaulted, are properly identified.

- Expected credit loss model - General

The model for impairment of financial assets is called the Expected Credit Loss model (ECL), except for debt and equity instruments connected to the insurance activity for which KBC elected to apply the overlay approach. The impairment policy on these instruments are covered in the section "*Overlay approach*".
The scope of the ECL model is based on the classification of financial assets. The ECL model is applicable to the following financial assets:

- Financial assets measured at amortised cost;
- Debt instruments measured at fair value through the other comprehensive income;
- Loan commitments and financial guarantees;
- Finance lease receivables; and
- Trade and other receivables.

No ECL are calculated for equity investments.
Financial assets that are in scope for the ECL carry an amount of impairments equal to the life-time ECL if the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly since initial recognition, the loss allowance equals to an amount of 12 month ECL (see below for the references to the significant increase in credit risk).
To distinguish between the different stages with regards the amount of ECL, KBC uses the internationally accepted terminology for stage 1, stage 2 and stage 3 financial assets.
All financial assets at initial recognition, unless they are already credit impaired, are classified at stage 1 and carry 12 month ECL. Once a significant increase in credit risk since initial recognition occurs, the asset migrates to stage 2 and carries life-time ECL. Once an asset meets the definition of default it migrates to stage 3.
IFRS 9 allows for a practical expedient for trade receivables. The ECL for trade receivable can be measured to an amount equal to the life-time ECL. KBC applies this practical expedient for trade and other receivables.
Impairment gains and losses on financial assets are recognised under the heading "Impairments" in the income statement.
Financial assets that are measured at amortised cost are presented on the balance sheet at their carrying amount being the gross carrying amount minus loss allowances. Debt instruments measured at fair value through other comprehensive income are presented on the balance sheet at their carrying amount being the fair value at the reporting date. The adjustment for the ECL is recognised as a reclassification adjustment between the income statement and the other comprehensive income.

- Significant increase in credit risk since initial recognition

In accordance to the ECL model, a financial assets attracts life-time ECL once the credit risk has increased significantly since initial recognition; therefore the assessment of the significant increase in credit risk defines the staging of financial assets. The assessment of a significant increase in credit risk is a relative assessment based on the credit risk that was assigned at initial recognition. This is a multi-factor assessment, and, thus KBC has developed a multi-tier approach (MTA).

- **Multi-Tier Approach - Bond portfolio**

For the bond portfolio the MTA consists of three tiers:

- Low credit exception: Bonds always carry 12-months ECL if they have a low credit risk at the reporting date (i.e. stage 1). KBC uses the low credit risk exception for bonds which are graded as investment grade.
- Internal rating: [only applicable if the first tier is not met] This is a relative assessment comparing the Probability of Default (PD) at initial recognition to the PD at the reporting date. KBC makes the assessment on a facility level at each reporting period.
- Management assessment: Finally management reviews and assesses the significant increase in credit risk for financial assets at an individual and a portfolio level.

If none of these triggers results in a migration to stage 2, then the bond remains in stage 1.
A financial asset is considered impaired (i.e. stage 3) as soon as it meets the definition of default.
The MTA is symmetrical, i.e. a credit that has migrated to stage 2 or 3 can return to stage 2 or 1 if the Tier that triggered the migration is not present in a subsequent reporting date.

- **Loan portfolio**

For the loan portfolio KBC uses a five-tier approach. This MTA is a waterfall approach, i.e. if after assessing the first Tier, doesn't result in migrating to stage 2, then the second Tier is assessed and so on. At the end, if all Tiers are being assessed without triggering a migrations to stage 2, then the financial asset remains in stage 1.

- Internal rating: the internal rating is used as the main criterion for assessing the increase in credit risk. This is a relative assessment comparing the PD at initial recognition to the PD at the reporting date. KBC makes the assessment on a facility level at reach reporting period.
- Forbearance: Forborne financial assets are always considered as stage 2, unless they are already impaired. In the latter case, they migrate to stage 3.

- Days past due: KBC uses the backstop described in the standard. A financial asset that has more than 30 days past due, migrates to stage 2.
- Internal rating backstop: KBC uses an absolute level of PD as a backstop for financial assets to migrate to stage 2. This backstop corresponds to the highest PD (i.e. PD9 based on the KBC internal rating) before a financial asset is considered to be impaired.
- Management assessment: Finally management reviews and assesses the significant increase in credit risk for financial assets at an individual and a portfolio level.

A financial asset is considered impaired (i.e. stage 3) as soon as it meets the definition of default.
The MTA is symmetrical, i.e. a credit that has migrated to stage 2 or 3 can return to stage 2 or 1 if the Tier that triggered the migration is not met at the reporting date.

- Measurement of ECL

The ECL is calculated as the product of the probability of default (PD), the estimated exposure at default (EAD) and the loss given default (LGD).
The ECL are calculated in a way that reflect:

- an unbiased, probability weighted amount;
- the time value of money; and
- information about the past events, current conditions and forecast economic conditions.

The life-time ECL represents the sum of the ECL over the life time of the financial asset discounted at the original effective interest.
The 12 months ECL represent the portion of the life time ECL that results from a default in 12-month period after the reporting date.
KBC uses specific IFRS 9 models for PD, EAD and LGD to calculate ECL. To the extent possible KBC uses similar modelling techniques that have been developed for prudential purposes (i.e. Basel models) for efficiency purposes. Having said that, KBC ensures that the Basel models are adapted to be in compliance with IFRS 9, for example:

- KBC removes the conservatism which is required by the regulator for Basel models
- KBC adjusts the way that macroeconomic parameters affect the outcome to ensure that the IFRS 9 models reflect a “point-in-time” rather than “through-the-cycle” estimate (the latter is required by the regulator).
- KBC applies forward looking macroeconomic information in the models.

KBC also considers three different forward looking macro-economic scenarios with different weights in the calculation of ECL. The base case macro-economic scenario represents KBC’s estimations for the most probable outcome and it also serves as a primary input for other internal and external purposes.
The maximum period for measurement of the ECL is the maximum contractual period (including extensions) with the exception of specific financial assets which include a drawn and an undrawn amount available on demand which is not limited the exposure to the contractual period. Only for such assets a measurement period can extend beyond the contractual period.

- Purchase or Originated Credit Impaired (POCI) Assets

KBC defines POCI assets as financial assets in scope of the IFRS 9 impairment which at origination are already defaulted (i.e. meet the definition of default).
POCI assets are recognised initially at an amount net of impairments and are measured at amortised cost using a credit adjusted effective interest rate. In subsequent period any changes to the estimated lifetime ECL are recognised in the income statement. Favourable changes are recognised as an impairment gain even if the lifetime ECL at the reporting date is lower than the estimated lifetime ECL at origination.

- Significant judgments and uncertainties

Calculating ECL requires significant judgments on different aspects for example, but not limited to, the borrowers’ financial position and repayment capabilities, the value and recoverability of collaterals, forward looking and macroeconomic information. KBC applies neutral and free from bias approach when dealing with uncertainties and making decisions based on significant judgments.

4. Overlay approach

In accordance with the amendment to IFRS 4 issued in September 2016, KBC decided to use the overlay approach to overcome the temporary consequences of the different effective dates of IFRS 9 and IFRS 17 (replacing IFRS 4). Accordingly, KBC uses the overlay approach which reclassifies from the income statement to OCI the extra volatility related to the adoption of IFRS 9. The reclassified amounts are recognised in the overlay reserve within equity.
The overlay approach is applied for the financial assets of KBC's insurance activity that are eligible. The eligibility is based on the following criteria:

- Assets that are measured at FVPL applying IFRS 9 which would not have been measured at FVPL in its entirety applying IAS 39.
- All assets except those held in respect of an activity that is unconnected with contracts within the scope of IFRS 4.

Financial assets can be designated under the overlay approach until the instrument:

- is derecognised,
- when it is no longer held in respect of an activity that is connected with insurance contracts; or
- when at the beginning of any annual period KBC decides not applying the overlay approach for that particular instrument.
- Until IFRS 17's effective date (1 January 2021)

The application of the overlay approach requires retaining certain IAS 39 accounting policies for financial assets which are the following:

- Impairment on equity instrument: equity instruments held by the insurance activity of KBC were typically classified as AFS under IAS 39, under IFRS 9 they are classified at FVPL. The designation under the overlay approach requires applying the IAS 39 impairment on equity instruments. By using the overlay approach, all fair value changes are recognised in the overlay reserve but when the decline is significant (more than 30%) or prolonged (more than one year) compared to the acquisition cost then the fair value loss is recognised in the income statement. Any further decrease is also recognised directly in the income statement while increases are recognised in the overlay reserve.
- Recognition of gain and losses in the income statement upon disposal of equity instruments: by designating the equity instruments connected to KBC's insurance activity under the overlay approach upon the sale of the equity instruments the accumulated overlay reserve in OCI is recycled to the income statement ensuring same results as under IAS 39.
- Impairment on debt instrument: The KBC methodology for the calculation of Incurred But Not Reported (IBNR) impairments on non-defaulted debt securities booked at amortized cost (HTM and L&R) is based on the Basel II IRB Advanced models with an emergence period of 1,5 months (no PIT factor is applied). No IBNR impairments are calculated for debt securities at fair value (AFS).

5. Cash, cash balances with central banks and other demand deposits

Cash comprises cash on hand and demand deposits, e.g. cheques, petty cash and central bank balances as well as other bank balances.

6. Financial Liabilities

Financial instruments or their component parts are classified as liabilities or as equity in accordance with the substance of the contractual arrangements on initial recognition and the definitions of financial liabilities and equity instruments. A financial instrument is classified as a liability if:

- KBC has a contractual obligation to deliver cash or another financial asset to the holder or to exchange another financial instrument with the holder under conditions that are potentially unfavourable to KBC; or
- KBC has a contractual obligation to settle the financial instrument in a variable number of its own equity instruments.

A financial instrument is classified as an equity instrument if both of the conditions are not met and in that case is covered under the section "*Equity*".

- **Financial liabilities – recognition and derecognition**

  KBC recognises a financial liability when it becomes a party to the contractual provisions of the instrument which is typically the date when the consideration received in the form of cash or other financial asset has been received. At initial recognition the financial liability is recognised at fair value and less transaction costs that are directly attributable to its issuance, except for financial liabilities at fair value through profit or loss.

  Financial liabilities are derecognised when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires. KBC can also derecognise the financial liability and recognise a new one when there is an exchange between KBC and the lenders of the financial liability with substantially different terms, as well as substantial modifications of the terms of the existing financial liabilities. In assessing whether terms are different, KBC compares the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, and the discounted present value of the remaining cash flows of the original financial liability. If the difference is at least 10% or more then KBC derecognises the original financial liabilities and recognises a new one. When the exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

- Financial liabilities – classification and measurement

KBC classifies the recognised financial liabilities into three different categories as provided by IFRS 9.

- **Financial liabilities held for trading**

Held-for-trading liabilities are those incurred principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. A liability also qualifies as a trading liability if it belongs to a portfolio of financial instruments held for trading separately by the trading desk and for which there is a recent pattern of short-term profit-taking.

Trading liabilities can include derivative liabilities, short positions in debt and equity instruments, time deposits and debt certificates. In connection with derivative liabilities KBC makes similarly distinction between trading and hedging derivatives as in case for derivative assets.

Initially, held-for-trading liabilities are measured at fair value. At the end of the reporting date, trading liabilities are measured at fair value. Fair value adjustments are always recorded in the income statement.

- **Financial liabilities upon initial recognition designated by the entity at fair value through profit or loss**

IFRS 9 allows measuring a (group of) financial liability(s) on initial recognition at fair value, whereby fair value changes are recognized in profit or loss except for fair value changes related to the changes in own credit risk which are presented separately in OCI. The fair value designation is used by KBC for the following reasons:

- Managed on a FV basis: KBC designates a financial liability or group of financial liabilities at fair value when these are managed and their performance are evaluated on a fair value basis. It is used to account for (unbundled) deposit components (i.e. financial liabilities not including a discretionary participation feature)
- Accounting mismatch: Fair value option can be used when the use eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.
- Hybrid instruments: A financial instrument is regarded as a hybrid instrument when it contains one or more embedded derivatives that are not closely related to the host contract. The fair value option can be used when it is not possible to separate the non-closely related embedded derivative from the host contract and then the entire hybrid instrument can be designated at fair value. This results that both the embedded derivative and the host contract are measured at fair value. KBC uses this option when, for example, structured products contain non closely related embedded derivatives, in which case both the host contract and the embedded derivative are measured at fair value.

- **Financial liabilities measured at amortised cost**

KBC classifies most of its financial liabilities under this category, also those used to fund trading activities, when the trading intent is not present in the financial liabilities (e.g.: issued bonds).

These financial liabilities are initially measured at cost, which is the fair value of the consideration received including transaction costs. Subsequently they are measured at amortised cost, which is the amount at which the funding liability was initially recognised minus principal repayments and plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount. The difference between the amount made available and the nominal value is recorded on an accruals basis as an interest expense. Interest expenses accrued, but not yet paid, are recorded under accruals and deferrals.

- Financial liabilities – own credit risk

For financial liabilities designated at fair value, IFRS 9 requires measuring the financial liability on initial recognition at fair value. Thereafter fair value changes are recognized in the income statement, except for fair value changes related to the changes in own credit risk which are presented separately in OCI.

Accordingly, the fair value movement of the liability is presented in different parts: changes in own credit risk are presented in OCI and all other fair value changes are presented in the income statement under the line item "*Net result from financial instruments at fair value through profit or loss*". The amounts recognized in OCI relating to the own credit risk are not recycled to the income statement even when the liability is derecognized and the amounts are realized. Although recycling is prohibited, KBC transfers the amounts in OCI to other reserves within equity at derecognition.

The only situation when the presentation of the own credit risk in OCI is not applied when this would create an accounting mismatch in the income statement. Such accounting mismatch could arise if due to a close economic relationship between the financial liability designated at fair value for which the own credit risk recognised in OCI while all fair value changes on the corresponding financial asset is measured and recognised at fair value through profit or loss. This is the case for the unit-linked investment contracts where the fair value change in the liability position is perfectly offset by the asset position.

- **Financial liability – financial guarantee contract**

  A financial guarantee contract is a contract that requires KBC to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Such a contract is initially recognised at fair value and is subsequently measured at the higher of (a) the amount determined in accordance with impairment provisions of IFRS 9 (see section “*Financial Assets – Impairment*”) and (b) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition principle of IFRS 15.

- **Offsetting**

  KBC offsets and presents only a net amount in the balance sheet of a financial asset and financial liability when and only when it:

  - has currently a legally enforceable right to set off the recognized amounts; and
  - intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

- **Fair value**

  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.

  Market value adjustments are recognised on all positions that are measured at fair value, with fair value changes being reported in the income statement or in equity. They relate to close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk (credit value adjustment) 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. 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.

- **Hedge accounting**

  KBC opts to use the IAS 39 hedge accounting principles (as per the IAS 39 EU carve-out version). KBC designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, KBC formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. KBC makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%. KBC makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect the income statement.

  KBC uses the following hedge accounting techniques: cash flow hedge, micro fair value hedge, fair value hedges for a portfolio of interest rate risk, and hedges of net investments in foreign operations.

  Cash flow hedges: When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset, liability or highly probable forecasted transaction that could affect the income statement , the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the Hedging Reserve (Cash Flow Hedge) within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the income statement. The amount recognised in OCI is reclassified to the income statement as a reclassification adjustment in the same period as the hedged cash flows affect the income statement, in the line “*Net results from financial instruments at fair value through profit or loss*”. If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. Any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is transferred immediately to the income statement.

Micro Fair value hedges: When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a (portfolio of) recognised asset or liability or a firm commitment that could affect the income statement, changes in the fair value of the derivative are recognised immediately in the income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the income statement as the hedged item). However, accrued interest income from interest rate swaps are recognised in “*Net Interest Income*”. If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. Any adjustment, up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised into the income statement as part of the recalculated effective interest rate of the item over its remaining life or recognised directly when the hedged item is derecognised.

Fair value hedges for a portfolio of interest rate risk (macro hedging): The EU carve-out macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the EU carve-out, hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket. KBC hedges the interest rate risk for a portfolio of loans with interest rate swaps and for a portfolio of retail deposits. The interest rate swaps are measured at fair value with fair value changes reported in the income statement. Accrued interest income from interest rate swaps are recognised in “*Net Interest Income*”. The hedged amount of loans is measured at fair value as well with fair value changes reported in the income statement. The fair value of the hedged amount is presented as a separate line item of the assets or liabilities on the balance sheet. In case of hedge ineffectiveness, the cumulative fair value change of the hedged amount will be amortised to the income statement 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.

Hedge of net investments in foreign operations: When a derivative instrument or a non-derivative financial instrument is designated as the hedging instrument in a hedge of a net investment in a foreign operation having a different functional currency than the direct holding company of the foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in Hedging Reserve (investment in foreign operation) in OCI within equity. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in the income statement. The amount recognised in OCI is reclassified to the income statement as a reclassification adjustment on disposal of the foreign operation which includes amongst others, dividend distribution, capital decrease.

7. Insurance contracts

- General

The IFRS 4 'insurance contracts' valuation rules apply to insurance contracts (including reinsurance contracts) that KBC issues and reinsurance contracts that KBC holds. It also applies to financial instruments with a discretionary participation feature held by KBC.

A reinsurance contract is a type of insurance contract, as all reinsurance contracts which transfer insurance risk are insurance contracts.

Some contracts that are booked under local GAAP as insurance contracts will no longer be considered insurance contracts under IFRS. The contracts that do not expose KBC to any insurance risk (e.g.: pure investment without additionally (insurance) benefits/coverage) are treated as financial instruments. These financial instruments can exist with a discretionary participation feature or without a discretionary participation feature.

The financial instruments without a discretionary participation feature will be recognized using the deposit accounting.

Deposit accounting applies to the deposit component of unit-linked insurance contracts and the insurance component is treated as an insurance contract according to IFRS 4.

KBC unbundles the components if both of the following conditions are met:

a) the measurement of the deposit component (including any embedded surrender options) is possible, i.e. without considering the insurance component;
b) the accounting policies do not otherwise require recognition of all the obligations and rights arising from deposit accounting.

Unbundling is prohibited if the deposit component cannot be separately measured. At KBC, insurance contracts other than unit-linked insurance contracts are not unbundled into a deposit component and an insurance component. The insurance component of unit-linked contracts, whether insurance contracts or investment contracts, is treated as an insurance contract. Unit-linked financial instruments without death benefits and participation feature are classified as "*financial liabilities at fair value through profit or loss"* in accordance with IFRS 9 and are consequently measured at fair value. Changes in fair value (assets and liabilities), including any component that relates to changes in foreign exchange rates, are recognized in the income statement as “*Net result from financial instrument at fair value through profit and loss*”. The unit value is considered to be the fair value.

Financial instruments with a discretionary participation feature and the insurance component of unit-linked contracts are treated as insurance contracts under IFRS 4. 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 amount of these liabilities is lower than their estimated future discounted cash flows, the deficiency will be recognised in the income statement against an increase in the liability.
A reinsurance asset is impaired if, and only if:

a) there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that KBC may not receive all amounts due under the terms of the contract;
b) that event has a reliably measurable impact on the amounts that KBC will receive from the reinsurer. If a reinsurance asset is impaired, KBC will reduce its carrying amount accordingly and recognize that impairment loss in the income statement.

At the adoption of IFRS 4, KBC decided to follow its then existing local GAAP practices and did not introduce any of the following:

- measuring insurance liabilities on an undiscounted basis;
- using non-uniform accounting policies for the insurance contracts of subsidiaries. If these accounting policies are not uniform, an insurer may change them if the change does not make the accounting policies more divergent and if the other requirements of IFRS4 'insurance contracts' are met.

KBC believes that it applies sufficient prudence in the measurement of its insurance contracts
KBC does not recognise any provisions for possible future claims as a liability if those claims arise under insurance contracts that are not in existence at the reporting date, such as catastrophe provisions and equalization provisions.
KBC removes an insurance liability (or a part of an insurance liability) from the balance sheet when, and only when, it is extinguished - i.e. when the obligation specified in the contract is discharged or cancelled or expires.
Reinsurance assets are not offset against the related insurance liabilities, nor will income or expense from reinsurance contracts be offset against expense or income from the related insurance contracts.

- Technical provisions insurance contracts

The technical provisions comprise the estimates at balance sheet date of the liabilities of the company regarding the insured persons, the beneficiaries and the policyholders, including the translation differences on the technical provisions denominated in foreign currency.

- ***Provision for unearned premiums and unexpired risks***
    - *Provision for unearned premiums (non-life)*
      This provision comprises the part of the gross premiums which are to be allocated to a subsequent period to be able to cover the claims, the administrative costs and the management costs of investments in relation to the underlying policies.
      For primary business, the provision for unearned premiums is in principle calculated on a daily basis for each contract separately based on the gross premiums.
      For reinsurance business received, the provision for unearned premiums is calculated for each contract separately. It is based on the information communicated by the ceding undertaking, supplemented by the company's own past experience regarding the evolution of risks over time.
    - *Provision for unexpired risks (non-life)*
      This item is an additional provision to supplement the provision for unearned premiums. It is set aside if the estimated total amount of claims and administrative costs relating to current contracts is expected to be higher in the following period than the total unearned premiums and premiums receivable.
      For reinsurance business received, the contractual stipulations are observed and where appropriate the figures of the ceding undertaking adopted.

- ***Life insurance provisions***
  This provision relates exclusively to life insurance activities, with the exception of unit-linked life business. It comprises the actuarially estimated value of the KBC's liabilities and the profit sharing already assigned, less the actuarially estimated value of the liabilities of the policyholders. The acquisition costs are not deducted from the provision.
  This item also includes the provision for unearned premiums and unexpired risks, the ageing reserves, the provisions for annuities payable but not yet due (including the internal claims settlement costs) with regard to the supplementary life insurance as well as the provisions for retirement and survivorship annuities.
  Valuation according to the prospective method is applied for the provision of conventional non-unit-linked life insurance, modern non-unit-linked universal life insurance policies offering a guaranteed rate of interest on future premium payments, and for the provision concerning extra-legal benefits for employees in respect of current annuities.
  Valuation according to the retrospective method is applied for the provisions of modern non-unit-linked universal life insurance and for the provision concerning extra-legal benefits for employees in respect of new supplementary premium payments.

The provision is calculated for each insurance contract separately.

- **Valuation according to the retrospective method**
  In Belgium a supplementary life insurance provision has been created, the so called flashing light reserve. This reserve has the aim to cover the low interest rate risk. As from 1.1.2009 no further additions are done.

- ***Provision for claims outstanding***
  For claims reported, the provision is 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.
  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 national law, such as supplementary workmen's compensation provisions in Belgium.

8. Leasing

All leases need to be classified as either finance lease or operating lease. The classification under IAS 17 is based on the extent to which risk and rewards incidental to ownership of leased assets lie with the lessor or the lessee. A finance lease transfers substantially all the risks and rewards incidental to ownership of an asset.

9. Equity

Equity represents the residual interest in KBC's total assets after deducting all of its liabilities (together net asset) and encompasses all equity instruments issued by KBC, reserves attributable to the holders of the equity instruments and minority interest.
KBC classifies all issued financial instruments as equity or financial liability based on the substance of the contractual arrangements. The critical feature that distinguishes a financial liability from an equity instrument is whether KBC has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation.
Minority interest represents the equity in a subsidiary that is not attributable to the holders of KBC equity instruments. When the proportion of the equity held by minority interests changes, KBC adjusts the carrying amount of the controlling and minority interests to reflect changes in their relative interests in the consolidated companies. KBC recognises in equity any difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or received, and allocates it to its controlling stake.

10. Employee benefits

- **Short-term employee benefits**
  Short-term employee benefits, such as salaries, paid absences, performance-based cash awards and social security costs are recognised over the period in which the employees provide the related services. The relating expenses are presented under the income statement line item of “*Operating Expenses*” under the heading “*Staff Expenses*”.

- **Post-employment benefits**
  KBC offers pension plans to its employees and these are provided either through defined contribution or defined benefit plans. Under defined contribution plans KBC's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. The amount of the post-employment benefit to be received by the employee is determined by the amount of contribution paid by KBC and the employee him or herself to the post-employment benefit plan together with the investment returns arising from those contributions. The actuarial risk is born by the employee.

Conversely, under defined benefit plans KBC's obligation is to provide the agreed benefits to current and former employees and the actuarial risk and investment risk fall, in substance, on KBC. This means that in case the actuarial or investment experience are worse than expected then KBC's obligation may be increased.

In Belgium, the defined contribution plans contain a legally guaranteed minimum return and the actual return can be lower than the legally required return, these plans have defined benefit plan features and KBC accounts them as defined benefit plans.

Liabilities in connection with the defined benefit plans and the Belgian defined contribution plan (or pension liabilities) 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.
The pension obligations for employees on defined benefit plans are calculated using the projected-unit-credit method, with each period of service granting additional entitlement to pension benefits.
Actuarial valuations are performed every reporting period. The defined benefit liabilities are discounted using rates equivalent to high-quality corporate bonds that are denominated in the currency that the benefits will be paid and have a maturity similar to the related pension liabilities.
Changes in the net defined benefit liability/asset apart from cash movements are grouped in three main categories and are accounted for in operating expenses (service costs), interest expenses (net interest costs) and Other Comprehensive Income (re-measurements).

11. Net fee and commission income

Most of the net fee and commission income falls under the scope of IFRS 15 Revenue from Contracts with Customers as they cover services provided by KBC to its customers and are out of scope of other IFRS standards. For the recognition of revenue KBC identifies the contract and defines what are the promises (performance obligations) in the transaction. Revenue is recognised only when KBC has satisfied the performance obligation.
The revenue presented as Securities and Asset Management falls under the scope of IFRS 15 and entails in principal that KBC holds assets in a trust for the beneficiary (“fund”) and is responsible to invest the amounts received from the customer for the benefit of the customer. These transactions are straightforward because KBC provides a series of distinct services which is consumed by the customer simultaneously when the benefits are provided. KBC is remunerated through the monthly or quarterly management fee which is calculated as a fixed percentage of the net asset value or by a subscription fee retained from the beneficiary. The fees do not include any variable compensation.
Revenue reported as Margin on life insurance investment contracts without DPF represents the realised amount on the investment contracts without DPF (“discretionary participation feature”), that is a fixed percentage or fixed amount withheld from the clients’ payments, enabling the insurance company to cover its expenses.
Payment services whereby KBC charges the customer for different transactions linked with its current accounts, domestic or foreign payments, payment services through ATM, etc. are mainly completed when the actual transaction is executed therefore the relating consideration can be recognised directly at that point in time.

12. Government grants

Government grants are recognised when there is a reasonable assurance that the grant will be received and the conditions attached to it will be met. The grants are recognised in the income statement in a systematic basis to match the way that KBC recognises the expenses for which the grants are intended to compensate.

13. Levies

Public authorities could impose different levies on KBC. The amount of the levies can be dependent on the amount of revenue (mainly interest) generated by KBC, on the amount of deposits accepted from customers, on the total balance sheet volume with corrections based on some specific ratio’s. Levies are recognised, in accordance with IFRIC 21, when the obligating event that gives rise to the recognition of the liability, as stated in the relevant legislation, has occurred. Depending on the obligating event, levies can be recognised at one point or over time. The majority of the levies imposed on KBC have to be recognised at one point, which occurs mainly at the beginning of the financial year. KBC recognises the levies as part of “*Operating Expenses*”.

14. Income tax

Income tax consists of three elements: current year’s taxes paid/payable, previous years’ under/over provision and changes in deferred tax assets/liabilities.
Income tax is accounted for either in the income statement or in the Other Comprehensive Income depending on where the items that triggered the tax are accounted for. Income taxes that are initially accounted for in the Other Comprehensive Income and that relate to gains/losses that are subsequently recognised in the income statement, are recycled in the income statement in the same period that the item is account for in the income statement.
Deferred and current tax assets and liabilities are offset when there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

- **Current tax assets/liabilities**
  Current tax for the period is measured at the amount expected to be paid to/recover from the tax authorities, using the rates of tax in effect during the reporting period.

- **Deferred tax assets/liabilities**
  Deferred tax liabilities are recognised for all taxable temporary differences between the carrying amount of an asset or liability and its tax base. They are measured using the tax rates that are substantially enacted at the reporting date and expected to be in effect on realisation of the assets or settlement of the liabilities to which they relate and which reflects the tax

consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of the underlying asset or liability at the 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, and for carry forward of unused tax losses and for carry forward unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. KBC calculates deferred tax assets for carry forward unused tax losses. When estimating the period over which tax losses can be used against future taxable profits, KBC uses projections for a period between eight to ten years.

Deferred tax assets/liabilities that relate to business combinations are accounted for directly in Goodwill.

Deferred tax assets/liabilities are not discounted.

15. Property, Plant and Equipment

Property, plant and equipment is recognised initially at cost (including directly allocable acquisition costs). KBC subsequently measures property, plant and equipment at the initial cost less accumulated depreciation and impairment. The rates of depreciation are determined on the basis of the estimated useful life of the assets and are applied according to the straight-line method from the moment the assets are available for use.

Property, plant and equipment are derecognised upon disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses upon derecognition are recognised in the income statement in the period that the derecognition occurs.

Property and equipment are subject to impairment when there is an indication that asset might have been impaired.

Depreciation charges, impairment losses and gains/loss on disposal are recognised in the line item "*Operating Expenses*" in the income statement with the exception of assets that are leased under operating leases (KBC as a lessor) for which the costs are recognised in the line "Net Other Income". Where a disposal falls within the definition of a discontinued operation, the net results are reported in a single line in the income statement (see section on discontinued operations).

16. Investment property

Investment property is defined as a real estate property either built, purchased or acquired under a finance lease by KBC, which is held to earn rentals or capital appreciations rather than used by KBC for the supply of services or for administrative purposes.

Investment property is initially recognised at cost (including directly attributable costs). KBC subsequently measures investment property at initial cost minus accumulated depreciation and impairment losses.

The depreciation charge is recorded within the line item of "*Net Other Income*" of the income statement

17. Intangible Assets

Intangible assets include Goodwill, Software Developed In-House, Software developed externally and other intangible assets. Intangible assets can be (i) acquired part of business combination transaction (see further "Business Combinations and Goodwill) , (ii) separately acquired or (iii) developed internally.

Separately acquired intangible assets (mainly software developed externally) are initially recognised at cost. Internally developed intangible assets (mainly software developed-in-house) are recognised only it arises from development and KBC can demonstrate the:

- Technical feasibility of completing the intangible asset;
- Intention to complete for usage or sales;
- Ability to use of sell the intangible assets;
- Manner how the intangible asset will generate future economic benefits;
- Availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- Reliable measurement of the expenditure attributable to the intangible asset during its development.

Internally generated intangible assets are initially measured at the development costs that are directly attributable to the design and testing of the unique software controlled by KBC. Directly attributable costs capitalised as part of the Software Developed In-House include software development employee costs and directly attributable overhead costs.

Research expenses, other development expenditures, costs associated with maintaining software and investment projects (large-scale projects introducing or replacing an important business objective or model) which do not meet the recognition criteria are recognized as an expense when incurred.

Intangible assets are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation begins when the asset is available for use as intended by management. The amortisation of the software is as follow:

- System software (initial purchased software forming an integral part with hardware) is amortised at the same rate as hardware.
- Standard software and customised software developed by a third party or developed in-house is amortised over five years according to the straight-line method from the moment the software is available for use.
- Core systems (include typically deposit account processing, loan and credit processing, interfaces to the general ledger and reporting tools) are amortised over eight years according to the straight-line method.

18. Impairment of non-financial assets

When KBC prepares financial statements it ensures that the carrying amount of the non-financial asset does not exceed the amount what could be obtained from either using or selling it ("*recoverable amount*"). Property, plant and equipment, investment property and software are subject to the impairment review only when an objective evidence of impairment indicator exists. Goodwill and Intangible assets with an indefinite useful life are subject to impairment reviews at least annually and in addition, these assets are also reviewed for impairment indicators at every quarter.
Indications for impairments can be either from internal source (e.g. the condition of an asset) or external source (e.g.: new technology or significant decline of the asset's market value).
When an impairment indicator is present, KBC reviews the asset's recoverable amount and the asset is impaired if its recoverable amount is lower than its carrying amount at the reporting date. The recoverable account is defined as the higher of the value in use and the fair value less cost to sell. Value is use is defined as the discounted future cash flows expected to be delivered from an asset or a cash generating unit.
The impairment is carried on individual asset level but when the individual asset does not generate cash inflows that are largely independent of those from other assets or group of assets then the recoverable amount is determined for the so-called "cash generating unit" (CGU) to which the asset or group of assets belong(s). In forming the CGUs, KBC applies its own judgement to define the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. This process mainly applies to goodwill which has been recognised in connection with acquisitions.
Impairment losses are recognised in the income statement the period that they occur. An impairment loss can be reversed if the condition that triggered the impairment loss is not present any more, except for goodwill which can never be reversed. Impairment gains are recognised in the income statement in the period that they occur.

19. Provisions, contingent liabilities and contingent assets

Provisions are recognised at the reporting date if and only if the following criteria are met:
- there is a present obligation (legal or constructive) due to a past event,
- 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.

The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at balance sheet date. When the timing effect is material, the amount recognised as a provision is the net present value of the best estimate.
Due to its inherent nature, a provision requires management judgment regarding the amount and timing of probable future economic outflows.

20. Consolidated financial statements / Interim financial statements

All material entities (including structured entities) over which KBC exercises, directly or indirectly, control, as defined in IFRS 10, are consolidated according to the method of full consolidation.
Subsidiaries that are not included in the consolidated financial statements because of immateriality are classified as equity instruments at fair value through other comprehensive income with all fair value changes being reported in other comprehensive income except for any dividend income which is recognised in the income statement.
Material companies over which joint control is exercised, directly or indirectly and material investments in associates (companies over which KBC has significant influence), are all accounted for using the equity method.

Consolidation threshold :
Subsidiaries are effectively included in the consolidated financial statements using the full consolidation method if at least two of the following materiality criteria are exceeded:

- Group share in own funds: 2 500 000 EUR;
- Group share in the result: 1 000 000 EUR (absolute value);
- Group share in balance-sheet total: 100 000 000 EUR.

In order to avoid that too many entities are excluded, KBC monitors that the combined balance-sheet total of the entities excluded from consolidation shall not amount to more than 1% of the consolidated balance-sheet total.

21. Business combinations and Goodwill

Business combinations are accounted for using the acquisition method. Under this method, the cost of an acquisition is measured as the aggregate of the consideration transferred (measured at acquisition date fair value) and the amount of any minority interest in the acquiree. For the measurement of the minority interests, KBC can decide for each business combination separately whether to measure the minority interest at fair value or as their proportionate share of the acquiree's net identifiable assets. The way how minority interest is measured at acquisition date will have an impact on the purchase accounting through the determination of goodwill.
Goodwill is the 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. In order to complete the acquisition accounting and determine goodwill KBC applies a measurement period of twelve months. The assessment of the financial assets acquired and financial liabilities assumed in the business combination the classification and designation is based on the facts and circumstances

existing at the acquisition date (except for lease and insurance agreements, which are classified on the basis of the contractual terms and other factors at the inception of the respective contract).
Goodwill is presented on the line item “Goodwill and other intangible assets” and is carried at cost less impairment losses. Goodwill is not amortised, but is tested for impairment at least once a year or when there is an objective evidence (external or internal) that goodwill can be impaired. In case the acquisition accounting is not completed because the twelve months of measurement period has not lapsed then the goodwill is not considered as final and it is only tested in case there is an objective evidence that the provisional goodwill is impaired.
For the purpose of testing goodwill for impairment, goodwill is allocated to each of KBC’s cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. An impairment loss is recognised if the carrying amount of the cash-generating unit to which the goodwill belongs exceeds its recoverable amount. Impairment losses on goodwill cannot be reversed.

22. Effects of changes in foreign exchange rate

KBC’s functional and presentation currency is Euro.
Monetary assets and liabilities denominated in 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 foreign currency, are recognised in the income statement.
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 the income statement at the exchange rate prevailing when they were recognised.
Valuation differences are accounted for either in the income statement or in the Other Comprehensive Income. Valuation differences that are initially accounted for in the Other Comprehensive Income and that relate to gains/losses that are subsequently recognised in the income statement, are recycled in the income statement in the same period that the item is recycled to the income statement.
The balance sheets of foreign subsidiaries are translated into the presentation currency at the spot rate at the reporting 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 best estimate of the exchange rate at transaction date.

23. Related party transactions

A related party to KBC is either a party over which KBC has control or significant influence or a party that has control or significant influence over KBC.
KBC defines its related parties as:
- KBC subsidiaries
- KBC associates and joint ventures
- KBC Key management personnel (being its Board of Directors and the Executive Committee of KBC Group NV)

Transactions with related parties occur at an arm’s-length basis.

24. Non-current assets held-for-sale and disposal groups, liabilities associated with disposal groups and discontinued operations

- **Non-current assets held-for-sale and disposal groups, liabilities associated with disposal groups**
  Non-current assets or group of assets and liabilities held for sale are those for which KBC will recover the carrying amount from a sale transaction that is expected to qualify as a sale within a year, instead of through continuing use.
  Non-current assets held for sale and liabilities held for sale are reported separately from the other assets and liabilities in the balance sheet at the end of the reporting date.
- **Discontinued operations**
  A discontinued operation refers to a part of the KBC that has been disposed of or is classified as held for sale and:
  - represents a separate major line of business or geographical area of operations: or
  - a part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
  - is a subsidiary acquired exclusively with a view to resale.

  Results from discontinued operations are recognised separately in the income statement and in the Other Comprehensive Income and contain:
  - The post-tax profit or loss of discontinued operations and
  - The post-tax gain or loss recognised on the measurement to fair value les costs to sell or on the disposal of the assets or disposal group.

25. Events after reporting period

Events after the reporting date are defined as favourable or unfavourable events that occur between the reporting date and the date that the financial statements are authorised for issue. There are two types of events after the reporting period:

- those which provide evidence of conditions that existed at the reporting date (adjusting events)
- those that are indicative of conditions that arose after the reporting date (non-adjusting events).

The impact of adjusting events has already been reflected in the financial position and performance of the current year.
The impact and consequences of the non-adjusting events are disclosed in the notes of the financial statements.

Transition disclosures IFRS 9 (note 1.4)

As from the 1st of January 2018, the consolidated financial statements are prepared in accordance with IFRS 9. KBC has opted to make use of transition relief for disclosing comparative information.

Below tables reflect on the impact on equity because of this IFRS 9 implementation. Additional transition disclosures that result out of specific shifts are not reported. These will be included in the annual report.

Total FTA (first time application) impact of the transition from IAS 39 to IFRS 9 as per 1st January 2018, including both the impact on the financial assets and provisions, is a decrease in equity amounting to -949 million euros before tax (-746 million euros after tax), split between:

- a classification and measurement impact of -661 million euros before tax, mainly decreasing OCI (other comprehensive income) reserves and
- an increase in impairments and provisions amounting to -288 million euros before tax

Transition disclosures on financial assets

The impact of the implementation of IFRS 9 can be summarized as follows:

a) Classification and measurement (-661 million euros before tax):

- The loans and advances to credit institutions, loans and advances to customers and the debt securities classified in L&R (Loans and Receivables) under IAS 39 shift almost in their entirety to AC (amortized cost). The (net negative) frozen AFS (available for sale) reserves on historically transferred bonds from AFS to L&R related to some of these instruments were reversed and as a result the OCI reserves increase by +23 million euros before tax.
- The debt securities previously classified as HTM (held to maturity) mainly shifted to AC. The (net positive) frozen AFS reserves on historically transferred bonds from AFS to HTM related to these instruments were reversed and as a result decrease the OCI reserves by -187 million euros before tax.
- Debt securities previously classified as AFS have been shifted for an amount of 15 060 million euros to AC. The AFS reserves related to those debt securities were reversed and decreased the OCI reserves for an amount of -610 million euros before tax. Under IFRS 9, 19 239 million euros of debt securities are classified as FVOCI, of which 17 407 million euros were AFS under IAS39. FV impacts resulting from previously HTM assets increase the OCI reserves for an amount of +143 million euros before tax.
- Equity instruments (excluding participations), previously classified as AFS have been reclassified to FVOCI (fair value through other comprehensive income) if owned by one of the banking entities or to FVPL - Overlay (fair value through profit or loss - Overlay) if owned by one of the insurance entities. The shift out of retained earnings to OCI reserves, because of reversed impairments, amounts to 39 million euros before tax. 78 million euros of impairments remain in retained earnings under the application of the overlay approach.
- From the debt instruments that were designated at FVPL under IAS39, 24 million euros shift to MFVPL (mandatorily at fair value through profit or loss) because they fail the SPPI test whereas 39 million euros remain FVO (fair value option) because of accounting mismatches. None of these shifts impacted equity.
- Investment contracts amounting to 14 421 million euros previously designated at FVPL under IAS39 shift to MFVPL in accordance with their business model 'managed on a FV basis' (no impact on equity).
- Loans previously classified as HFT (held for trading) were reported as FVOCI as of 1st January 2018. This shift amounting to 284 million euros only brings about a shift in equity components: 18 million euros will be reclassified out of retained earnings to OCI reserves.

b) Impairment (-282 million euros before tax):

The implementation of the ECL model resulted in an increase in the impairment on debt instruments at AC and FVOCI by 282 million euros before tax as per 1st January 2018, decreasing retained earnings by the same amount. As impairments on FVOCI debt instruments shall not reduce the instruments' carrying amount, 8 million euros is shifted to OCI reserves. The increase in impairments is mainly caused by the stage 2, lifetime expected credit loss and mainly situated in the loans and advances (261 million euros) (mortgage loans, term loans and current accounts).

KBC Group consolidated FINANCIAL ASSETS, 201712	Before IFRS 9 application Debt Instruments (3) Loans & Receivables	Held to maturity	Available for Sale	Designated at Fair Value	Held for Trading	Equity Instruments Available for Sale	Designated at Fair Value	Held for Trading	Total	IMPACT IFRS 9, 1-1-2018 Retained Earnings BEFORE TAX	AFTER TAX	OCI Reserve BEFORE TAX	AFTER TAX
in Millions and in EUR													
FINANCIAL ASSETS, 31-12-2017 (total carrying amount before IFRS 9 application)	167 458	30 979	32 498	63	1 159	1 658	0	508	234 322	-288	-235	-644	-496
Amortised cost									210 865	-266	-222	-774	-594
Amount classified before IFRS 9 application	167 289	29 560	15 060	0	0	-	-	-	211 910				
Remeasurement	-237	-190	-617	0	0	-	-	-	-1 045				
due to reclassification: reversal revaluation reserve (IAS39)	*23*	*-187*	*-610*	-	-	-	-	-	*-774*	-	-	*-774*	*-594*
due to reclassification: portfolio FV hedge (shifts to non-financial assets)	-	-	*-4*	-	-	-	-	-	*-4*	-	-	-	-
impact impairments	*-261*	*-3*	*-2*	*0*	*0*	-	-	-	*-266*	*-266*	*-222*	-	-
Reserved interests	688	0	0	0	0	-	-	-	688				
Reversal specific impairments	3 840	4	8	-	-	-	-	-	3 853				
Reversal IBNR provision	215	1	0	-	-	-	-	-	216				
Transfer to lifetime ECL - stage 3	-4 549	-4	-8	0	0	-	-	-	-4 561				
Transfer to lifetime ECL - stage 2	-357	-1	0	0	0	-	-	-	-358				
Transfer to 12-month ECL - stage 1	-98	-4	-2	0	0	-	-	-	-104				
IFRS 9 measurement on 1 January 2018	**167 052**	**29 370**	**14 443**	**0**	**0**	**-**	**-**	**-**	**210 865**				
Fair value through other comprehensive income									19 516	14	17	125	91
Amount classified before IFRS 9 application	0	1 410	17 407	0	284	277	0	0	19 378				
Remeasurement	0	138	0	0	0	0	-	-	138				
due to reclassification: reversal revaluation reserve (IAS39)	*0*	*-5*	*-908*	-	-	*-69*	-	-	*-982*	-	-	*-982*	*-763*
due to reclassification: impact revaluation reserve (IAS39) on OCI-reserve (IFRS9)	-	-	*908*	-	-	*69*	-	-	*977*	-	-	*977*	*760*
due to reclassification: other than reversal revaluation reserve	*0*	*143*	*8*	*0*	*0*	*-39*	-	-	*111*	*-18*	*-16*	*129*	*95*
impact impairments	*0*	*0*	*-8*	*0*	*0*	*39*	-	-	*32*	*32*	*33*	-	-
Reversal specific impairments	0	0	0	-	-	39	-	-	39				
Reversal IBNR provision	0	0	0	-	-	-	-	-	0				
Transfer to lifetime ECL - stage 3	0	0	0	0	0	-	-	-	0				
Transfer to lifetime ECL - stage 2	0	0	-4	0	0	-	-	-	-4				
Transfer to 12-month ECL - stage 1	0	0	-4	0	0	-	-	-	-4				
IFRS 9 measurement on 1 January 2018	**0**	**1 548**	**17 407**	**0**	**284**	**277**	**0**	**0**	**19 516**				
Fair value through P&L - HFT									1 383	0	0	0	0
Amount classified before IFRS 9 application	0	0	0	0	875	0	0	508	1 383				
Remeasurement	0	0	0	-	-	0	-	-	0				
IFRS 9 measurement on 1 January 2018	**0**	**0**	**0**	**0**	**875**	**0**	**0**	**508**	**1 383**				
Fair value through P&L - Fair value option (FVO)									39	0	0	0	0
Amount classified before IFRS 9 application	0	0	0	39	0	-	-	-	39				
Remeasurement	0	0	0	-	-	-	-	-	0				
IFRS 9 measurement on 1 January 2018	**0**	**0**	**0**	**39**	**0**	**-**	**-**	**-**	**39**				
Fair value through P&L - overlay approach [1]									1 371	0	0	0	0
Amount classified before IFRS 9 application	0	0	0	-	-	1 371	-	-	1 371				
Remeasurement	0	0	0	-	-	0	-	-	0				
due to reclassification: reversal revaluation reserve (IAS39)	*0*	*0*	*0*	-	-	*-390*	-	-	*-390*	-	-	*-390*	*-387*
due to reclassification: impact revaluation reserve (IAS39) on OCI (IFRS9)	*0*	*0*	*0*	-	-	*390*	-	-	*390*	-	-	*390*	*387*
due to reclassification: other than reversal revaluation reserve	*0*	*0*	*0*	-	-	*-78*	-	-	*-78*	*-78*	*-78*	*0*	*0*
impact impairments	*0*	*0*	*0*	-	-	*78*	-	-	*78*	*78*	*78*	-	-
IFRS 9 measurement on 1 January 2018	**0**	**0**	**0**	**-**	**-**	**1 371**	**-**	**-**	**1 371**				
Fair value through P&L - Mandatorily at fair value through profit and loss other than Held for trading and excluding overlay approach [2]									213	-35	-29	6	7
Amount classified before IFRS 9 application	169	9	31	24	0	10	0	0	242				
Remeasurement	-28	-2	0	-	-	0	0	-	-30				
due to reclassification: reversal revaluation reserve (IAS39)	*12*	*0*	*1*	-	-	*-6*	-	-	*6*	-	-	*6*	*7*
due to reclassification: impact revaluation reserve (IAS39) on retained earnings (IFRS9)	*-12*	*0*	*-1*	-	-	*6*	-	-	*-6*	*-6*	*-7*	-	-
due to reclassification: other than reversal revaluation reserve	*-31*	*-2*	*0*	-	-	*0*	-	-	*-33*	*-33*	*-25*	-	-
impact impairments	*3*	*0*	*0*	-	-	*0*	-	-	*3*	*3*	*3*		
IFRS 9 measurement on 1 January 2018	**141**	**7**	**31**	**24**	**0**	**10**	**0**	**0**	**213**				
Hedging									245	-	-	-	-
Amount classified before IFRS 9 application	-	-	-	-	-	-	-	-	245				
IFRS 9 measurement on 1 January 2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**245**				
FINANCIAL ASSETS, 1-1-2018 (total IFRS 9 carrying amount)	167 193	30 926	31 881	63	1 159	1 658	0	508	233 386				
IMPACT RETAINED EARNINGS EXCLUDING EQUITY METHOD, 1-1-2018 (IFRS 9)									-235	-288	-235		
IMPACT OCI RESERVE EXCLUDING EQUITY METHOD, 1-1-2018 (IFRS 9)									-496			-644	-496
IMPACT RETAINED EARNINGS - EQUITY METHOD, 1-1-2018 (IFRS 9)									-4	-5	-4		
IMPACT OCI RESERVE - EQUITY METHOD, 1-1-2018 (IFRS 9)									-3			-3	-3
IMPACT RETAINED EARNINGS - OTHER, 1-1-2018 (IFRS 9)									-3	-3	-3	-	-
TOTAL IMPACT RETAINED EARNINGS AND OCI RESERVE, 1-1-2018 (IFRS 9)									-740	-296	-241	-647	-499
of which phase 1 impact										-14	-7	-647	-499
of which phase 2 impact										-282	-235	-	-

(1) Insurance entities can elect to label financial instruments FVPL and still have their impact in FVOCI till IFRS 17 comes into force

(2) Financial assets previously classified as L&R, HTM or AFS which are reclassified as FVPL, have a business model other than hold to collect (and sell) contractual cash flows or do not pass the SPPI test.

(3) Debt instruments include loans and advances (including finance leases that are not in scope of IAS 39/IFRS 9), debt securities and other financial assets

Transition disclosures on financial liabilities

The implementation of IFRS 9 did not result in any reclassifications for the financial liabilities. Note 4.1 remains unchanged.

Transition disclosures on provisions

IFRS 9 requires the provisions for off balance sheet commitments to reflect the expected credit loss (ECL). As a result, the provisions on commitments and financial guarantees increase by approximately 4% resulting in a decrease of retained earnings of -6 million euros before tax (-5 million euros after tax).

KBC Group consolidated	Before IFRS 9 application				IMPACT IFRS 9, 1-1-2018	
PROVISIONS, 201712	Provisions			Total	Retained Earnings	
in Millions and in EUR	Loan Commitments	Financial Guarantees	Other Commitments		BEFORE TAX	AFTER TAX
PROVISIONS, 31-12-2017 (total carrying amount before IFRS 9 application) - IFRS 7,42I(a)	113	19	1	133		
Remeasurement	6	-1	0	6	-6	-5
Reversal specific impairments	-93	-18	0	-111		
Reversal IBNR provision	-20	-2	0	-22		
Transfer to lifetime ECL	107	17	0	124		
Transfer to 12-month ECL	12	2	0	14		
IFRS 9 measurement on 1 January 2018	119	18	1			
PROVISIONS 1-1-2018 (total IFRS 9 carrying amount)	-	-	-	138		
NET IMPACT RETAINED EARNINGS, 1-1-2018 (IFRS 9)				-6		

Notes on segment reporting

Segment reporting according to the management structure of the group (note 2.2 in the annual accounts 2017)

For a description on the management structure and linked reporting presentation, reference is made to note 2.1 in the annual accounts 2017.

In millions of EUR	Business unit Belgium	Business unit Czech Republic	Business unit Interna-tional Markets	*of which: Hungary*	*of which: Slovakia*	*of which: Bulgaria*	*of which: Ireland*	Group Centre	KBC Group
1Q 2018 IFRS 9									
Net interest income	649	248	226	*61*	*52*	*39*	*75*	2	1 125
Non-life insurance before reinsurance	103	27	26	*11*	*6*	*10*	*0*	5	162
Earned premiums Non-life	259	57	58	*26*	*10*	*23*	*0*	3	378
Technical charges Non-life	- 156	- 30	- 32	*- 15*	*- 4*	*- 13*	*0*	2	- 216
Life insurance before reinsurance	- 27	15	6	*1*	*3*	*1*	*0*	0	- 7
Earned premiums Life	251	60	25	*4*	*14*	*6*	*0*	0	336
Technical charges Life	- 278	- 46	- 19	*- 3*	*- 11*	*- 5*	*0*	0	- 343
Ceded reinsurance result	- 4	- 3	- 2	*- 1*	*- 1*	*- 1*	*0*	0	- 9
Dividend income	21	0	0	*0*	*0*	*0*	*0*	1	21
Net result from financial instruments at fair value through profit or loss	34	40	18	*14*	*3*	*2*	*- 1*	4	96
Net realised result from debt instruments at fair value through other comprehensive income	0	0	1	*0*	*0*	*1*	*0*	0	1
Net fee and commission income	318	67	68	*46*	*14*	*9*	*0*	- 2	450
Net other income	59	4	8	*7*	*1*	*- 1*	*0*	1	71
TOTAL INCOME	1 153	398	350	*139*	*78*	*60*	*74*	11	1 912
Operating expenses	- 822	- 189	- 252	*- 103*	*- 52*	*- 46*	*- 51*	- 27	- 1 291
Impairment	- 13	- 7	61	*6*	*4*	*9*	*43*	16	56
on financial assets at amortised cost	- 14	- 1	61	*6*	*4*	*9*	*43*	17	63
on financial assets at fair value through other comprehensive income	1	0	0	*0*	*0*	*0*	*0*	- 1	0
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
on other	0	- 6	0	*0*	*0*	*0*	*0*	0	- 6
Share in results of associated companies and joint ventures	- 1	6	2	*0*	*0*	*1*	*0*	0	6
RESULT BEFORE TAX	316	207	160	*41*	*29*	*23*	*66*	0	683
Income tax expense	- 73	- 36	- 24	*- 7*	*- 6*	*- 2*	*- 8*	6	- 127
RESULT AFTER TAX	243	171	137	*34*	*23*	*21*	*57*	5	556
Attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	0	0
NET RESULT	243	171	137	*34*	*23*	*21*	*57*	5	556
1Q 2017 IAS 39									
Net interest income	625	216	189	*58*	*53*	*12*	*66*	- 5	1 025
Non-life insurance before reinsurance	143	18	25	*9*	*6*	*10*	*0*	1	187
Earned premiums Non-life	256	49	53	*23*	*8*	*21*	*0*	2	360
Technical charges Non-life	- 113	- 30	- 28	*- 14*	*- 2*	*- 12*	*0*	- 1	- 173
Life insurance before reinsurance	- 44	11	6	*2*	*3*	*1*	*0*	- 1	- 28
Earned premiums Life	241	48	23	*4*	*13*	*6*	*0*	0	312
Technical charges Life	- 285	- 38	- 17	*- 2*	*- 9*	*- 5*	*0*	- 1	- 341
Ceded reinsurance result	- 2	- 1	- 1	*0*	*0*	*- 1*	*0*	1	- 4
Dividend income	12	0	0	*0*	*0*	*0*	*0*	2	15
Net result from financial instruments at fair value through profit or loss	156	50	28	*19*	*4*	*1*	*5*	- 44	191
Net realised result from available-for-sale assets	23	11	2	*1*	*0*	*1*	*0*	9	45
Net fee and commission income	346	47	48	*37*	*12*	*- 1*	*0*	- 3	439
Net other income	46	26	4	*1*	*2*	*0*	*0*	1	77
TOTAL INCOME	1 305	378	301	*127*	*81*	*22*	*71*	- 38	1 946
Operating expenses	- 822	- 165	- 212	*- 101*	*- 50*	*- 16*	*- 44*	- 29	- 1 229
Impairment	- 60	1	47	*1*	*- 2*	*- 1*	*50*	4	- 8
on loans and receivables	- 59	1	48	*1*	*- 2*	*- 1*	*50*	4	- 6
on available-for-sale assets	- 1	0	0	*0*	*0*	*0*	*0*	0	- 1
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
on other	0	0	0	*0*	*0*	*0*	*0*	0	0
Share in results of associated companies and joint ventures	0	4	1	*0*	*0*	*0*	*0*	0	5
RESULT BEFORE TAX	423	218	137	*26*	*28*	*5*	*76*	- 63	715
Income tax expense	- 121	- 37	- 22	*- 6*	*- 6*	*- 1*	*- 10*	96	- 85
RESULT AFTER TAX	301	181	114	*20*	*22*	*4*	*67*	33	630
Attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	0	0
NET RESULT	301	181	114	*20*	*22*	*4*	*67*	33	630

Other notes

Net interest income (note 3.1 in the annual accounts 2017)

In millions of EUR	1Q 2018 IFRS 9	4Q 2017 IAS 39	1Q 2017 IAS 39
Total	1 125	1 029	1 025
Interest income	1 682	1 590	1 576
Interest income on financial instruments calculated using effective interest rate method			
Loans and receivables	-	965	921
Held-to-maturity investments	-	207	234
Financial assets at amortised cost	1 282	-	-
Available-for-sale assets	-	159	166
Financial assets at fair value through other comprehensive income	100	-	-
Derivatives under hedge accounting	50	82	68
Other assets not at fair value	19	46	33
Interest income on other financial instruments			
Financial assets held for trading	229	130	152
of which economic hedge	223	122	146
Other financial assets at fair value through profit or loss	0	1	2
Interest expense	- 557	- 561	- 551
Interest expense on financial instruments calculated using effective interest rate method			
Financial liabilities measured at amortised cost	- 255	- 242	- 228
Derivatives under hedge accounting	- 103	- 121	- 125
Other	- 30	- 34	- 18
Interest expense on other financial instruments			
Financial liabilities held for trading	- 161	- 155	- 171
of which economic hedge	- 154	- 148	- 166
Financial liabilities designated at fair value through profit or loss	- 6	- 6	- 8
Net interest expense on defined benefit plans	- 1	- 2	- 2

The presentation of interest accruals for FX derivatives has changed: for more information see 'Statement of compliance' (note 1.1).

Net result from financial instruments at fair value through profit or loss (note 3.3 in the annual accounts 2017)

As of 2018, the financial information is prepared in accordance with IFRS 9. Equity instruments of the insurance companies are accounted for using the overlay approach. For more information see note 'Summary of significant accounting policies' (note 1.2), as well as the narrative under the income statement.

The result from financial instruments at fair value through profit or loss in 1Q 2018 is 139 million euros lower compared to 4Q 2017. The quarter-on-quarter decrease is due to:

- Presentation change of interest accruals for FX derivatives, which are shifted from 'Net result from financial instruments at fair value through profit or loss' to 'Net interest income' for an amount of 108 million euros in 4Q 2017 (for more information, see note 'Statement of compliance' (note 1.1)).
- Presentation change with regard to 'Network income' which is shifted from 'Net result from financial instruments at fair value through profit or loss' to 'Net fee and commission income' for an amount of 26 million euros in 4Q 2017 (for more information, see note 'Statement of compliance' (note 1.1)).
- Overlay approach equity instruments insurance: as of 1Q 2018, the result from financial instruments at fair value through profit or loss includes the net realised result and impairments on equity instruments of the insurers (+17 million euros in 4Q 2017)

- Excluding these items, the result from financial instruments at fair value through profit or loss in 1Q 2018 is 22 million euros lower compared to 4Q 2017, mainly explained by lower slightly negative market value adjustments in 1Q 2018 versus positive market value adjustments in 4Q 2017 and a lower dealing room income.

Compared to 1Q 2017, the result from financial instruments at fair value through profit or loss is 95 million euros lower in 1Q 2018, for a large part explained by:

- Shift of interest accruals for FX derivatives (56 million euros in 1Q 2017) and network income (24 million euros in 1Q 2017) out of the result from financial instruments at fair value through profit or loss, partially compensated by the inclusion of the results of the overlay approach equity instruments insurance in the result from financial instruments at fair value through profit or loss (19 million euros in 1Q 2017).
- Excluding these items, the result from financial instruments at fair value through profit or loss in 1Q 2018 is 34 million euros lower compared to 1Q 2017, mainly explained by slightly negative market value adjustments in 1Q 2018 versus positive market value adjustments in 1Q 2017 and a lower level of dealing room income in Belgium.

Net fee and commission income (note 3.5 in the annual accounts 2017)

In millions of EUR	1Q 2018	4Q 2017	1Q 2017
Total	450	430	439
Income	648	641	620
Expense	- 197	- 210	- 181
Breakdown by type			
Asset Management Services	299	301	323
Income	313	316	333
Expense	- 14	- 15	- 10
Banking Services	215	204	184
Income	318	309	268
Expense	- 102	- 106	- 84
Distribution	- 64	- 75	- 68
Income	17	15	19
Expense	- 81	- 89	- 87

A change in presentation was made with regard to 'Network income' which is shifted from 'Net result from financial instruments at fair value through profit or loss' to 'Net fee and commission income'. 'Network income' is income received from margins earned on FX transactions (related to payments, credits, deposits, investments) and performed by the network (branches, online) for clients. The new presentation better reflects the business reality, it concerns income received from margins earned on FX transactions carried out by the network for clients. 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 25 million euros in 1Q 2018, before tax).

As of 2018, the financial information is prepared in accordance with IFRS 9. However, net fee and commission income is not impacted. The impact of the implementation of IFRS 15 (revenue recognition) is negligible.

Net other income (note 3.6 in the annual accounts 2017)

In millions of EUR	1Q 2018 IFRS 9	4Q 2017 IAS 39	1Q 2017 IAS 39
Total	71	- 14	77
Of which net realised result following			
The sale of loans and receivables	-	1	2
The sale of held-to-maturity investments	-	0	6
The sale of financial assets at amortised cost	1	-	-
Other: of which:	70	- 15	69
Income concerning leasing at the KBC Lease-group	15	14	20
Income from Group VAB	17	15	18
Tracker mortgage review provision	0	- 62	0
Settlement of an old legal file	18	0	14

Breakdown of the insurance results (note 3.7.1 in the annual accounts 2017)

In millions of EUR	Life	Non-life	Non-technical account	TOTAL
1Q 2018 IFRS 9				
Earned premiums, insurance (before reinsurance)	336	384		720
Technical charges, insurance (before reinsurance)	- 343	- 216		- 559
Net fee and commission income	- 2	- 75		- 77
Ceded reinsurance result	0	- 9		- 9
Operating expenses	- 48	- 61	- 1	- 109
Internal costs claim paid	- 2	- 14		- 16
Administration costs related to acquisitions	- 8	- 18		- 26
Administration costs	- 38	- 29		- 67
Management costs investments	0	0	- 1	- 1
Technical result	- 56	23	- 1	- 34
Net interest income			129	129
Dividend income			11	11
Net result from financial instruments at fair value			24	24
Net realised result from FVOCI assets			1	1
Net other income			- 2	- 2
Impairments			1	1
Allocation to the technical accounts	131	20	- 151	0
Technical-financial result	75	42	12	130
Share in results of associated companies and joint ventures			1	1
RESULT BEFORE TAX	75	42	12	131
Income tax expense				- 28
RESULT AFTER TAX				102
attributable to minority interest				0
attributable to equity holders of the parent				102

	Life	Non-life	Non-technical account	TOTAL
1Q 2017 IAS 39				
Earned premiums, insurance (before reinsurance)	313	365		678
Technical charges, insurance (before reinsurance)	- 341	- 173		- 514
Net fee and commission income	0	- 72		- 72
Ceded reinsurance result	0	- 4		- 4
Operating expenses	- 47	- 60	- 1	- 107
Internal costs claim paid	- 2	- 14		- 16
Administration costs related to acquisitions	- 8	- 19		- 27
Administration costs	- 37	- 27		- 64
Management costs investments	0	0	- 1	- 1
Technical result	- 74	56	- 1	- 19
Net interest income			143	143
Dividend income			7	7
Net result from financial instruments at fair value			2	2
Net realised result from AFS assets			22	22
Net other income			0	0
Impairments			- 1	- 1
Allocation to the technical accounts	136	22	- 158	0
Technical-financial result	61	78	14	154
Share in results of associated companies and joint ventures			0	0
RESULT BEFORE TAX	61	78	14	154
Income tax expense				- 44
RESULT AFTER TAX				110
attributable to minority interest				0
attributable to equity holders of the parent				111

Note: Figures for premiums exclude the investment contracts without DPF, which roughly coincide with the unit-linked products. Figures are before elimination of transactions between the bank and insurance entities of the group (more information in the 2017 annual accounts).

As of 2018, the financial information is prepared in accordance with IFRS 9. Equity instruments of the insurance companies are accounted for using the overlay approach. For more information see note ‘Summary of significant accounting policies’ (note 1.2), as well as the narrative under the income statement.

Because of the overlay approach, the bottom line P&L impact of equity instruments will not be different under IAS 39 or IFRS 9. However, under IAS 39 the proceeds of sales were presented in 'Net realised result from available-for-sale assets', and the impairment losses on these equity instruments were included in 'Impairment'. Under IFRS 9 with the overlay approach, these impacts are presented in 'Net result from financial instruments at fair value through profit or loss'.

The technical result non-life was negatively impacted by storms in Belgium in January 2018 for an amount of about -35 million euros (pre-tax; no impact of reinsurance).

Operating expenses – income statement (note 3.8 in the annual accounts 2017)

As of 2018, the financial information is prepared in accordance with IFRS 9. However, operating expenses are not impacted.

The operating expenses for 1Q 2018 include 371 million euros related to bank (and insurance) levies (41 million euros in 4Q 2017; 361 million euros in 1Q 2017). Application of IFRIC 21 (Levies) has as a consequence that certain levies are taken upfront in expense of the first quarter of the year.

Impairment – income statement (note 3.10 in the annual accounts 2017)

In millions of EUR	1Q 2018 IFRS 9	4Q 2017 IAS 39	1Q 2017 IAS 39
Total	56	- 2	- 8
Impairment on financial assets at amortised cost (IAS 39: loans and receivables)	63	30	- 6
Breakdown by product			
- Loans and advances	47	31	26
- Debt securities	0	-	-
- Provision for off-balance sheet commitments	15	- 1	- 32
Breakdown by type			
- Loss allowance measured as 12 month ECL - stage 1	- 3	-	-
- Loss allowance measured as lifetime ECL - stage 2	34	-	-
- Loss allowance measured as lifetime ECL - stage 3	34	-	-
- Purchased or originated credit-impaired (including off-balance-sheet credit commitments)	- 2	-	-
Specific impairments for on-balance-sheet lending	-	- 2	20
Provisions for off-balance-sheet credit commitments (*)	-	- 1	- 32
Portfolio-based impairments	-	33	6
Impairment on financial assets at fair value through OCI (IAS 39: available-for-sale assets)	0	- 3	- 1
Breakdown by type			
Equity instruments (2017: Shares)**	-	- 3	- 1
Debt securities (2017: Other)	0	0	0
Impairment on goodwill	0	0	0
Impairment on other	- 6	- 29	0
Intangible assets, other than goodwill	0	- 12	0
Property and equipment and investment property	- 6	- 16	0
Held-to-maturity assets (IAS 39)	-	0	0
Modification gains/losses	0	-	-
Associated companies and joint ventures	0	0	0
Other	0	0	0

** As from current year, the provisions for off-balance-sheet credit commitments are included in the lines Loss allowance per stage above.*

*** Under IFRS 9, equity instruments at FVOCI are not subject to impairment calculation*

Income tax expense – income statement (note 3.12 in the annual accounts 2017)

In Belgium, the tax rate has decreased from 33,99% in 2017 to 29,58% in 2018 applying to the Belgian group companies, while a 100% exemption for dividends received has been introduced (instead of 95%), partly offset by the negative impact of some offsetting measures. The result of 1Q 2018 has been positively impacted by these changes by approximately +25 million euros.

Financial assets and liabilities: breakdown by portfolio and product (note 4.1 in the annual accounts 2017)

In millions of EUR	Amortised cost	Fair value through other comprehensive income	Mandatorily at fair value through profit and loss other than Held for trading	Held for trading	Available for sale	Loans and receivables	Held to maturity	Designated at fair value through profit and loss	Hedging derivatives	Total
FINANCIAL ASSETS, 31-03-2018										
Loans and advances to credit institutions and investment firms excluding reverse repos	5 045	0	0	1	-	-	-	-	0	5 046
Loans and advances to customers	142 410	0	89	0	-	-	-	14	0	142 512
Trade receivables	3 800	0	0	0	-	-	-	0	0	3 800
Consumer credit	3 896	0	0	0	-	-	-	0	0	3 896
Mortgage loans	60 874	0	70	0	-	-	-	0	0	60 944
Term loans	62 290	0	19	0	-	-	-	14	0	62 323
Finance leasing	5 302	0	0	0	-	-	-	0	0	5 302
Current account advances	5 309	0	0	0	-	-	-	0	0	5 309
Other	939	0	0	0	-	-	-	0	0	939
Reverse repos	27 988	0	0	536	-	-	-	0	0	28 524
Reverse repos to credit institutions and investment firms	27 155	0	0	536	-	-	-	0	0	27 691
Reverse repos to customers	833	0	0	0	-	-	-	0	0	833
Equity instruments	0	301	1 332	512	-	-	-	-	-	2 145
Investment contracts (insurance)	-	-	14 204	-	-	-	-	-	-	14 204
Debt securities issued by	43 722	18 411	120	1 651	-	-	-	0	0	63 904
Public bodies	37 200	12 136	0	1 435	-	-	-	0	0	50 770
Credit institutions and investment firms	3 248	2 453	15	124	-	-	-	0	0	5 839
Corporates	3 274	3 823	106	93	-	-	-	0	0	7 295
Derivatives	-	-	-	5 168	-	-	-	-	217	5 385
Other	1 025	0	0	1	-	-	-	0	0	1 027
Total carrying value	220 190	18 713	15 746	7 869	-	-	-	14	217	262 748

FINANCIAL ASSETS, 31-12-2017										
Loans and advances to credit institutions and investment firms excluding reverse repos	-	-	-	1	0	4 877	-	0	0	4 878
Loans and advances to customers excluding reverse repos	-	-	-	0	0	140 960	-	38	0	140 999
Trade receivables	-	-	-	0	0	3 986	-	0	0	3 986
Consumer credit	-	-	-	0	0	3 857	-	0	0	3 857
Mortgage loans	-	-	-	0	0	60 601	-	23	0	60 625
Term loans	-	-	-	0	0	61 824	-	15	0	61 839
Finance leasing	-	-	-	0	0	5 308	-	0	0	5 308
Current account advances	-	-	-	0	0	4 728	-	0	0	4 728
Other	-	-	-	0	0	656	-	0	0	656
Reverse repos	-	-	-	2	0	20 074	-	0	0	20 076
Reverse repos to credit institutions and investment firms	-	-	-	2	0	19 570	-	0	0	19 572
Reverse repos to customers	-	-	-	0	0	504	-	0	0	504
Equity instruments	-	-	-	508	1 658	-	-	-	-	2 165
Investment contracts (insurance)	-	-	-	-	-	-	-	14 421	-	14 421
Debt securities issued by	-	-	-	1 156	32 498	921	30 979	24	0	65 578
Public bodies	-	-	-	955	22 307	52	29 096	0	0	52 410
Credit institutions and investment firms	-	-	-	121	4 468	125	1 177	0	0	5 891
Corporates	-	-	-	80	5 723	744	706	24	0	7 277
Derivatives	-	-	-	5 765	-	-	-	-	245	6 010
Other	-	-	-	0	0	626	-	0	0	626
Total carrying value	-	-	-	7 431	34 156	167 458	30 979	14 484	245	254 753

In millions of EUR	Amortised cost	Held for trading	Designated at fair value through profit and loss	Hedging derivatives	Total
FINANCIAL LIABILITIES, 31-03-2018					
Deposits from credit institutions and investment firms excluding repos	31 968	0	0	0	31 969
Deposits from customers and debt certificates excluding repos	186 382	220	1 432	0	188 034
Demand deposits	75 888	0	0	0	75 888
Time deposits	18 873	33	378	0	19 285
Saving accounts	57 828	0	0	0	57 828
Special deposits	2 408	0	0	0	2 408
Other deposits	345	0	0	0	345
Certificates of deposit	13 787	0	8	0	13 794
Customer savings certificates	1 708	0	0	0	1 708
Non-convertible bonds	13 113	187	869	0	14 169
Non-convertible subordinated liabilities	2 433	0	178	0	2 610
Repos	18 394	244	0	0	18 638
Repos from credit institutions	14 830	242	0	0	15 072
Repos from customers	3 564	3	0	0	3 566
Liabilities under investment contracts	0	0	13 338	0	13 338
Derivatives	0	5 018	0	1 228	6 246
Short positions	0	751	0	0	751
in equity instruments	0	16	0	0	16
in debt instruments	0	735	0	0	735
Other	3 535	3	0	0	3 538
Total carrying value	240 280	6 236	14 770	1 228	262 515
FINANCIAL LIABILITIES, 31-12-2017					
Deposits from credit institutions and investment firms excluding repos	27 746	3	12	0	27 761
Deposits from customers and debt certificates excluding repos	192 019	219	1 470	0	193 708
Demand deposits	73 606	0	0	0	73 606
Time deposits	18 983	11	403	0	19 397
Saving accounts	56 692	0	0	0	56 692
Special deposits	2 235	0	0	0	2 235
Other deposits	549	0	0	0	549
Certificates of deposit	22 579	0	14	0	22 593
Customer savings certificates	1 721	0	0	0	1 721
Non-convertible bonds	12 323	208	866	0	13 397
Non-convertible subordinated liabilities	3 330	0	186	0	3 516
Repos	5 835	0	0	0	5 836
Repos from credit institutions	5 575	0	0	0	5 575
Repos from customers	260	0	0	0	260
Liabilities under investment contracts	0	0	13 552	0	13 552
Derivatives	0	5 868	0	1 284	7 152
Short positions	0	905	0	0	905
in equity instruments	0	13	0	0	13
in debt instruments	0	892	0	0	892
Other	2 344	3	0	0	2 347
Total carrying value	227 944	6 998	15 034	1 284	251 260

The equity instruments for which the overlay approach is applied represent all equity instruments reported as ‘Mandatorily at FVPL other than Held for trading’.

In order to provide a more transparent view on the different products, the presentation of note 4.1 has been slightly changed: (reverse) repos are as of 2018 excluded from loans and advances to credit institutions and customers (deposits from credit institutions and customers), while (reverse) repos are now presented separately. The reference figures have been restated accordingly.

Financial assets and liabilities measured at fair value – fair value hierarchy (note 4.5 in the annual accounts 2017)

For more details on how KBC defines and determines (i) fair value and the fair value hierarchy and (ii) level 3 valuations reference is made to notes 4.4 up to and including 4.7 of the annual accounts 2017.

Fair value hierarchy				31-03-2018				31-12-2017
In millions of EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Mandatorily at fair value other than held for trading	15 039	525	182	15 746	-	-	-	-
Held for trading	1 585	4 715	1 569	7 869	1 122	4 402	1 907	7 431
Designated at fair value	0	14	0	14	13 949	525	10	14 484
Fair value through other comprehensive income	13 659	4 511	543	18 713	-	-	-	-
Available for sale	-	-	-	-	26 374	6 812	970	34 156
Hedging derivatives	0	217	0	217	0	245	0	245
Total	30 282	9 982	2 294	42 558	41 445	11 984	2 887	56 316
Financial liabilities measured at fair value								
Held for trading	733	3 642	1 862	6 236	909	3 872	2 218	6 998
Designated at fair value	13 330	818	623	14 770	13 544	904	585	15 034
Hedging derivatives	0	1 228	0	1 228	0	1 284	0	1 284
Total	14 063	5 687	2 485	22 235	14 453	6 060	2 803	23 316

Financial assets and liabilities measured at fair value – transfers between level 1 and 2 (note 4.6 in the annual accounts 2017)

In the first 3 months of 2018, a total amount of 313 million euros in financial instruments at fair value was transferred from level 1 to level 2. KBC also transferred 807 million euros in financial instruments from level 2 to level 1. The majority of the transfers is due to changed liquidity of mainly corporate bonds.

Financial assets and liabilities measured at fair value – focus on level 3 (note 4.7 in the annual accounts 2017)

The first time application impact of the implementation of IFRS 9 resulted in an increase of 46 million euros of financial assets and liabilities measured at fair value in level 3: the largest changes are:

- 99 million euro of bonds was shifted out of AFS to amortised cost (the remainder is included in Fair value through other comprehensive income)
- 35 million euro of unquoted equity was shifted out of AFS to mandatorily at fair value other than held for trading (overlay approach) (the remainder is included in Fair value through other comprehensive income)
- 145 million euro of bonds and loans were shifted from Loans and receivables to mandatorily at fair value other than held for trading because of SPPI failure (Solely Payment of Principal and Interest).

In the first 3 months of 2018 the following material movements are observed with respect to instruments classified in level 3 of the fair value level hierarchy:

- In the assets held for trading category, the fair value of derivatives decreased by 345 million euros, which is mainly due to maturing deals and fair value movements, slightly compensated by new positions.
- In the fair value OCI category the fair value decreases by 265 million euros, which is a combination of a decrease in debt securities and an increase in unquoted equity instruments:
    - o The fair value of debt securities in FVOCI decreased by 301 million euro, of which a net amount of 259 million euros was transferred out of level 3. The majority of the transfers is due to changed liquidity of bonds.
    - o The fair value of unquoted equity instruments in FVOCI increased by 36 million euro, mainly due to a change in consolidation scope.

- In the liabilities held for trading category, the fair value of derivatives decreased by 359 million euros, which is mainly due to maturing deals and fair value movements, slightly compensated by new positions.

- In the liabilities designated at fair value category, the fair value debt securities issued increased by 38 million euros, mainly due to new issues.

Parent shareholders' equity and AT1 instruments (note 5.10 in the annual accounts 2017)

in number of shares	31-03-2018 IFRS 9	31-12-2017 IAS 39
Ordinary shares	**418 597 567**	**418 597 567**
of which ordinary shares that entitle the holder to a dividend payment	*418 597 567*	*418 597 567*
of which treasury shares	*57 473*	*64 847*
Other information		
Par value per ordinary share (in EUR)	3,48	3,48
Number of shares issued but not fully paid up	0	0

The ordinary shares of KBC Group NV have no nominal value and are quoted on NYSE Euronext (Brussels).
The treasury shares almost fully relate to positions in shares of KBC Group to hedge outstanding equity derivatives.

Main changes in the scope of consolidation (note 6.6 in the annual accounts 2017)

<u>In 1Q 2018:</u>

- Legal merger between UBB and CIBANK (no consolidated impact).
- Acquisition of MetLife's 40% stake in UBB-MetLife Life Insurance Company AD, a life insurance joint venture between United Bulgarian Bank ("UBB") and MetLife ("UBB-MetLife"). Its financial impact is immaterial for KBC. Change of consolidation method from equity method to full consolidation.

<u>In 2017:</u>

- The acquisition of 99,91% of the shares of the United Bulgarian Bank AD and 100% of Interlease EAD in Bulgaria (balance sheet consolidated at 30 June 2017; income statement consolidated as of 1 July 2017).

Post-balance sheet events (note 6.8 in the annual accounts 2017)

Significant non-adjusting events between the balance sheet date (31 March 2018) and the publication of this report (17 May 2018):

For 2017 the board of directors has proposed to the general meeting of shareholders, which was approved on 3 May 2018, that a closing dividend of 2 euros is paid out per share entitled to dividend (837 million euros in total). This closing dividend will be deducted from retained earnings in 2Q 2018. At that time this will also negatively impact the net cash (flow) from financing activities.

On 17 April 2018, KBC Group NV placed 1 billion euros in non-dilutive, Additional Tier-1 (AT1) securities. This AT1 instrument will be 7.5-year non-call perpetual with a temporary write-down at 5.125% CET1 and an initial coupon of 4.25% per annum, payable semi-annual. Since they are classified as shares under IAS 32 (because interest payments are discretionary and the securities are perpetual), the annualised coupon of 4.25% – which is paid semi-annually – is treated as a dividend. This transaction had no impact on the number of ordinary shares.

The new AT1 Securities have been issued in view of any potential future call of the existing 1.4 billion euros AT1 Securities issued in 2014, which KBC has the right to redeem in accordance with their terms in March 2019. The issue of the Securities enables KBC to maintain an optimal capital structure and continue to support our already excellent solvency ratios. Any decision to call the existing AT1 Securities will be taken in the context of KBC's financial position and other factors at the relevant time and will be subject to any required regulatory and other approvals and pre-conditions being satisfied.

REPORT OF THE ACCREDITED AUDITOR TO THE SHAREHOLDERS OF KBC GROUP NV ON THE REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 MARCH 2018 AND FOR THE THREE-MONTH PERIOD THEN ENDED

Introduction

We have reviewed the accompanying interim consolidated balance sheet of KBC Group NV and its subsidiaries (collectively referred to as "the Group") as at 31 March 2018 and the related interim consolidated income statement and condensed consolidated statement of comprehensive income for the three-month period then ended, and the interim consolidated statement of changes in equity and condensed consolidated cash flow statement for the three-month period then ended, and explanatory notes, comprising a summary of significant accounting policies and other explanatory notes, collectively, the "Interim Condensed Consolidated Financial Statements".

These statements show a consolidated balance sheet total of EUR 304.022 million and a consolidated profit (share of the group) for the three-month period then ended of EUR 556 million.

The board of directors is responsible for the preparation and fair presentation of these Interim Condensed Consolidated Financial Statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34") as adopted for use in the European Union. Our responsibility is to express a conclusion on these Interim Condensed Consolidated Financial Statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" applicable to review engagements. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Interim Condensed Consolidated Financial Statements do not present fairly, in all material respects, the financial position of the Group as at 31 March 2018, and of its financial performance and its cash flows for the three-month period then ended in accordance with IAS 34, as adopted for use in the European Union.

Sint-Stevens-Woluwe, 16 May 2018

The statutory auditor
PwC Bedrijfsrevisoren bcvba
represented by

Roland Jeanquart
Accredited auditor

Tom Meuleman
Accredited auditor

KBC Group

Additional Information 1Q 2018

Section not reviewed by the Auditor

Credit risk

Snapshot of the loan portfolio (banking activities)

The main source of credit risk is the loan portfolio of the bank. A snapshot of the banking portfolio is shown in the table below. It includes all payment credit, guarantee credit~~,~~ standby credit and credit derivatives, granted by KBC to private persons, companies, governments and banks. Bonds held in the investment portfolio are included if they are corporate- or bank-issued, hence government bonds and trading book exposure are not included. Further on in this chapter, extensive information is provided on the credit portfolio of each business unit. Information specifically on sovereign bonds can be found under 'note 6.7 (in the annual accounts 2017)'.

Credit risk: loan portfolio overview

Total loan portfolio (in billions of EUR)	31-03-2018	31-12-2017
Portfolio outstanding + undrawn [1]	203	191
Portfolio outstanding [1]	163	154
Total loan portfolio, by business unit (as a % of the portfolio of credit outstanding)		
Belgium	64%	63%
Czech Republic	16%	16%
International Markets	17%	18%
Group Centre	3%	3%
Total	100%	100%
Total outstanding loan portfolio sector breakdown		
Private persons	40.4%	42.1%
Finance and insurance	7.8%	5.2%
Authorities	3.1%	2.8%
Corporates	48.7%	49.8%
services	11.1%	11.6%
distribution	7.3%	7.6%
real estate	6.9%	7.0%
building & construction	4.0%	4.2%
agriculture, farming, fishing	2.7%	2.8%
automotive	2.2%	2.3%
electricity	1.6%	1.7%
food producers	1.5%	1.5%
metals	1.4%	1.4%
chemicals	1.2%	1.2%
shipping	1.1%	1.2%
machinery & heavy equipment	1.1%	1.1%
traders	1.0%	1.0%
hotels, bars & restaurants	0.7%	0.8%
oil, gas & other fuels	0.7%	0.7%
electrotechnics	0.6%	0.6%
textile & apparel	0.5%	0.5%
other [2]	3.1%	2.6%
Total outstanding loan portfolio geographical breakdown		
Home countries	86.4%	88.5%
Belgium	54.2%	56.5%
Czech Republic	14.5%	14.8%
Ireland	7.7%	7.8%
Slovakia	4.8%	4.9%
Hungary	3.2%	3.3%
Bulgaria	2.1%	2.1%
Rest of Western Europe	8.1%	7.4%
France	1.9%	1.9%
Netherlands	1.9%	1.6%
Great Britain	1.2%	1.1%
Spain	0.5%	0.5%
Luxemburg	0.7%	0.6%
Germany	0.6%	0.6%
other	1.3%	1.1%
Rest of Central Europe	0.6%	0.4%
Russia	0.2%	0.1%
other	0.4%	0.4%
North America	1.5%	1.4%
USA	1.2%	1.1%
Canada	0.3%	0.3%
Asia	1.6%	0.8%
China	1.0%	0.3%
Hong Kong	0.2%	0.2%
Singapore	0.2%	0.2%
other	0.3%	0.1%
Rest of the world	1.8%	1.4%

	31-03-2018	31-12-2017
Loan portfolio by IFRS-9 ECL [3] stage (part of portfolio, as % of the portfolio of credit outstanding)		
Stage 1 (credit risk has not increased significantly since initial recognition)	83%	
of which: PD 1 - 4	63%	
of which: PD 5 - 9 including unrated	20%	
Stage 2 (credit risk has increased significantly since initial recognition – not credit impaired) incl. POCI [4]	11%	
of which: PD 1 - 4	3%	
of which: PD 5 - 9 including unrated	8%	
Stage 3 (credit risk has increased significantly since initial recognition – credit impaired) incl. POCI [4]	6%	
of which: PD 10 – 12 (impaired loans)	6%	
Impaired loans (in millions of EUR or %)		
Amount outstanding	9 583	9 186
of which: more than 90 days past due	5 638	5 242
Ratio of impaired loans, per business unit		
Belgium	2.6%	2.8%
Czech Republic	2.4%	2.4%
International Markets	20.4%	19.7%
Group Centre	10.7%	9.8%
Total	5.9%	6.0%
of which: more than 90 days past due	3.5%	3.4%
Stage 3 loan loss impairments (in millions of EUR) and Cover ratio (%)		
Stage 3 loan loss impairments	4 584	4 039
of which: more than 90 days past due	3 842	3 361
Cover ratio of impaired loans		
Stage 3 loan loss impairments / impaired loans	48%	44%
of which: more than 90 days past due	68%	64%
Cover ratio of impaired loans, mortgage loans excluded		
Stage 3 loan loss impairments / impaired loans, mortgage loans excluded	56%	54%
of which: more than 90 days past due	75%	73%
Credit cost, by business unit (%)		
Belgium	0.05%	0.09%
Czech Republic	0.01%	0.02%
International Markets	-0.86%	-0.74%
Slovakia	-0.20%	0.16%
Hungary	-0.44%	-0.22%
Bulgaria	-1.09%	0.83%
Ireland	-1.36%	-1.70%
Group Centre	-1.43%	0.40%
Total	-0.15%	-0.06%

[1] Outstanding portfolio includes all on-balance sheet commitments and off-balance sheet guarantees but excludes off-balance sheet undrawn commitments; 31-03-2018 amounts are measured in Gross Carrying Amounts; 31-12-2017 amounts are measured in the old definition of drawn principal (i.e. excluding reserved and accrued interests)
[2] Other includes corporate sectors not exceeding 0.5% concentration and unidentified sectors
[3] Under IFRS 9 financial instruments that are subject to impairment are 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; More information on these IFRS 9 stages can be found under Notes on statement of compliance and changes in accounting policies
[4] Purchased or originated credit impaired assets

Impaired loans are loans for which full (re)payment of the contractual cash flows is deemed unlikely. This coincides with KBC's Probability-of-Default-classes 10, 11 and 12 (see annual accounts FY 2017 - section on credit risk for more information on PD classification). These impaired loans are equal to 'non-performing loans' under the (new) definition used by EBA. As of 1Q18 a switch has been made in the risk reporting figures from outstanding to (the new IFRS 9 definition of) gross carrying amount (GCA), i.e. including reserved and accrued interests. In addition, the transaction scope of the loan portfolio was extended and now additionally includes the following 4 elements: (1) bank exposure (money market placements, documentary credit, accounts), (2) debtor risk KBC Commercial Finance, (3) unauthorized overdrafts, and (4) reverse repo (excl. central bank exposure).

In the table below the 31-12-2017 credit portfolio is restated to the extended scope:

Credit risk: loan portfolio overview

Total loan portfolio (in billions of EUR)	31/12/2017 restated	31/12/2017
Total loan portfolio, by business unit	162	154
Belgium	104	98
Czech Republic	25	24
International Markets	28	28
Group Centre	4	4

(*) restated ratios available in the section 'Details of ratios and terms on KBC Group level

Loan portfolio per business unit (banking activities)

Legend:

- ***ind. LTV - Indexed Loan To Value:*** *current outstanding loan / current value of property*
- ***Impaired loans:*** *loans for which full (re)payment is deemed unlikely (coincides with KBC's PD-classes 10, 11 or 12)*
- ***Impaired loans that are more than 90 days past due:*** *loans that are more than 90 days overdue and/or loans which have been terminated/cancelled or bankrupt obligors (coincides with KBC's PD-classes 11 and 12)*
- ***Stage 1+2 impairments: impairments for non-impaired exposure (i.e. exposure with PD < PD 10)***
- ***Stage 3 impairments: loan loss impairments for impaired exposure (i.e. exposure with PD 10, 11 or 12)***
- ***Cover ratio impaired loans:*** *specific impairments / impaired loans*

Loan portfolio Business Unit Belgium
31-03-2018, in millions of EUR

	Belgium [1]			Foreign branches			Total Business Unit Belgium		
Total portfolio outstanding	**97 677**			**6 973**			**104 650**		
Counterparty break down		% outst.			% outst.			% outst.	
SME / corporate	32 756	33,5%		6 973	100,0%		39 729	38,0%	
retail	64 921	66,5%		0	0,0%		64 921	62,0%	
o/w private	35 265	36,1%		0	0,0%		35 265	33,7%	
o/w companies	29 655	30,4%		0	0,0%		29 655	28,3%	
Mortgage loans [2]		% outst.	ind. LTV		% outst.	ind. LTV		% outst.	
total	33 661	34,5%	60%	0	0,0%	-	33 661	32,2%	
o/w FX mortgages	0	0,0%	-	0	0,0%	-	0	0,0%	
o/w ind. LTV > 100%	1 218	1,2%	-	0	0,0%	-	1 218	1,2%	
Probability of default (PD)		% outst.			% outst.			% outst.	
low risk (PD 1-4; 0.00%-0.80%)	74 199	76,0%		4 677	67,1%		78 876	75,4%	
medium risk (PD 5-7; 0.80%-6.40%)	18 204	18,6%		1 878	26,9%		20 082	19,2%	
high risk (PD 8-9; 6.40%-100.00%)	2 601	2,7%		103	1,5%		2 704	2,6%	
impaired loans (PD 10 - 12)	2 450	2,5%		308	4,4%		2 758	2,6%	
unrated	224	0,2%		7	0,1%		230	0,2%	
Overall risk indicators		spec. imp.	% cover		spec. imp.	% cover		spec. imp.	% cover
outstanding impaired loans	2 450	1 066	43,5%	308	154	50,0%	2 758	1 220	44,2%
o/w PD 10 impaired loans	1 097	160	14,6%	215	83	38,4%	1 312	243	18,5%
o/w more than 90 days past due (PD 11+12)	1 352	905	66,9%	93	71	76,7%	1 446	977	67,6%
all impairments (stage 1+2+3)	n.a.			n.a.			1 396		
o/w stage 1+2 impairments (incl. POCI)	n.a.			n.a.			177		
o/w stage 3 impairments (incl. POCI)	1 066			154			1 220		
2017 Credit cost ratio (CCR)	0,08%			0,19%			0,09%		
YTD 2018 CCR	n/a			n/a			0,05%		

Remarks

[1] Belgium = KBC Bank (all retail and corporate credit lending activities except for the foreign branches), CBC, KBC Lease, KBC Commercial Finance, KBC Credit Investments (part of non-legacy portfolio assigned to BU Belgium)

[2] Mortgage loans: only to private persons (as opposed to the accounting figures)

Loan portfolio Business Unit Czech Republic

31-03-2018, in millions of EUR

For information: ČMSS [3] *(consolidated via equity-method)*

Total portfolio outstanding	**25 407**			**2 467**		
Counterparty break down		% outst.			% outst.	
SME / corporate	8 221	32,4%		0	0,0%	
retail	17 186	67,6%		2 467	100,0%	
o/w private	12 304	48,4%		2 455	99,5%	
o/w companies	4 882	19,2%		12	0,5%	
Mortgage loans [1]		% outst.	ind. LTV		% outst.	ind. LTV
total	11 110	43,7%	64%	1 904	77,2%	62%
o/w FX mortgages	0	0,0%	-	0	0,0%	-
o/w ind. LTV > 100%	256	1,0%	-	72	2,9%	-
Probability of default (PD)		% outst.			% outst.	
low risk (PD 1-4; 0.00%-0.80%)	16 691	65,7%		1 622	65,8%	
medium risk (PD 5-7; 0.80%-6.40%)	6 696	26,4%		602	24,4%	
high risk (PD 8-9; 6.40%-100.00%)	1 006	4,0%		123	5,0%	
impaired loans (PD 10 - 12)	605	2,4%		121	4,9%	
unrated	409	1,6%		0	0,0%	
Overall risk indicators [2]		spec. imp.	% cover		spec. imp.	% cover
outstanding impaired loans	605	318	52,5%	121	44	36,3%
o/w PD 10 impaired loans	195	44	22,6%	20	3	15,1%
o/w more than 90 days past due (PD 11+12)	410	274	66,8%	101	41	40,5%
all impairments (stage 1+2+3)	404			51		
o/w stage 1+2 impairments (incl. POCI)	87			7		
o/w stage 3 impairments (incl. POCI)	318			44		
2017 Credit cost ratio (CCR)	0,02%			0,16%		
YTD 2018 CCR	0,01%			-0,12%		

[1] Mortgage loans: only to private persons (as opposed to the accounting figures)
[2] CCR at country level in local currency
[3] ČMSS: pro-rata figures, corresponding with KBC's 55%-participation in ČMSS

Loan portfolio Business Unit International Markets
31-03-2018, in millions of EUR

	Ireland			Slovakia			Hungary			Bulgaria			Total Int Markets		
Total portfolio outstanding	**12 474**			**7 405**			**5 038**			**3 383**			**28 301**		
Counterparty break down		% outst.			% outst.			% outst.			% outst.			% outst.	
SME / corporate	1 215	9,7%		2 843	38,4%		2 969	58,9%		1 029	30,4%		8 057	28,5%	
retail	11 259	90,3%		4 562	61,6%		2 070	41,1%		2 354	69,6%		20 244	71,5%	
o/w private	11 247	90,2%		3 690	49,8%		1 903	37,8%		1 280	37,8%		18 120	64,0%	
o/w companies	11	0,1%		872	11,8%		167	3,3%		1 073	31,7%		2 124	7,5%	
Mortgage loans [1]		% outst.	ind. LTV		% outst.	ind. LTV		% outst.	ind. LTV		% outst.	ind. LTV		% outst.	
total	11 203	89,8%	75%	3 201	43,2%	65%	1 733	34,4%	66%	675	19,9%	73%	16 811	59,4%	
o/w FX mortgages	0	0,0%	-	0	0,0%	-	12	0,2%	128%	118	3,5%	64%	129	0,5%	
o/w ind. LTV > 100%	1 828	14,7%	-	18	0,2%	-	262	5,2%	-			-			
Probability of default (PD)		% outst.			% outst.			% outst.			% outst.			% outst.	
low risk (PD 1-4; 0.00%-0.80%)	849	6,8%		4 812	65,0%		2 615	51,9%		932	27,6%		9 208	32,5%	
medium risk (PD 5-7; 0.80%-6.40%)	6 003	48,1%		1 779	24,0%		1 851	36,7%		1 449	42,8%		11 082	39,2%	
high risk (PD 8-9; 6.40%-100.00%)	1 063	8,5%		542	7,3%		230	4,6%		311	9,2%		2 147	7,6%	
impaired loans (PD 10 - 12)	4 558	36,5%		199	2,7%		342	6,8%		673	19,9%		5 771	20,4%	
unrated	0	0,0%		74	1,0%		1	0,0%		17	0,5%		93	0,3%	
Overall risk indicators [2]		spec. imp.	% cover		spec. imp.	% cover		spec. imp.	% cover		spec. imp.	% cover		spec. imp.	% cover
outstanding impaired loans	4 558	1 927	42,3%	199	145	73,0%	342	223	65,3%	673	409	60,7%	5 771	2 704	46,9%
o/w PD 10 impaired loans	2 175	388	17,8%	32	17	53,7%	48	18	38,1%	80	11	13,7%	2 335	434	18,6%
o/w more than 90 days past due (PD 11+12)	2 383	1 539	64,6%	167	128	76,6%	294	205	69,8%	593	398	67,1%	3 436	2 270	66,0%
all impairments (stage 1+2+3)	1 978			189			250			438			2 855		
o/w stage 1+2 impairments (incl. POCI)	50			44			26			30			151		
o/w stage 3 impairments (incl. POCI)	1 927			145			223			409			2 704		
2017 Credit cost ratio (CCR)	-1,70%			0,16%			-0,22%			0,83%			-0,74%		
YTD 2018 CCR	-1,36%			-0,20%			-0,44%			-1,09%			-0,86%		

Remarks

Total Int Markets: total outstanding amount includes a small amount of KBC internal risk sharings which were eliminated at country level

[1] Mortgage loans: only to private persons (as opposed to the accounting figures)

[2] CCR at country level in local currency

Loan portfolio Group Centre
31-03-2018, in millions of EUR

	Total Group Centre [1]		
Total portfolio outstanding	**4 188**		
Counterparty break down		% outst.	
SME / corporate	4 188	100,0%	
retail	0	0,0%	
o/w private	0	0,0%	
o/w companies	0	0,0%	
Mortgage loans [2]		% outst.	ind. LTV
total	0	0,0%	-
o/w FX mortgages	0	0,0%	-
o/w ind. LTV > 100%	0	0,0%	-
Probability of default (PD)		% outst.	
low risk (PD 1-4; 0.00%-0.80%)	3 186	76,1%	
medium risk (PD 5-7; 0.80%-6.40%)	467	11,1%	
high risk (PD 8-9; 6.40%-100.00%)	86	2,0%	
impaired loans (PD 10 - 12)	450	10,7%	
unrated	0	0,0%	
Overall risk indicators		spec. Imp.	% cover
outstanding impaired loans	450	343	76,1%
o/w PD 10 impaired loans	104	20	19,3%
o/w more than 90 days past due (PD 11+12)	346	323	93,1%
all impairments (stage 1+2+3)	391		
o/w stage 1+2 impairments (incl. POCI)	49		
o/w stage 3 impairments (incl. POCI)	343		
2017 Credit cost ratio (CCR)	0,40%		
YTD 2018 CCR	-1,43%		

Remarks

[1] Total Group Centre = KBC Credit Investments (part of non-legacy portfolio assigned to BU Group),
KBC Bank part Group (a.o. activities in wind-down: e.g. ex-Antwerp Diamond Bank)

[2] Mortgage loans: only to private persons (as opposed to the accounting figures)

Solvency

KBC reports its solvency at group, banking and insurance level, calculating it on the basis of IFRS figures and the relevant guidelines issued by the competent regulator.

Solvency KBC Group

We report the solvency of the group, the bank and the insurance company based on IFRS data and according to the rules imposed by the regulator. For the KBC group, this implies that we calculate our solvency ratios based on CRR/CRD IV. This regulation entered gradually into force on 1 January 2014. The general rule under CRR/CRD IV for insurance participations is that an insurance participation is deducted from common equity at group level, unless the competent authority grants permission to apply a risk weighting instead (Danish compromise). KBC received such permission from the supervisory authority and hence reports its solvency on the basis of a 370% risk weighting being applied to the holdings of own fund instruments of the insurance company, after having deconsolidated KBC Insurance from the group figures.

In addition to the solvency ratios under CRD IV/CRR, KBC is considered a financial conglomerate since it covers both significant banking and insurance activities. Therefore KBC also has to disclose its solvency position as calculated in accordance with the Financial Conglomerate Directive (FICOD; 2002/87/EC. This implies that available capital is calculated on the basis of the consolidated position of the group and the eligible items recognised as such under the prevailing sectorial rules, which are CRR/CRD IV for the banking business and Solvency II for the insurance business. The capital requirement for the insurance business based on Solvency II is multiplied by 12.5 to obtain a risk weighted asset equivalent.

The Internal Rating Based (IRB) approach is since its implementation in 2008 the primary approach to calculate KBC's risk weighted assets. This is, based on a full application of all the CRD IV/CRR rules, used for approximately 92% of the weighted credit risks, of which approx. 86% according to Advanced and approx. 6% according to Foundation approach. The remaining weighted credit risks (ca. 8%) are calculated according to the Standardised approach.

The 2018 minimum CET1 requirement that KBC is to uphold is set at 10.6% (fully loaded, Danish Compromise) which includes the CRR/CRD IV minimum requirement (4.5%), the Pillar 2 Requirement (1.75%) and the buffers set by national competent authorities (2.50% Capital Conservation Buffer, 1.50% Systemic Buffer and 0.35% Countercycle Buffer). Furthermore ECB has set a Pillar 2 Guidance of 1.00%. For further information see press release of 22 February 2018 on www.kbc.com.

Note that as from 01/01/2018 onwards, there is no difference anymore between fully loaded and phased-in.

Following table groups the solvency on the level of KBC Group according to different methodologies and calculation methods, including the deduction method.

Overview of KBC Group's capital ratios - In millions of EUR - 31-03-2018

		numerator (common equity)	denominator (total weighted risk volume)	ratio (%)
CRDIV, Common Equity ratio				
Danish Compromise	Fully loaded	14 793	93 173	15,88%
Deduction Method	Fully loaded	13 806	87 743	15,73%
Financial Conglomerates Directive	Fully loaded	15 803	106 327	14,86%

Danish Compromise

In millions of EUR	31-03-2018 Fully loaded	Pro forma (**) 01-01-2018 Fully loaded	31-12-2017 Fully loaded
Total regulatory capital (after profit appropriation)	18 332	18 348	18 706
Tier-1 capital	16 193	16 099	16 504
Common equity	14 793	14 699	15 104
Parent shareholders' equity (after deconsolidating KBC Insurance)	16 707	16 244	16 841
Intangible fixed assets (incl deferred tax impact) (-)	- 492	- 475	- 475
Goodwill on consolidation (incl deferred tax impact) (-)	- 604	- 604	- 604
Minority interests	0	0	0
Hedging reserve (cash flow hedges) (-)	1 291	1 339	1 339
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	- 5	- 1	- 1
Value adjustment due to the requirements for prudent valuation (-)	- 76	- 77	- 124
Dividend payout (-)	- 1 108	- 837	- 837
Renumeration of AT1 instruments (-)	- 2	- 2	- 2
Deduction re. financing provided to shareholders (-)	- 91	- 91	- 91
Deduction re. Irrevocable payment commitments (-)	- 20		
IRB provision shortfall (-)	- 88	- 84	- 268
Deferred tax assets on losses carried forward (-)	- 719	- 712	- 672
Limit on deferred tax assets from timing differences relying on future profitability and significant participations in financial sector entities (-)	0	0	0
Additional going concern capital	1 400	1 400	1 400
Grandfathered innovative hybrid tier-1 instruments	0	0	0
CRR compliant AT1 instruments	1 400	1 400	1 400
Minority interests to be included in additional going concern capital	0	0	0
Tier 2 capital	2 138	2 249	2 202
IRB provision excess (+)	257	363	316
Subordinated liabilities	1 881	1 886	1 886
Total weighted risk volume	93 173	92 276	92 410
Banking	83 873		83 117
Insurance	9 133		9 133
Holding activities	213		202
Elimination of intercompany transactions	- 47		- 43
Solvency ratios			
Common equity ratio	15,88%	15,93%	16,34%
Tier-1 ratio	17,38%	17,45%	17,86%
Total capital ratio (*)	19,68%	19,88%	20,24%

(*) We have called the USD contingent convertible note (CoCo) the 25th of January 2018. The capital value of the CoCo has already been excluded from Tier-2 at year-end 2017. The impact of the CoCo call is largely offset by the successful issuance of a Tier 2 benchmark issuance in September 2017.
(**) Including first time application of IFRS 9

Leverage ratio KBC Group

Leverage ratio KBC Group (Basel III fully loaded)

In millions of EUR	31-03-2018	31-12-2017
Tier-1 capital (Danish compromise)	16 193	16 504
Total exposures	285 110	272 373
Total Assets	304 022	292 342
Deconsolidation KBC Insurance	-32 044	-32 802
Adjustment for derivatives	-3 059	-3 908
Adjustment for regulatory corrections in determining Basel III Tier-1 capital	-2 070	-2 235
Adjustment for securities financing transaction exposures	749	816
Off-balance sheet exposures	17 511	18 160
Leverage ratio	5,68%	6,06%

The leverage ratio declined compared to the end of 2017 due to higher total exposures (mainly caused by an increase in reverse repos and cash balances with central banks) and a lower Tier-1 capital (impact IFRS 9).

Solvency banking and insurance activities separately

As is the case for the KBC group, the solvency of KBC Bank is calculated based on CRR/CRD IV. The solvency of KBC Insurance is calculated on the basis of Solvency II rules as they became effective on 1 January 2016.

The tables below show the tier-1 and CAD ratios calculated under Basel III (CRD IV/CRR) for KBC Bank, as well as the solvency ratio of KBC Insurance under Solvency II.

KBC Bank consolidated - CRDIV/CRR In millions of EUR	31-03-2018 Fully loaded	31-12-2017 Fully loaded
Total regulatory capital, after profit appropriation	15 391	15 756
Tier-1 capital	13 192	13 484
Of which common equity	11 786	12 077
Tier-2 capital	2 199	2 273
Total weighted risks	83 873	83 117
Credit risk	69 677	68 842
Market risk	3 283	3 361
Operational risk	10 913	10 913
Solvency ratios		
Common equity ratio	14,1%	14,5%
Tier-1 ratio	15,7%	16,2%
CAD ratio	18,4%	19,0%

(*) We have called the USD contingent convertible note (CoCo) the 25th of January 2018. The capital value of the coco has been excluded from Tier-2 at year-end 2017.

Solvency II, KBC Insurance consolidated In millions of EUR	31-03-2018	31-12-2017
Own Funds	3 894	3 865
Tier 1	3 394	3 365
IFRS Parent shareholders equity	2 892	3 051
Dividend payout	- 96	- 8
Deduction intangible assets and goodwill (after tax)	- 128	- 128
Valuation differences (after tax)	689	403
Volatility adjustment	42	43
Other	- 5	3
Tier 2	500	500
Subordinated liabilities	500	500
Solvency Capital Requirement (SCR)	1 783	1 823
Market risk	1 542	1 602
Non-life	536	535
Life	652	630
Health	169	178
Counterparty	126	107
Diversification	- 915	- 905
Other	- 327	- 324
Solvency II ratio	218%	212%
Solvency surplus vs 100%	2 111	2 042

Minimum requirement for own funds and eligible liabilities (MREL)

Besides the ECB and NBB, which supervise KBC on a going concern basis, KBC is also subject to requirements set by the Single Resolution Board (SRB). The SRB is developing resolution plans for the major banks in the euro area. The resolution plan for KBC is based on a Single Point of Entry (SPE) approach at the level of KBC Group with 'bail-in' as the primary resolution tool.

MREL measures the amount of own funds and eligible liabilities that can be credibly and feasibly bailed-in. At 31-03-2018, the MREL ratio based on instruments issued by KBC Group NV ('HoldCo MREL') stood at 23.5% of risk weighted assets. Based on the broader SRB definition including also eligible OpCo instruments, the MREL ratio amounts to 24.8%. SRB requires KBC to achieve 25.9% by 01-05-2019 using both HoldCo and eligible OpCo instruments.

Income statement, volumes and ratio's per business unit

Details on our segments or business units are available in the company presentation

Business Unit Belgium

Breakdown P&L	IFRS 9	IAS 39	IAS 39	IAS 39	IAS 39
(in millions of EUR)	1Q 2018	4Q 2017	3Q 2017	2Q 2017	1Q 2017
Net interest income	649	569	589	611	625
Non-life insurance before reinsurance	103	100	153	131	143
Earned premiums Non-life	259	265	263	258	256
Technical charges Non-life	-156	-165	-111	-127	-113
Life insurance before reinsurance	-27	-24	-21	-43	-44
Earned premiums Life	251	292	195	199	241
Technical charges Life	-278	-316	-216	-242	-285
Ceded reinsurance result	-4	-9	4	-7	-2
Dividend income	21	7	9	24	12
Net result from financial instruments at fair value through profit or loss	34	150	106	127	156
Net realised result from available-for-sale assets		34	34	32	23
Net realised result from debt instr FV through OCI	0				
Net fee and commission income	318	313	301	331	346
Net other income	59	38	51	40	46
TOTAL INCOME	1 153	1 178	1 225	1 245	1 305
Operating expenses	-822	-566	-520	-544	-822
Impairment	-13	-24	-34	2	-60
on loans and receivable		-12	-21	4	-59
on impairment on FA at AC	-14				
on available-for-sale		-3	-5	-2	-1
on impairment on FA at FV though OCI	1				
on other	0	-9	-8	-1	0
Share in results of associated companies and joint ventures	-1	-9	0	-4	0
RESULT BEFORE TAX	316	579	672	698	423
Income tax expense	-73	-243	-217	-215	-121
RESULT AFTER TAX	243	335	455	484	301
Attributable to minority interest	0	0	0	0	0
Attributable to equity holders of the parent	243	336	455	483	301
Banking	165	271	336	385	208
Insurance	78	65	119	98	93
Breakdown Loans and deposits					
Total customer loans excluding reverse repo (end of period)	95 710	94 495	93 512	93 494	92 307
Mortgage loans (end of period)	34 548	34 468	34 222	34 079	34 085
Customer deposits and debt certificates excl. repos (end of period)	126 694	132 881	128 895	129 825	127 005
Technial provisions plus unit-linked, life insurance					
Interest Guaranteed	13 496	13 649	13 775	13 940	14 235
Unit-Linked	13 160	13 370	13 115	13 161	12 952
Performance Indicators					
Risk-weighted assets, banking (end of period, Basel III fully loaded)	46 553	44 611	43 988	43 329	42 797
Required capital, insurance (end of period)	1 570	1 627	1 503	1 444	1 494
Allocated capital (end of period)	6 505	6 267	6 078	5 950	5 945
Return on allocated capital (ROAC)	15%	22%	30%	32%	20%
Cost/income ratio, banking	76%	49%	46%	45%	67%
Combined ratio, non-life insurance	93%	104%	78%	86%	77%
Net interest margin, banking	1,73%	1,48%	1,51%	1,61%	1,67%

Business Unit Czech Republic

Breakdown P&L (in millions of EUR)	IFRS 9 1Q 2018	IAS 39 4Q 2017	IAS 39 3Q 2017	IAS 39 2Q 2017	IAS 39 1Q 2017
Net interest income	248	234	218	220	216
Non-life insurance before reinsurance	27	21	25	22	18
Earned premiums Non-life	57	59	56	53	49
Technical charges Non-life	-30	-38	-31	-31	-30
Life insurance before reinsurance	15	14	12	12	11
Earned premiums Life	60	96	68	47	48
Technical charges Life	-46	-83	-56	-35	-38
Ceded reinsurance result	-3	2	-2	-2	-1
Dividend income	0	0	0	0	0
Net result from financial instruments at fair value through profit or loss	40	54	53	65	50
Net realised result from available-for-sale assets		0	-1	6	11
Net realised result from debt instr FV through OCI	0				
Net fee and commission income	67	53	43	47	47
Net other income	4	4	5	5	26
TOTAL INCOME	398	383	354	375	378
Operating expenses	-189	-177	-153	-151	-165
Impairment	-7	-11	-3	-11	1
on loans and receivable		2	-1	-7	1
on impairment on FA at AC	-1				
on available-for-sale		-1	0	0	0
on impairment on FA at FV though OCI	0				
on other	-6	-12	-2	-3	0
Share in results of associated companies and joint ventures	6	5	6	6	4
RESULT BEFORE TAX	207	200	205	219	218
Income tax expense	-36	-33	-34	-37	-37
RESULT AFTER TAX	171	167	170	183	181
Attributable to minority interest	0	0	0	0	0
Attributable to equity holders of the parent	171	167	170	183	181
Banking	160	157	162	176	174
Insurance	12	10	9	7	7
Breakdown Loans and deposits					
Total customer loans excluding reverse repo (end of period)	22 656	22 303	22 155	21 520	20 253
Mortgage loans (end of period)	10 837	10 653	10 245	9 867	9 273
Customer deposits and debt certificates excl. repos (end of period)	30 552	30 246	29 529	28 925	27 770
Technial provisions plus unit-linked, life insurance					
Interest Guaranteed	617	613	601	594	576
Unit-Linked	623	622	556	549	525
Performance Indicators					
Risk-weighted assets, banking (end of period, Basel III fully loaded)	14 683	15 397	14 855	15 039	14 386
Required capital, insurance (end of period)	127	114	118	116	110
Allocated capital (end of period)	1 683	1 716	1 662	1 680	1 606
Return on allocated capital (ROAC)	40%	40%	42%	47%	48%
Cost/income ratio, banking	48%	45%	42%	39%	43%
Combined ratio, non-life insurance	93%	96%	95%	97%	100%
Net interest margin, banking	3,02%	3,06%	2,85%	3,01%	3,06%

Business Unit International Markets

Breakdown P&L (in millions of EUR)	IFRS 9 1Q 2018	IAS 39 4Q 2017	IAS 39 3Q 2017	IAS 39 2Q 2017	IAS 39 1Q 2017
Net interest income	226	228	226	194	189
Non-life insurance before reinsurance	26	27	8	23	25
Earned premiums Non-life	58	57	56	57	53
Technical charges Non-life	-32	-31	-48	-34	-28
Life insurance before reinsurance	6	7	6	6	6
Earned premiums Life	25	23	18	21	23
Technical charges Life	-19	-16	-12	-15	-17
Ceded reinsurance result	-2	-2	13	0	-1
Dividend income	0	0	0	0	0
Net result from financial instruments at fair value through profit or loss	18	23	25	19	28
Net realised result from available-for-sale assets		0	1	0	2
Net realised result from debt instr FV through OCI	1				
Net fee and commission income	68	65	65	54	48
Net other income	8	-60	-57	1	4
TOTAL INCOME	350	288	287	297	301
Operating expenses	-252	-236	-206	-183	-212
Impairment	61	39	11	92	47
on loans and receivable		45	12	92	48
on impairment on FA at AC	61				
on available-for-sale		0	-1	0	0
on impairment on FA at FV though OCI	0				
on other	0	-5	-1	-1	0
Share in results of associated companies and joint ventures	2	0	2	1	1
RESULT BEFORE TAX	160	91	94	207	137
Income tax expense	-24	-17	-15	-30	-22
RESULT AFTER TAX	137	74	78	177	114
Attributable to minority interest	0	0	0	0	0
Attributable to equity holders of the parent	137	74	78	177	114
Banking	128	68	71	171	106
Insurance	9	6	7	6	9
Breakdown Loans and deposits					
Total customer loans excluding reverse repo (end of period)	24 146	24 201	23 871	23 508	21 487
Mortgage loans (end of period)	15 559	15 503	14 850	14 661	14 058
Customer deposits and debt certificates excl. repos (end of period)	22 957	22 663	22 056	21 714	18 539
Technical provisions plus unit-linked, life insurance					
Interest Guaranteed	248	212	212	215	220
Unit-Linked	423	429	422	419	411
Performance Indicators					
Risk-weighted assets, banking (end of period, Basel III fully loaded)	19 506	19 790	19 923	19 991	17 667
Required capital, insurance (end of period)	100	104	97	94	93
Allocated capital (end of period)	2 167	2 162	2 169	2 173	1 931
Return on allocated capital (ROAC)	25%	14%	16%	36%	23%
Cost/income ratio, banking	73%	83%	72%	61%	72%
Combined ratio, non-life insurance	86%	94%	98%	93%	85%
Net interest margin, banking	2,88%	2,84%	2,83%	2,72%	2,67%

Hungary

Breakdown P&L (in millions of EUR)	IFRS 9 1Q 2018	IAS 39 4Q 2017	IAS 39 3Q 2017	IAS 39 2Q 2017	IAS 39 1Q 2017
Net interest income	61	63	63	60	58
Non-life insurance before reinsurance	11	8	9	9	9
Earned premiums Non-life	26	26	26	25	23
Technical charges Non-life	-15	-17	-17	-15	-14
Life insurance before reinsurance	1	2	2	2	2
Earned premiums Life	4	4	4	4	4
Technical charges Life	-3	-2	-2	-2	-2
Ceded reinsurance result	-1	0	0	-1	0
Dividend income	0	0	0	0	0
Net result from financial instruments at fair value through profit or loss	14	15	14	14	19
Net realised result from available-for-sale assets		0	0	0	1
Net realised result from debt instr FV through OCI	0				
Net fee and commission income	46	43	41	41	37
Net other income	7	3	1	-1	1
TOTAL INCOME	139	134	129	124	127
Operating expenses	-103	-86	-81	-77	-101
Impairment	6	-1	-1	8	1
on loans and receivable		1	0	9	1
on impairment on FA at AC	6				
on available-for-sale		0	0	0	0
on impairment on FA at FV though OCI	0				
on other	0	-2	0	0	0
Share in results of associated companies and joint ventures	0	0	0	0	0
RESULT BEFORE TAX	41	47	47	55	26
Income tax expense	-7	-7	-8	-8	-6
RESULT AFTER TAX	34	39	40	47	20
Attributable to minority interest	0	0	0	0	0
Attributable to equity holders of the parent	**34**	**39**	**40**	**47**	**20**
Banking	31	37	37	46	17
Insurance	3	3	2	2	3
Breakdown Loans and deposits					
Total customer loans excluding reverse repo (end of period)	4 173	4 217	4 073	3 893	3 825
Mortgage loans (end of period)	1 543	1 556	1 532	1 494	1 469
Customer deposits and debt certificates excl. repos (end of period)	7 053	7 302	6 980	6 663	6 756
Technial provisions plus unit-linked, life insurance					
Interest Guaranteed	56	55	55	55	55
Unit-Linked	289	298	291	290	285
Performance Indicators					
Risk-weighted assets, banking (end of period, Basel III fully loaded)	6 103	5 799	5 671	5 379	5 551
Required capital, insurance (end of period)	36	37	36	34	34
Allocated capital (end of period)	683	640	626	593	611
Return on allocated capital (ROAC)	21%	26%	25%	30%	12%
Cost/income ratio, banking	76%	64%	63%	62%	81%
Combined ratio, non-life insurance	84%	101%	99%	92%	84%

Slovakia

Breakdown P&L (in millions of EUR)	IFRS 9 1Q 2018	IAS 39 4Q 2017	IAS 39 3Q 2017	IAS 39 2Q 2017	IAS 39 1Q 2017
Net interest income	52	53	52	53	53
Non-life insurance before reinsurance	6	7	6	6	6
Earned premiums Non-life	10	10	9	9	8
Technical charges Non-life	-4	-3	-3	-3	-2
Life insurance before reinsurance	3	3	3	3	3
Earned premiums Life	14	13	10	13	13
Technical charges Life	-11	-10	-7	-10	-9
Ceded reinsurance result	-1	-1	0	0	0
Dividend income	0	0	0	0	0
Net result from financial instruments at fair value through profit or loss	3	3	3	5	4
Net realised result from available-for-sale assets		0	0	0	0
Net realised result from debt instr FV through OCI	0				
Net fee and commission income	14	13	12	13	12
Net other income	1	2	2	2	2
TOTAL INCOME	78	80	77	82	81
Operating expenses	-52	-56	-48	-49	-50
Impairment	4	-3	-7	-1	-2
on loans and receivable		-2	-7	-1	-2
on impairment on FA at AC	4				
on available-for-sale	0	0	0	0	0
on impairment on FA at FV though OCI	0				
on other	0	-1	0	0	0
Share in results of associated companies and joint ventures	0	0	0	0	0
RESULT BEFORE TAX	29	21	22	32	28
Income tax expense	-6	-5	-5	-7	-6
RESULT AFTER TAX	23	16	16	25	22
Attributable to minority interest	0	0	0	0	0
Attributable to equity holders of the parent	23	16	16	25	22
Banking	21	14	14	22	19
Insurance	2	2	3	3	3
Breakdown Loans and deposits					
Total customer loans excluding reverse repo (end of period)	6 640	6 574	6 434	6 284	6 217
Mortgage loans (end of period)	3 021	2 943	2 861	2 770	2 695
Customer deposits and debt certificates excl. repos (end of period)	6 259	6 066	5 714	5 820	5 745
Technial provisions plus unit-linked, life insurance					
Interest Guaranteed	114	114	113	113	113
Unit-Linked	121	124	126	125	123
Performance Indicators					
Risk-weighted assets, banking (end of period, Basel III fully loaded)	4 911	4 908	4 826	4 910	4 716
Required capital, insurance (end of period)	27	26	23	23	23
Allocated capital (end of period)	548	537	525	534	513
Return on allocated capital (ROAC)	17%	12%	13%	19%	17%
Cost/income ratio, banking	68%	70%	64%	60%	64%
Combined ratio, non-life insurance	87%	88%	85%	82%	73%

Bulgaria

Breakdown P&L (in millions of EUR)	IFRS 9 1Q 2018	IAS 39 4Q 2017	IAS 39 3Q 2017	IAS 39 2Q 2017	IAS 39 1Q 2017
Net interest income	39	39	40	12	12
Non-life insurance before reinsurance	10	12	-7	8	10
Earned premiums Non-life	23	22	21	24	21
Technical charges Non-life	-13	-10	-28	-16	-12
Life insurance before reinsurance	1	2	1	1	1
Earned premiums Life	6	6	4	4	6
Technical charges Life	-5	-4	-2	-3	-5
Ceded reinsurance result	-1	-1	14	0	-1
Dividend income	0	0	0	0	0
Net result from financial instruments at fair value through profit or loss	2	5	7	1	1
Net realised result from available-for-sale assets		0	1	0	1
Net realised result from debt instr FV through OCI	1				
Net fee and commission income	9	10	11	-1	-1
Net other income	-1	0	-4	1	0
TOTAL INCOME	60	65	64	22	22
Operating expenses	-46	-35	-33	-13	-16
Impairment	9	-9	-7	-3	-1
on loans and receivable		-7	-7	-3	-1
on impairment on FA at AC	9				
on available-for-sale		0	-1	0	0
on impairment on FA at FV though OCI	0				
on other	0	-2	0	0	0
Share in results of associated companies and joint ventures	1	-1	1	0	0
RESULT BEFORE TAX	23	21	25	6	5
Income tax expense	-2	-2	-3	0	-1
RESULT AFTER TAX	21	19	22	5	4
Attributable to minority interest	0	0	0	0	0
Attributable to equity holders of the parent	21	18	22	5	4
Banking	18	17	21	4	3
Insurance	3	2	1	1	1
Breakdown Loans and deposits					
Total customer loans excluding reverse repo (end of period)	2 739	2 716	2 695	2 684	826
Mortgage loans (end of period)	1 113	1 100	660	657	236
Customer deposits and debt certificates excl. repos (end of period)	4 009	3 903	3 998	3 846	808
Technial provisions plus unit-linked, life insurance					
Interest Guaranteed	78	43	44	47	52
Unit-Linked	13	7	5	4	3
Performance Indicators					
Risk-weighted assets, banking (end of period, Basel III fully loaded)	2 990	2 933	2 886	3 037	842
Required capital, insurance (end of period)	37	41	38	37	37
Allocated capital (end of period)	354	347	338	353	125
Return on allocated capital (ROAC)	24%	31%	49%	16%	13%
Cost/income ratio, banking	80%	52%	49%	56%	72%
Combined ratio, non-life insurance	94%	88%	102%	98%	96%

Ireland

Breakdown P&L (in millions of EUR)	IFRS 9 1Q 2018	IAS 39 4Q 2017	IAS 39 3Q 2017	IAS 39 2Q 2017	IAS 39 1Q 2017
Net interest income	75	73	70	69	66
Non-life insurance before reinsurance	0	0	0	0	0
Earned premiums Non-life	0	0	0	0	0
Technical charges Non-life	0	0	0	0	0
Life insurance before reinsurance	0	0	0	0	0
Earned premiums Life	0	0	0	0	0
Technical charges Life	0	0	0	0	0
Ceded reinsurance result	0	0	0	0	0
Dividend income	0	0	0	0	0
Net result from financial instruments at fair value through profit or loss	-1	1	0	0	5
Net realised result from available-for-sale assets		0	0	0	0
Net realised result from debt instr FV through OCI	0				
Net fee and commission income	0	0	0	0	0
Net other income	0	-61	-55	0	0
TOTAL INCOME	74	12	16	69	71
Operating expenses	-51	-59	-43	-42	-44
Impairment	43	52	26	87	50
on loans and receivable		52	26	87	50
on impairment on FA at AC	43				
on available-for-sale		0	0	0	0
on impairment on FA at FV though OCI	0				
on other	0	0	0	0	0
Share in results of associated companies and joint ventures	0	0	0	0	0
RESULT BEFORE TAX	66	5	-1	113	76
Income tax expense	-8	-3	0	-14	-10
RESULT AFTER TAX	57	3	-1	99	67
Attributable to minority interest	0	0	0	0	0
Attributable to equity holders of the parent	57	3	-1	99	67
Banking	57	3	-1	99	67
Insurance	0	0	0	0	0
Breakdown Loans and deposits					
Total customer loans excluding reverse repo (end of period)	10 595	10 694	10 669	10 648	10 618
Mortgage loans (end of period)	9 883	9 905	9 797	9 740	9 657
Customer deposits and debt certificates excl. repos (end of period)	5 636	5 392	5 364	5 385	5 229
Performance Indicators					
Risk-weighted assets, banking (end of period, Basel III fully loaded)	5 496	6 144	6 525	6 652	6 544
Allocated capital (end of period)	583	639	679	692	681
Return on allocated capital (ROAC)	37%	2%	-1%	57%	38%
Cost/income ratio, banking	69%	495%	271%	62%	63%

Group centre - Breakdown net result

(in millions of EUR)	IFRS 9 1Q 2018	IAS 39 4Q 2017	IAS 39 3Q 2017	IAS 39 2Q 2017	IAS 39 1Q 2017
Operational costs of the Group activities	-17	-25	-20	-14	-14
Capital and treasury management	-4	-5	5	17	-18
Capital and treasury management APC	1	18	-13	-13	-9
Results companies in rundown	23	-22	19	11	83
Other	4	-144	-3	10	-9
Total net result for the Group centre	5	-179	-12	12	33

Group Centre

Breakdown P&L

(in millions of EUR)	IFRS 9 1Q 2018	IAS 39 4Q 2017	IAS 39 3Q 2017	IAS 39 2Q 2017	IAS 39 1Q 2017
Net interest income	2	-2	7	2	-5
Non-life insurance before reinsurance	5	4	3	3	1
Earned premiums Non-life	3	2	2	2	2
Technical charges Non-life	2	2	0	1	-1
Life insurance before reinsurance	0	0	0	2	-2
Earned premiums Life	0	0	0	0	0
Technical charges Life	0	1	0	1	-1
Ceded reinsurance result	0	-1	1	0	1
Dividend income	1	1	1	6	2
Net result from financial instruments at fair value through profit or loss	4	8	-2	37	-44
Net realised result from available-for-sale assets		16	16	14	9
Net realised result from debt instr FV through OCI	0				
Net fee and commission income	-2	-1	-1	-1	-3
Net other income	1	3	5	2	1
TOTAL INCOME	11	29	30	63	-38
Operating expenses	-27	-43	-35	-33	-29
Impairment	16	-6	-6	-11	4
on loans and receivable		-4	-6	-11	4
on impairment on FA at AC	17				
on available-for-sale		0	0	0	0
on impairment on FA at FV though OCI	0				
on other	-2	-2	0	0	0
Share in results of associated companies and joint ventures	0	0	0	0	0
RESULT BEFORE TAX	0	-20	-11	18	-63
Income tax expense	6	-159	-1	-7	96
RESULT AFTER TAX	5	-179	-12	12	33
Attributable to minority interest	0	0	0	0	0
Attributable to equity holders of the parent	5	-179	-12	12	33
Banking	9	-166	6	17	38
Insurance	-3	-3	2	1	2
Breakdown Loans and deposits					
Total customer loans excluding reverse repo (end of period)	0	0	0	0	0
Mortgage loans (end of period)	0	0	0	0	0
Customer deposits and debt certificates excl. repos (end of period)	7 832	7 918	8 481	8 244	7 793
Performance Indicators					
Risk-weighted assets, banking (end of period, Basel III fully loaded)	4 259	3 478	3 636	4 058	4 407
Risk-weighted assets, insurance (end of period, Basel III fully loaded)	9 133	9 133	9 133	9 133	9 133
Required capital, insurance (end of period)	-13	-23	-9	10	3
Allocated capital (end of period)	336	339	369	432	461

Details of ratios and terms on KBC Group level

Basic and diluted earnings per share

Gives an idea of the amount of profit over a certain period that is attributable to one share (and, where applicable, including dilutive instruments).

Calculation (in millions of EUR)	Reference	1Q 2018	2017	1Q 2017
Result after tax, attributable to equity holders of the parent (A)	'Consolidated income statement'	556	2 575	630
-				
Coupon on the additional tier-1 instruments included in equity (B)	'Consolidated statement of changes in equity'	- 14	- 52	- 13
/				
Average number of ordinary shares less treasury shares (in millions) in	Note 5.10	418,5	418,1	418,1
or				
Average number of ordinary shares plus dilutive options less treasury shares in the period (D)		418,6	418,1	418,1
Basic = (A-B) / (C) (in EUR)		1,30	6,03	1,47
Diluted = (A-B) / (D) (in EUR)		1,30	6,03	1,47

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	1Q 2018	2017	1Q 2017
Net technical insurance charges, including the internal cost of settling	Note 3.7.1	230	813	183
/				
Net earned insurance premiums (B)	Note 3.7.1	372	1 465	355
+				
Operating expenses (C)	Note 3.7.1	133	482	126
/				
Net written insurance premiums (D)	Note 3.7.1	472	1 493	452
= (A/B)+(C/D)		89,9%	87,8%	79,4%

Common equity ratio

A risk-weighted measure of the group's solvency, based on common equity tier-1 capital.

Calculation (in millions of EUR or %)	Reference	1Q 2018	2017	1Q 2017
'Detailed calculation 'Danish compromise' table in the 'Solvency KBC Group' section.'				
Fully loaded		15,9%	16,3%	15,7%

Cost/income ratio

Gives an impression of the relative cost efficiency (costs relative to income) of the banking activities.

Calculation (in millions of EUR or %)	Reference	1Q 2018	2017	1Q 2017
Operating expenses of the banking activities (A)	'Consolidated income statement': component of 'Operating expenses'	1 158	3 570	1 097
/				
Total income of the banking activities (B)	'Consolidated income statement': component of 'Total income'	1 657	6 587	1 662
=(A) / (B)		69,9%	54,2%	66,0%

Where relevant, we also estimate exceptional and/or non-operating items when calculating the cost/income ratio. The adjustments include: MTM ALM derivatives (fully excluded), bank taxes (including contributions to European Single Resolution Fund) are included pro rata and hence spread over all quarters of the year instead of being recognised for the most part upfront (as required by IFRIC 21) and one-off items. The Cost/Income ratio adjusted for specific items is 55,1% in 1Q 2018 (versus 55,0% in FY 2017 and 51,6% in 1Q 2017).

Cover ratio

Indicates the proportion of impaired loans (see 'Impaired loans ratio' for definition) that are covered by impairment charges. Where appropriate, the numerator and denominator in the formula may be limited to impaired loans that are more than 90 days past due.

Calculation (in millions of EUR or %)	Reference	(*) 1Q 2018	2017	1Q 2017
Specific impairment on loans (A)	'Credit risk: loan portfolio overview' table in the 'Credit risk' section	4 584	4 039	4 667
/				
Outstanding impaired loans (B)	'Credit risk: loan portfolio overview' table in the 'Credit risk' section	9 583	9 186	10 017
= (A) / (B)		47,8%	44,0%	46,6%

(*) As of 1Q18 a switch has been made in the risk reporting figures from outstanding to the new definition of gross carrying amount, i.e. including reserved and accrued interests and moreover the transaction scope of the loan portfolio has been extended. The cover ratio of FY 2017 taken into account the new definition increased from 44,0% to 48,1%.

Credit cost ratio

Gives an idea of loan impairment charges recognised in the income statement for a specific period (in this case, a year), relative to the total loan portfolio (see 'Loan portfolio' for definition). In the longer term, this ratio can provide an indication of the credit quality of the portfolio.

Calculation (in millions of EUR or %)	Reference	1Q 2018	2017	1Q 2017
Net changes in impairment for credit risks (A)	'Consolidated income statement': component of 'Impairment'	- 62	- 87	6
/				
Average outstanding loan portfolio (B)	'Credit risk: loan portfolio overview' table in the 'Credit risk' section	162 253	151 681	148 792
= (A) (annualised) / (B)		-0,15%	-0,06%	0,02%

Impaired loans ratio

Indicates the proportion of impaired loans in the loan portfolio (see 'Loan portfolio' for definition) and, therefore, gives an idea of the creditworthiness of the portfolio. Impaired loans are loans where it is unlikely that the full contractual principal and interest will be repaid/paid. These loans have a KBC default status of PD 10, PD 11 or PD 12 and correspond to the new definition of 'non-performing' used by the European Banking Authority.

Calculation (in millions of EUR or %)	Reference	(*) 1Q 2018	2017	1Q 2017
Amount outstanding of impaired loans (A)	'Credit risk: loan portfolio overview' table in the 'Credit risk' section	9 583	9 186	10 017
/				
Total outstanding loan portfolio (B)	'Credit risk: loan portfolio overview in the 'Credit risk' section	162 546	154 160	148 387
= (A) / (B)		5,9%	6,0%	6,8%

(*) As of 1Q18 a switch has been made in the risk reporting figures from outstanding to the new definition of gross carrying amount, i.e. including reserved and accrued interests.
In addition, the transaction scope of the loan portfolio was extended and now additionally includes the following 4 elements: (1) bank exposure (money market placements, documentary credit, accounts), (2) debtor risk KBC Commercial Finance, (3) unauthorized overdrafts, and (4) reverse repo (excl. central bank exposure). The impaired loans ratio of FY 2017 taken into account the new definition increased from 6,0% to 6,1%.

Leverage ratio

Gives an idea of the group's solvency, based on a simple non-risk-weighted ratio.

Calculation (in millions of EUR or %)	Reference	1Q 2018	2017	1Q 2017
Regulatory available tier-1 capital (A)	'Leverage ratio KBC Group (Basel III fully loaded' table in the 'Leverage KBC Group' section	16 193	16 504	15 239
/				
Total exposure measures (total of non-risk-weighted on and off-balance sheet items, with a number of adjustments) (B)	Based on the Capital Requirements Regulation (CRR)	285 110	272 373	265 597
= (A) / (B)		5,7%	6,1%	5,7%

Liquidity coverage ratio (LCR)

Gives an idea of the bank's liquidity position in the short term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-month period.

Calculation (in millions of EUR or %)	Reference	1Q 2018	2017	1Q 2017
Stock of high-quality liquid assets (A)	Based on the European Commission's Delegated Act on LCR	81 097	79 850	70 950
/				
Total net cash outflows over the next 30 calendar days (B)		58 340	57 600	48 900
= (A) / (B)		139%	139%	145%

** from end of 2017 based on moving average*

Liquidity Coverage ratio (LCR) is based on the Delegated Act requirements. From year-end 2017 actuals, KBC discloses 12 months average LCR in accordance to EBA guidelines on LCR disclosure.

Loan Portfolio

Gives an idea of the magnitude of (what are mainly pure, traditional) lending activities.

Calculation (in millions of EUR or %)	Reference	1Q 2018	2017	1Q 2017
Loans and advances to customers	Note 4.1, component of 'Loans and advances to customers'	142 512	140 999	134 047
+				
Corporate bonds in investment books (banking)	Note 4.1 component of 'debt securities - corporates'	2 913	-	-
-				
Reverse repos with customers	Note 4.1	-	-	-
+				
Reverse repos excl Central Banks	Note 4.1, component of 'Reverse repos with credit institutions'	1 522	-	-
+				
Bank bonds in investment books (banking)	Note 4.1 component of 'debt securities - Credit institutions'	3 411	-	-
+				
Exposures on Credit institutions		5 260	-	-
+				
Debt instruments issued by corporates and by credit institutions and investment firms (related to the group's banking activities)	Note 4.1, component of 'Debt instruments issued by corporates and by credit institutions and investment firms'	-	6 243	7 298
+				
Loans and advances to credit institutions and investment firms (related to the group's banking activities, excluding dealing room activities)	Note 4.1, component of 'Loans and advances to credit institutions and investment firms '	-	881	990
+				
Financial guarantees granted to clients	Note 6.1, component of 'Financial guarantees given'	8 049	8 235	8 343
+				
Impairment on loans	Note 4.2, component of 'Impairment'	4 685	4 058	4 838
-				
Insurance companies	Note 4.1, component of 'Loans and advances to customers'	- 2 021	- 2 458	- 2 039
+				
Non-loan related receivables		- 853	-	-
+				
Other (including accrued interest before 2018)	Component of Note 4.1	- 2 932	- 3 797	- 5 091
= Gross carrying amount		162 546	154 160	148 387

As of 1Q18 a switch has been made in the risk reporting figures from 'outstanding' to the new definition of 'gross carrying amount', i.e. including reserved and accrued interests.
In addition, the transaction scope of the loan portfolio was extended and now additionally includes the following 4 elements: (1) bank exposure (money market placements, documentary credit, accounts), (2) debtor risk KBC Commercial Finance, (3) unauthorized overdrafts, and (4) reverse repo (excl. central bank exposure).

Minimum requirement for own funds and eligible liabilities (MREL)

Indicates the extent to which a bank has sufficient own funds and eligible liabilities available for bail-in. MREL and bail-in are based on the idea that shareholders and debt-holders should bear losses first if a bank fails.

Calculation (in millions of EUR or %)	Reference	1Q 2018	4Q 2017	1Q 2017
Own funds* and eligible liabilities (issued from KBC Group NV) (A)	Based on BRRD	23 134	22 207	19 670
/				
Risk weighted assets (consolidated, Danish compromise method) (B)	'Consolidated balance sheet'	93 173	92 410	88 389
= (A) / (B)		24,8%	24,0%	22,3%

* after deconsolidation of KBC Insurance

SRB's current approach to MREL is defined in the '2017 MREL Policy' published on 20 December 2017, which is based on the current legal framework and hence might be revised in the context of the ongoing legislative process to review BRRD. SRB requires KBC to achieve the MREL target by 1 May 2019, using both HoldCo and eligible OpCo instruments. From 1Q 2018 the actual MREL includes the Opco instruments.

Net interest margin

Gives an idea of the net interest income of the banking activities (one of the most important sources of revenue for the group) relative to the average total interest-bearing assets of the banking activities.

Calculation (in millions of EUR or %)	Reference	1Q 2018	2017	1Q 2017
Net interest income of the banking activities (A) (annualised)	'Consolidated income statement': component of 'Net interest income'	945	3 513	871
/				
Average interest-bearing assets of the banking activities (B)	'Consolidated balance sheet': component of 'Total assets'	187 603	187 216	185 294
= (A) (annualised x360/number of calendar days) / (B)		2,01%	1,85%	1,88%

From 1Q 2018 the definition of NIM has been updated, it concerns banking group NII excluding dealing room and the net positive impact of ALM FX swaps & repos. Taken into account the updated definition, the pro-forma NIM of 1Q17 is 1,93% and FY 2017 is 1,96%.

Net stable funding ratio (NSFR)

Gives an idea of the bank's structural liquidity position in the long term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-year period.

Calculation (in millions of EUR or %)	Reference	1Q 2018	2017	1Q 2017
Available amount of stable funding (A)	Basel III, the net stable funding ratio (Basel Committee on Banking Supervision publication, October 2014)	160 700	157 700	148 800
/				
Required amount of stable funding (B)		117 200	117 300	114 550
= (A) / (B)		137,1%	134,5%	129,9%

Parent shareholders' equity per share

Gives the carrying value of a KBC share, i.e. the value in euros represented by each share in the parent shareholders' equity of KBC.

Calculation (in millions of EUR or %)	Reference	1Q 2018	2017	1Q 2017
Parent shareholders' equity (A)	'Consolidated balance sheet'	17 119	17 403	16 506
/				
Number of ordinary shares less treasury shares (at period-end) (B)	Note 5.10	419	419	418
= (A) / (B) (in EUR)		40,90	41,58	39,45

Return on allocated capital (ROAC) for a particular business unit

Gives an idea of the relative profitability of a business unit, more specifically the ratio of the net result to the capital allocated to the business unit.

Calculation (in millions of EUR or %)	Reference	1Q 2018	2017	1Q 2017
BELGIUM BUSINESS UNIT				
Result after tax (including minority interests) of the business unit (A)	Note 2.1: Segment reporting based on the management structure	243	1 575	301
/				
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency II) (B)		6 430	6 040	6 119
= (A) annualised / (B)		15,1%	26,1%	19,7%
CZECH REPUBLIC BUSINESS UNIT				
Result after tax (including minority interests) of the business unit (A)	Note 2.1: Segment reporting based on the management structure	171	702	181
/				
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency II) (B)		1 715	1 620	1 511
= (A) annualised / (B)		39,8%	43,0%	47,9%
INTERNATIONAL MARKETS BUSINESS UNIT				
Result after tax (including minority interests) of the business unit (A)	Note 2.1: Segment reporting based on the management structure	137	444	114
/				
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency II) (B)		2 185	2 054	1 992
= (A) annualised / (B)		25,0%	21,6%	22,9%

Return on equity

Gives an idea of the relative profitability of the group, more specifically the ratio of the net result to equity.

Calculation (in millions of EUR or %)	Reference	1Q 2018	2017	1Q 2017
Result after tax, attributable to equity holders of the parent (A) (annualised)	'Consolidated income statement'	556	2 575	630
-				
Coupon on the additional tier-1 instruments included in equity (B) (annualised)	'Consolidated statement of changes in equity'	- 14	- 52	- 13
/				
Average parent shareholders' equity, excluding the revaluation reserve for available-for-sale / FV OCI assets / Overlay (C)	'Consolidated statement of changes in equity'	15 695	14 926	14 567
= (A-B) (annualised) / (C)		13,8%	16,9%	16,9%

Solvency ratio (insurance)

Measures the solvency of the insurance business, calculated under Solvency II.

Calculation	1Q 2018	2017	1Q 2017
Detailed calculation under 'Solvency II, KBC Insurance consolidated' table in the Solvency banking and insurance activities separately section	218%	212%	220%

Total assets under management

Total assets under management (AuM) comprise third-party assets and KBC group assets managed by the group's various asset management companies (KBC Asset Management, ČSOB Asset Management, etc.), as well as assets under advisory management at KBC Bank. The assets, therefore, consist mainly of KBC investment funds and unit-linked insurance products, assets under discretionary and advisory management mandates of (mainly retail, private banking and institutional) clients, and certain group assets. The size and development of total AuM are major factors behind net fee and commission income (generating entry and management fees) and hence account for a large part of any change in this income line. In that respect, the AuM of a fund that is not sold directly to clients but is instead invested in by another fund or via a discretionary/advisory management portfolio, are also included in the total AuM figure, in view of the related work and any fee income linked to them.

Calculation (in billions of EUR or quantity)	Reference	1Q 2018	2017	1Q 2017
Belgium Business Unit (A)	Company presentation on www.kbc.com	199,3	202,1	199,7
+				
Czech Republic Business Unit (B)		9,7	9,6	8,8
+				
International Markets Business Unit (C)		4,5	5,0	5,7
A)+(B)+(C)		213,4	216,7	214,1

Note that 2017 AuM figures were reduced due to to a roughly 2 billion euro adjustment in Institutional Mandates.

Total capital ratio

A risk-weighted measure of the group's solvency, based on total regulatory capital.

Calculation	1Q 2018	2017	1Q 2017
Detailed calculation in the table 'Danish Compromise' under 'Solvency KBC Group' section			
Fully loaded*	19,7%	20,2%	20,0%

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