KBC Bank Annual Report for 2017

To the reader

Company name

'KBC', 'the group', 'we' or 'KBC Bank' as used in this annual report refer (unless otherwise indicated) to the consolidated bank entity, i.e. KBC Bank NV including all group companies included in the scope of consolidation. 'KBC Bank NV' refers solely to the non-consolidated entity. The 'Company annual accounts' section deals only with the non-consolidated entity.

Difference between KBC Bank and KBC Group

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

Forward-looking statements

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

Translation

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

Articles 96 and 119 of the Belgian Companies Code

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

Non-financial information statement

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

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Ratios used

A list of the most important ratios and terms used in this document (including the alternative performance measures) can be found at the back of this report.

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Report of the Board of Directors

Group profile

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

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

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

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

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

What events stood out for you in 2017?

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

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

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

Thomas Leysen: Sustainability to us means being able to live up to the expectations of all our stakeholders, not only today, but in the future too. That's something we do every day through our core activities. Our loans, deposit products and asset management services enable us to help people realise their dreams and projects and our insurance products allow them to protect those dreams and projects. We also want to increase the positive impact we have on society, where we focus on a number of areas in which we can make a difference as a bank-insurer, such as financial literacy, environmental responsibility, promoting entrepreneurship, and demographic ageing and health. Initiatives like 'Start it @KBC' – an incubator for new businesses – or 'Get-a-teacher' – where we give schools the opportunity to order a teacher from KBC – are just a couple of examples. We also want to limit any adverse impact we may have as much as possible. We're not just talking here about reducing our own ecological footprint, but also about the indirect impact we have through, say our lending and investment activities. Last but not least, we want to encourage responsible behaviour on the part of all our employees. That's the bedrock for sustainability and an absolute necessity if we are to implement a credible sustainability strategy.

Our net profit came to 2 billion euros in 2017. What were the most important contributors to that figure?

Johan Thijs: 2017 was another strong year in financial terms. This was partly attributable to the increase in our net fee and commission income – due to the strong performance of our asset management activities – and robust trading income. What's more, the decline in our net interest income was relatively limited, which is still a highly respectable performance in a climate of low interest rates. We kept a firm lid on our costs too, with the result that our cost/income ratio came to an excellent 54%. The quality of our loan portfolio continued to improve, and we were even able – on balance – to reverse some of the provisions that had been set aside in the past, thanks primarily to our Irish portfolio. All of this, combined with a number of one-off items, gave us a total net profit for 2017 of 2 billion euros.

What do you expect to see going forward?

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

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

We hope you enjoy our annual report.

Johan Thijs
Chief Executive Officer

Thomas Leysen
Chairman of the Board of Directors

Area of operation and activities

KBC Bank is a multi-channel bank catering mainly for retail, private banking, SME and mid-cap clients. Geographically, we focus on our core markets of Belgium, the Czech Republic, Slovakia, Hungary, Bulgaria and Ireland. We have a limited presence elsewhere in the world, primarily to support corporate clients from our core markets.

Shareholders

Shareholder structure (31-12-2017)	Number of shares
KBC Group NV	915 228 481
KBC Insurance NV	1
Total	915 228 482

All shares carry voting rights. The shares are not listed.

Network and personnel

Network and personnel	
Bank branches (31-12-2017)	
Belgium	659
Central and Eastern Europe (Czech Republic, Slovakia, Hungary and Bulgaria)	835
Rest of the world	27
Number of staff (2017 average in FTEs)	approx. 29 000

Financial calendar

Financial communication is largely organised at KBC Group level. Financial information relating to KBC Bank is available at www.kbc.com/Investor Relations/Information on KBC Bank.

Financial calendar for KBC Group and KBC Bank	
FY2017	KBC Group Annual Report for 2017 and Risk Report for 2017 available: 29 March 2018
	KBC Bank Annual Report for 2017 available: 29 March 2018
	AGM of KBC Bank: 25 April 2018
	AGM of KBC Group: 3 May 2018
1Q2018	Earnings release for KBC Group: 17 May 2018
2Q2018/1H2018	Earnings release for KBC Group: 9 August 2018
	Earnings release for KBC Bank: 31 August 2018
3Q2018/9M2018	Earnings release for KBC Group: 15 November 2018

The most up-to-date version of the financial calendar is available at www.kbc.com.

Long-term credit ratings

The table shows the long-term and short-term credit ratings of KBC Bank NV.

Credit ratings for KBC Bank (14 March 2018)	long-term ratings	short-term ratings
Fitch	A (positive outlook)	F1
Moody's	A1 (stable outlook)	P-1
Standard & Poor's	A (positive outlook)	A-1

Please refer to the respective credit rating agencies for definitions of the different ratings and methodologies.

Our business model

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

For more detailed information, please see the KBC Group annual report for 2017.

How do we create sustainable value? (KBC Group)

In our capacity as a bank, we ensure that our clients can save and invest in a well-informed manner. In this way, every client can grow their assets in keeping with their personal risk profile, and call on the expertise of our staff to assist them. We use the money from the deposits our clients entrust to us to provide loans to individuals, businesses and public authorities, thereby putting that money to productive use in society. As a lender, we enable people to build a house or buy a car, for instance, and businesses to be created or to grow.
We also hold a portfolio of investments, which means we invest in the economy indirectly too. Besides lending to individuals and businesses, we fund specific sectors and projects, such as the social profit sector, infrastructure projects that have a major impact on the domestic economy, and green energy projects.

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

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

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

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

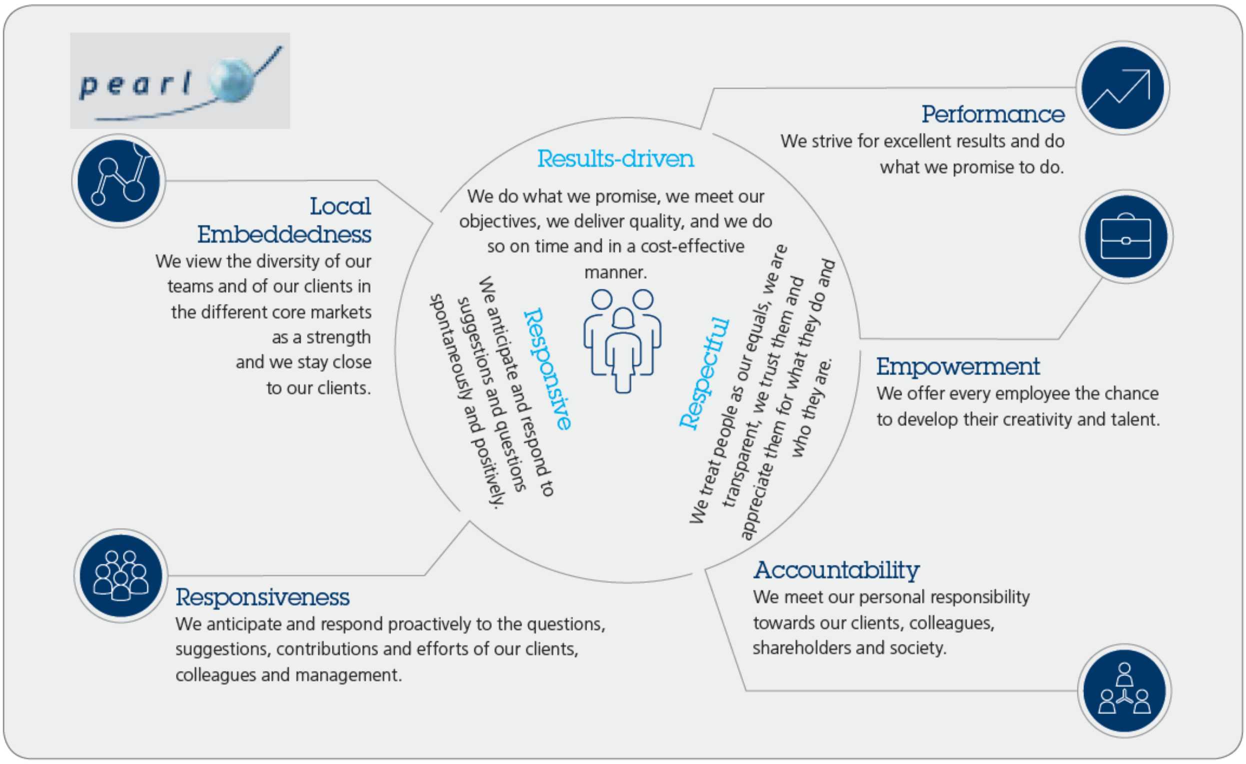
We want to be able to meet the expectations of all our stakeholders in our core countries and to live up to our commitments. As mentioned, that's something we do in the first place through or core activities. Our clients can use our loans, deposit products and asset management services to help them realise their dreams and projects, and take out our insurance to protect those dreams and projects. Moreover we want to enhance our positive impact on society (e.g., our direct and indirect impact on the environment) and to encourage responsible behaviour on the part of all our employees.

What makes us who we are? (KBC Group)

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

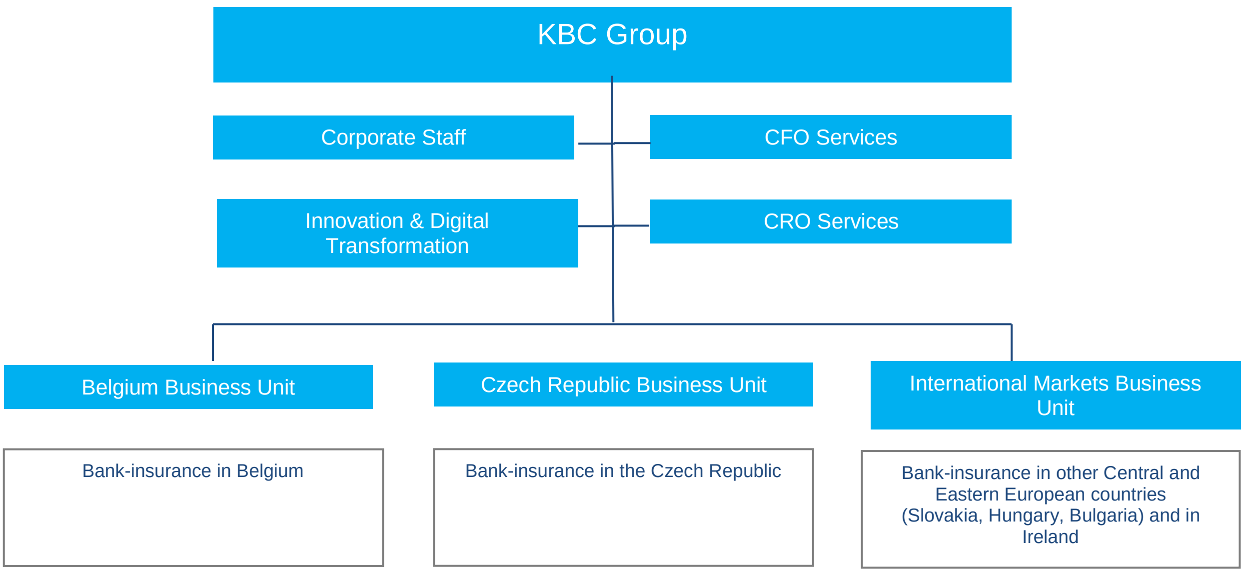
It goes without saying that we monitor how embedded this culture is among our staff. We have even appointed a dedicated PEARL manager who reports to our CEO.

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



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

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



What differentiates us from our peers?

Our integrated bank-insurance model

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

Our strong geographical focus

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

Our focus on local responsiveness

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

Our approach to sustainability

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

Our shareholder structure

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

Our strengths

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

Our challenges

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

In what environment do we operate? (KBC Group)

The main challenges facing us are, of course, the economic situation, intensifying competition and technological change, regulation, and cyber and ICT risks. The way in which we are dealing with them is set out below.

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

Regulation

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

- General Data Protection Regulation (GDPR), which imposes rules on the processing of personal data and could have a significant impact on a range of activities, including marketing, databases and insurance policies.
- Markets in Financial Instruments Directive II (MiFID2 and MiFIR), which aims to make European financial markets more efficient and transparent and to enhance investor protection. It will affect all areas relating to investment products and processes.
- Payment Services Directive II (PSD2), which includes opening up account information to third parties so that they can enter the market more readily. This could directly impact financial institutions' traditional business models.
- Other legislation worth mentioning includes the anticipated ePrivacy Regulation on the protection of electronic communication, PRIIPs (Packaged Retail and Insurance-based Investment Products), which will standardise the information on the products in question, and the Insurance Distribution Directive, which will protect the client's interests and establish product oversight and governance arrangements.
- Various initiatives are currently underway in the area of solvency, mainly in relation to the banking business. The main initiatives relate to the method for calculating risk-weighted assets (Basel IV) and the further streamlining of legislation to ensure that shareholders and creditors absorb losses at banks rather than the government.
- Others factors are the new IFRS that have yet to become effective, including IFRS 17, which applies specifically to the insurance business and will come into effect as from 2021 (subject to EU endorsement) and especially IFRS 9, which becomes effective as from 2018 and introduces a number of measures, including a new classification system for financial instruments and new impairment rules (see Note 1.0 in the 'Consolidated financial statements' section).
- We also anticipate more stringent transparency requirements in the future with regard to the risks and opportunities associated with climate change.

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

Cyber risk/Information security

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

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

Market conditions in our most important countries in 2017 (KBC Group)

Belgium

Market environment

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

KBC Group in Belgium

- Main brands: KBC, KBC Brussels and CBC
- 659 bank branches[1], 404 insurance agencies, electronic channels
- Estimated 20% share of the market for traditional bank products, 33% for investment funds, 14% for life insurance and 9% for non-life insurance
- 3.5 million clients (bank alone: 3.2 million)
- 98-billion-euro loan portfolio[2] and 139 billion euros in deposits and debt securities

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

Czech Republic

Market environment

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

KBC Group in the Czech Republic

- Main brand: ČSOB
- 270 bank branches, various distribution channels for insurance, electronic channels
- Estimated 20% share of the market for traditional bank products, 22% for investment funds, 8% for life insurance and 7% for non-life insurance
- 3.7 million clients (bank alone: 2.9 million)
- 24-billion-euro loan portfolio and 30 billion euros in deposits and debt securities

Slovakia

Market environment

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

KBC Group in Slovakia

- Main brand: ČSOB
- 122 bank branches, various distribution channels for insurance, electronic channels
- Estimated 11% share of the market for traditional bank products, 7% for investment funds, 4% for life insurance and 3% for non-life insurance
- 0.6 million clients (bank alone: 0.4 million)
- 7-billion-euro loan portfolio and 6 billion euros in deposits and debt securities

The world economy in 2017

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

Hungary

Market environment

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

KBC in Hungary

- Main brand: K&H
- 207 bank branches, various distribution channels for insurance, electronic channels
- Estimated 11% share of the market for traditional bank products, 13% for investment funds, 3% for life insurance and 7% for non-life insurance
- 1.8 million clients (bank alone: 0.8 million)
- 5-billion-euro loan portfolio and 7 billion euros in deposits and debt securities

Bulgaria

Market environment

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

KBC in Bulgaria

- Main brands: UBB (incl. CIBANK) and DZI Insurance
- 236 bank branches, various distribution channels for insurance, electronic channels
- Estimated 10% share of the market for traditional bank products, 13% for investment funds, 21% for life insurance and 11% for non-life insurance
- 1.4 million clients (bank alone: 1.1 million)
- 3-billion-euro loan portfolio and 4 billion euros in deposits and debt securities

Ireland

Market environment

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

KBC in Ireland

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

Our employees, capital, network and relationships (KBC Group)

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

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

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

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

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

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

We realise that good managers are key when it comes to enabling employees to bring out the best in themselves. That's why we have intensive leadership tracks in place at different levels. Managers develop their skills through our 'lead yourself', 'lead your business' and 'lead your people' courses. They are increasingly taking on the role of coach, whose task it is to translate strategy to the workplace, to motivate employees and to give them the space to perform. KBC University is now also up and running. This ambitious development programme is aimed at senior managers from the entire KBC group, with different speakers and modules focusing on bank-insurance, leadership and client-centricity. At the same time, KBC is actively working on a separate policy for top talent management, in which we identify future senior managers and fast-track them to face tomorrow's challenges.

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

We do not make any distinction on the grounds of gender, religion, ethnic background or sexual orientation in our HR, recruitment and promotion policies or remuneration systems. Equal treatment of employees is also enshrined in the KBC Code of Conduct and in the various manifestos and charters we have endorsed. As an employer, we want to give a clear signal to society: we treat our employees in a socially responsible manner and that relationship is grounded in mutual trust and respect. We also raise diversity awareness among our employees. It is important to realise that everyone has their own unique combination of visible and less visible personal features. With this in mind, we launched the 'Diversity Rocks' campaign in Belgium in 2017.

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

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

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

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

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

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

Our activities are only possible if we have a solid capital base. At year-end 2017, KBC Group's total equity came to 18.8 billion euros and chiefly comprised own share capital, share premiums, reserves and certain additional tier-1 instruments. Its capital was represented by 418 597 567 shares at year-end 2017, a small increase of 225 485 shares on the previous year, due to the customary yearly capital increase reserved for staff in December. At year-end 2017, KBC Bank's total equity was 15.7 billion euros. The KBC Bank share is not traded on the stock market.

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

Alongside staff and capital, our network and relationships are especially important to our activities. An overview of our network can be found under ‘Market conditions in our most important countries in 2017’.

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

Our strategy

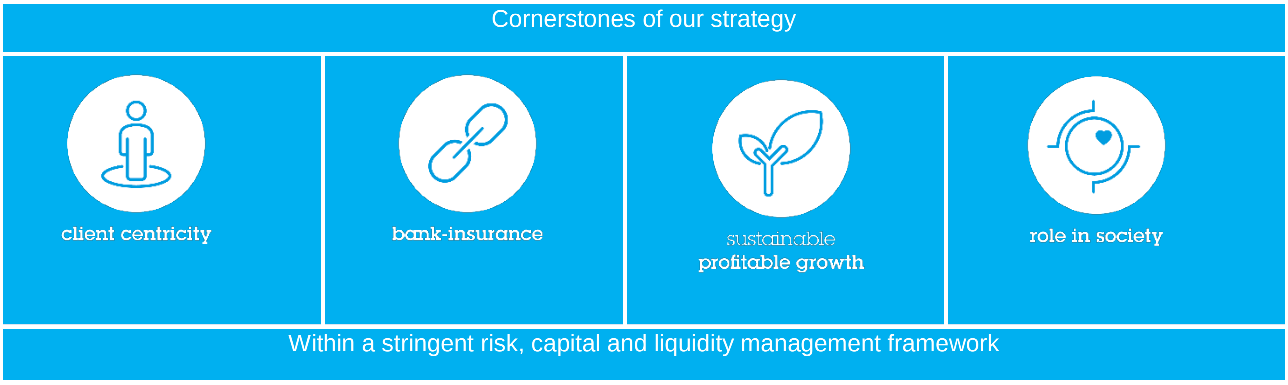
The strategy, business model and management structure of KBC Bank is embedded in that of the KBC group. A summary is given below of the strategy of the KBC group, where KBC Bank is essentially responsible for the banking business and KBC Insurance for the insurance business.

For more detailed information, please see the KBC Group annual report for 2017.

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

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

We implement our strategy within a strict risk, capital and liquidity management framework.



Sustainability is embedded in our strategy. To us, this primarily means the ability to live up to the expectations of all our stakeholders and to meet our obligations, not just today but also in the future. Our sustainability strategy has three cornerstones:
- Enhancing our positive impact on society
- Limiting any negative impact we might have
- Encouraging responsible behaviour on the part of all our employees

The client is at the centre of our business culture (KBC Group)

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

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

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

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

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

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

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

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

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

We also closely monitor our reputation and communicate this analysis to all the departments and individuals concerned, so they can take appropriate action.

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

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

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

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

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

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

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

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

Our bank-insurance model also enables us to achieve various commercial synergies.

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

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

We focus on sustainable and profitable growth (KBC Group)

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

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

We decided, moreover, at the beginning of 2017 to include Ireland as one of our core countries, where we have fully committed ourselves to a 'Digital First' strategy for an outstanding client experience. 'Core country' status also means that we aim to achieve a market share of at least 10% in the retail and micro-SME segments and to develop bank-insurance as we do in our other core markets. Insurance products are being offered in Ireland through partnerships and co-operation agreements.

The focus on our six core markets is also illustrated by the sale of our KBC TFI asset manager in Poland, as that country does not belong to our geographical core territory.

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

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

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

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

Sustainability is not a separate policy at KBC, but an integral part of our overall strategy, which is anchored in our day-to-day activities. First and foremost, sustainability to us is the ability to live up to the expectations of all our stakeholders and to meet our obligations, not just today but also in the future.

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

- Encouraging responsible behaviour on the part of all employees
- Enhancing our positive impact on society
- Limiting any negative impact we might have on society

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

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

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

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

We communicate transparently on our policy guidelines and codes of conduct, which are published on our corporate website (https://www.kbc.com/en/policies).

Aiming to enhance our positive impact on society

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

Our focus areas	Description	How? A few recent examples:
Financial literacy	• Helping clients make the right choices through good and transparent advice, and clear communication. • Improving general public knowledge of financial concepts and products.	• Launching financial education initiatives in all countries, including seminars, various master's programmes, a range of digital learning packs and internships. • Around 200 lessons on financial subjects given by ČSOB employees at 50 different schools. • Launch of an investors' club by K&H in Hungary, aimed at the younger generation so that they can learn more about investing, the financial markets, etc. • Introduction of 'KBC Go Digital Intro' in Belgium, in which clients can discover our digital offering. • Launch of 'Get-a-teacher' by KBC in Belgium, to give schools the opportunity to extend financial knowledge by 'ordering' a teacher from KBC.
Environmental awareness	• Reducing our environmental footprint through a diverse range of initiatives and objectives. • Developing products and services that can make a positive contribution to the environment.	• Focusing on multi-mobility at KBC Autolease, including the development of bicycle leasing. • Signing the 'Green Deal for Circular Procurement' to help achieve a more circular economy in Flanders. • Obtaining a 'Leadership A-' score in the 2017 Carbon Disclosure Project Climate Change Programme.
Entrepreneurship	• Contributing to economic growth by supporting innovative ideas and projects.	• Launching the e-stores programme in Bulgaria. • Rolling out *Start it @kbc* from Belgium to other core countries. • *KBC Match'it*, a digital platform for transferring businesses. • Providing capital for start-ups via the *KBC Start it Fund.* • Supporting local initiatives through the Bolero crowdfunding platform. • Encouraging clients to take the step to e-commerce via *Storesquare*, *FarmCafe* and similar initiatives. • Realising various European programmes to support small and micro businesses and SMEs. • Launching the KBC Service to Associations to encourage involvement in clubs, societies and associations in Belgium.
Demographic ageing and health	• We have opted for 'demographic ageing' as our fourth pillar in Belgium and the Czech Republic. This requires us to adapt our policy and our range of products and services to the fact that people are living longer and to make a positive contribution to the issues surrounding an ageing population by offering specific solutions through our core activities. • We chose 'health' as the fourth pillar in Bulgaria, Slovakia, Hungary and Ireland. These core countries will develop products, services and projects geared towards improving general health, healthcare and quality of life.	• Providing digitalisation lessons for over-55s in Belgium. • Providing financial and material assistance to sick children through the 'K&H MediMagic Programme' in Hungary. • ČSOB is collaborating with the Centre of Health Economics and Management at the Faculty of Social Sciences at the Charles University in Prague. • Launch by ČSOB in the Czech Republic of the online portal 'Find your way through senior age' in collaboration with the Sue Ryder Home advisory centre.

Limiting any negative impact we might have on society

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

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

- Greenhouse gas emission targets: by 2020, the group wants to reduce its own greenhouse gas emissions (in absolute terms and per FTE) by at least 20% compared to 2015 and excluding commuter travel. We have translated this aim into action plans in each core country. Emissions are currently down 28-29% on their 2015 levels.
- The ambition to obtain ISO 14001 certification in all our core countries by the end of 2017. This has already been achieved. The external certification confirms the quality of our environmental management system.
- An HR policy that contributes to the transition to a low-carbon economy (including by reducing commuter and business travel, promoting the use of public transport and bikes, and adjusting our car policy).

The underlying data and calculations for the KBC group's greenhouse gas emissions were verified for a second successive year by a third party (Vinçotte) in accordance with ISO 14064-3. You can find more detailed information on our environmental footprint in our Sustainability Report.

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

2017 (KBC Group)

632 thousand GJ of electricity used

347 thousand GJ of gas and heating oil used

372 million km in commuter and business travel

3 644 tonnes of paper used

94 thousand tonnes of CO_2e emissions

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

- We want to actively support energy efficiency, promote sustainable renewable energy, support sustainable, safe mobility and promote the circular economy. In mid-2017, for instance, we signed the 'Green Deal for Circular Procurement', committing ourselves to set up two circular procurement processes in 2018.
- We have committed ourselves to increasing the proportion of lending that goes to renewable energy sources. The target is for renewable energy and biofuels to make up at least 50% of our total lending to the energy sector by 2030. It currently stands at 41%. Our policy for lending to the energy sector sets out clear guidelines on how to achieve these goals.
- The system for monitoring the relevant actions and targets includes reporting to the Board of Directors.

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

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

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

The target we had set ourselves get for SRI funds for 2018 was originally 5 billion euros, but since we had already met that target by the middle of 2017, we decided to raise it to 10 billion euros of sustainable investments (under management) by 2020. At present, the volume of SRI funds under management at KBC Asset Management amounts to approximately 7.1 billion euros.

There are a number of international initiatives regarding the environment, in general, and climate change, in particular, that will have a significant impact on all financial institutions, namely the recommendations of the FSB Taskforce on Climate-Related Financial Disclosures and the recommendations of the EU High-Level Expert Group on Sustainable Finance. Given this situation, we have launched a project in our group with the aim in 2018 to identify the impact of those guidelines and how they should be implemented.

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

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

We have updated our human rights policy to bring us in line with the UN Guiding Principles on Business and Human Rights and the ten UN Global Compact Principles. We respect the fundamental principles of universal human rights and have implemented them throughout the group by means of the KBC Human Rights Policy.
Certain aspects of the UN Global Compact Principles (on the environment, for instance) are dealt with separately in other policies, including the KBC Energy Credit Policy, the KBC Policy on Sustainable and Responsible Lending, the KBC Policy on Sustainable and Responsible Insurance and the KBC Policy on Controversial Regimes.

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

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

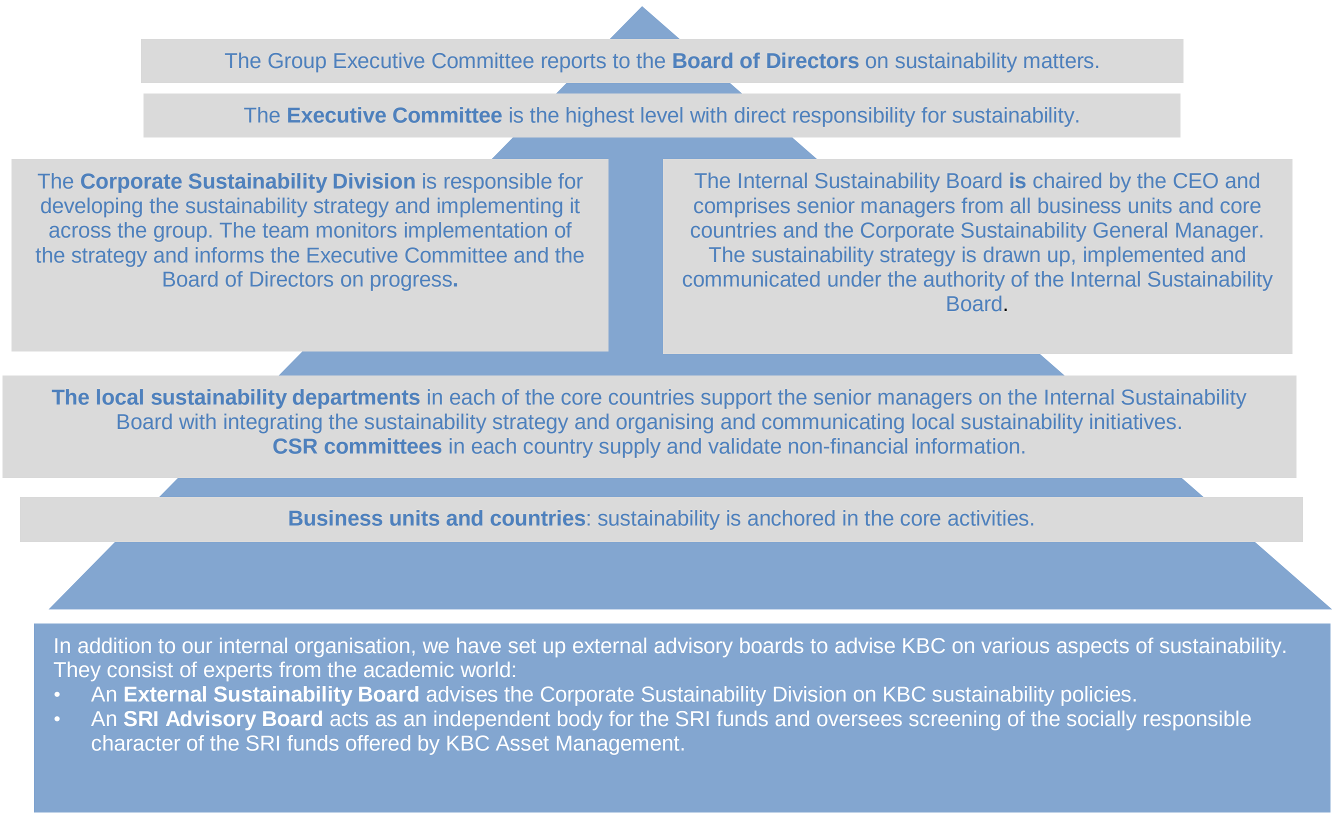
We are fully committed to respecting and upholding our employees' human rights We likewise expect our employees to respect human rights in the course of their work and to adhere to what is set out in the 'Code of Conduct for KBC Group Employees' (available under 'Corporate Sustainability' at www.kbc.com).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

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

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

Our sustainability governance

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



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

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

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

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

Although the activities of a large financial group are exposed to risks that only become apparent in retrospect, we can currently identify a number of major challenges for our group. These are set out under 'In what environment do we operate?' in the 'Our business model' section.

As a bank-insurer, we are also exposed to the typical risks for the sector, such as credit risk, market risk, technical insurance risk, liquidity risk, solvency risk and non-financial risk, including operational risk. A list of these risks can be found in the table.

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

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

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

Technical insurance risks Risks stemming from uncertainty as to how often insured events will occur and how extensive they will be.	• Existence of a robust management framework • Underwriting, pricing, claims reserving, reinsurance and claims handling policies, etc.
Solvency risk The risk that the capital base will fall below an acceptable level.	• Existence of a robust management framework • Minimum solvency ratios, active capital management, etc.

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

Review of the consolidated financial statements

- We review the consolidated results in this section of the annual report. A review of the non-consolidated results and the balance sheet is provided in the 'Company annual accounts' section.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was – on balance – very limited.
- Information on financial instruments, hedge accounting and the use thereof is provided in the 'Consolidated financial statements' section (Notes 1.2, 3.3, and 4.1–4.10 among others) and in the 'Risk management' section.
- For information on forecast economic growth in our core countries, see the 'Our business units' section.
- We believe that all our business units will perform solidly in 2018. We also expect the planned changes to the Belgian corporation tax system to have a recurring positive effect from 2018 onwards, and for funding costs to be lower on account of the contingent capital note of 1 billion US dollars being called in January 2018. For Ireland, we expect a net release of loan impairment charges of between 100 and 150 million euros to be recognised in 2018.
- We estimate that the first time application of IFRS 9 (as of 1 January 2018) will reduce our fully loaded common equity ratio by approx. 47 basis points at KBC Bank level, due primarily to reclassifications in the banking portfolio. For more information on the first time application of IFRS 9, see Note 1.0 of the 'Consolidated financial statements'.
- We expect Basel IV to increase risk-weighted assets at KBC Group level by roughly 8 billion euros (a negative impact of about 1.3% on KBC Group's common equity ratio), based on a static balance sheet and the economic environment at year-end 2017.
- All KBC Bank shares are owned directly and indirectly by KBC Group. In 2018, KBC Bank will pay KBC Group a final dividend of 1 199 million euros for 2017.

Consolidated income statement

Consolidated income statement, KBC Bank (in millions of EUR)	2017	2016
Net interest income	3 546	3 635
Dividend income	20	27
Net result from financial instruments at fair value through profit or loss	860	551
Net realised result from available-for-sale assets	114	134
Net fee and commission income	2 023	1 753
Other net income	25	140
Total income	6 588	6 240
Operating expenses	-3 568	-3 399
Impairment	44	-145
on loans and receivables	87	-126
Share in results of associated companies	8	23
Result before tax	3 073	2 719
Income tax expense	-891	-525
Net post-tax result from discontinued operations	0	0
Result after tax	2 182	2 195
Result after tax, attributable to minority interests	179	169
Result after tax, attributable to equity holders of the parent	2 003	2 026
Ratio of 'result before tax' to 'average total assets'	1.24%	1.19%

* Primarily the 48.14% stake that KBC Group holds in KBC Asset Management.

Key consolidated balance sheet and solvency figures

Selected balance-sheet and solvency items, KBC Bank (in millions of EUR)	2017	2016
Total assets	256 322	239 333
Loans and advances to customers	141 036	133 481
Securities (equity and debt instruments)	47 995	52 180
Deposits from customers and debt securities	194 517	178 697
Risk-weighted assets (Basel III, fully loaded)	83 117	78 482
Total equity	15 656	14 158
of which parent shareholders' equity	14 083	12 568
Common equity ratio (Basel III, fully loaded)	14.5%	14.3%
Liquidity coverage ratio (LCR)	139%	139%
Net stable funding ratio (NSFR)	134%	125%

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

The growth figures for the volume of deposits and loans have been systematically adjusted for exchange rate effects, and intragroup transactions within KBC are eliminated.

Analysis of the result

Net interest income

Our net interest income came to 3 546 million euros in 2017, down 2% on its year-earlier level, owing to a number of negative items, primarily the drop in interest income generated by the dealing rooms (more than offset by the increase in trading and fair value income), but also low reinvestment yields, a reduction in early repayment penalties for home loans in Belgium and general pressure on credit margins. These negative items were partially offset by factors including the positive effect of significantly lower funding costs, the inclusion of UBB and Interlease in the figures as of mid-2017 (55 million euros) and growth in the volume of credit.

As regards volume of credit, our loans and advances to customers (excluding reverse repos) went up by 5% to 139 billion euros. There was a 3% increase at the Belgium Business Unit, 8% at the Czech Republic Business Unit and 13% (4% excluding UBB/Interlease) at the International Markets Business Unit, with growth in all countries apart from Ireland, which was influenced by the reduction in the business loan portfolio. Our total volume of deposits (194 billion euros in deposits from customers and debt securities (excluding repos)) rose by 8% in 2017, with the Belgium Business Unit recording an increase of 6%, the Czech Republic Business Unit 9% and the International Markets Business Unit 24% (7% excluding UBB/Interlease), with growth in all countries. Consequently, the net interest margin came to 1.85%, 7 basis points lower than in 2016. It amounted to 1.57% in Belgium, 2.99% in the Czech Republic and 2.77% at the International Markets Business Unit.

Net fee and commission income

Our net fee and commission income came to 2 023 million euros in 2017, up a substantial 15% on the year-earlier figure. Most of the growth was accounted for by Belgium and was chiefly attributable to an increase in entry and management fees relating to our asset management activities and, to a lesser extent, to higher securities and payments-related fees and the inclusion of UBB/Interlease (23 million euros).

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

Other income

Other income came to an aggregate 1 019 million euros, as opposed to 852 million euros in 2016. The figure includes 20 million euros in dividends received and 114 million euros in gains realised on the sale of available-for-sale securities. Included in the other income figure is also the 860-million-euro net result from financial instruments at fair value through profit or loss (trading and fair value income), which was 309 million euros higher than its level in 2016, due primarily to better dealing room results in Belgium and the Czech Republic and, to a lesser extent, the positive impact of various value adjustments (MVA, CVA, FVA). Lastly, other income also included 25 million euros in other net income. This was 116 million euros lower than in 2016, owing to the recognition in 2017 of -116 million euros in respect of a sector-wide review of tracker rate mortgages originated in Ireland before 2009. More information on this matter can be found in Note 3.6 of the 'Consolidated financial statements'.

Operating expenses

Our expenses amounted to 3 568 million euros in 2017, up 5% on the year-earlier figure. This reflected a number of items, including increased investment in digitalisation and the inclusion of UBB/Interlease (40 million euros). Operating expenses also incorporated special bank taxes totalling 419 million euros, roughly comparable with the previous year. As a result, the cost/income ratio came to 54%, virtually the same level as in 2016. It was 52% for the Belgium Business Unit, 42% for the Czech Republic Business Unit and 72% for the International Markets Business Unit.

Impairment

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

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

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

Other impairment charges totalled 43 million euros, as opposed to 20 million euros in 2016.

Income tax expense

Our income tax expense came to 891 million euros in 2017, compared to the year-earlier figure of 525 million euros. In addition to the higher taxable base (the result before tax rose by 353 million euros), this increase reflected the fact that the figure for 2017 included a one-off negative effect of 218 million euros in Belgium relating to the reform of corporation tax there (primarily the effect of the announced reduction in the corporation tax rate on deferred taxes recognised on the balance sheet). More information in this regard is provided in Note 3.11 of the 'Consolidated financial statements' section.

Besides paying income tax, we pay special bank taxes (419 million euros in 2017, included under 'Operating expenses').

Analysis of the balance sheet

Total assets

At the end of 2017, our consolidated total assets came to 256 billion euros, up 7% year-on-year. Risk-weighted assets (Basel III, fully loaded) increased by 6% to 83 billion euros, due in part to the impact of the consolidation of UBB and Interlease.

Loans and deposits

The core business of a bank is to attract deposits and use them to provide loans. Indeed, this is reflected in the importance of the figure for loans and advances to customers on the assets side of our balance sheet (139 billion euros (excluding reverse repos) at year-end 2017). Loans and advances to customers rose by 5% for the group as a whole, with growth of 3% at the Belgium Business Unit, 8% at the Czech Republic Business Unit and 13% (or 4% without UBB/Interlease) at the International Markets Business Unit. As regards the latter unit, growth was recorded in all countries apart from Ireland, due to corporate lending being scaled back there. The main lending products at group level were again term loans at 63 billion euros and mortgage loans at 60 billion euros (3% growth excluding UBB/Interlease).

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

Securities

We also hold a portfolio of securities, which totalled roughly 48 billion euros at year-end 2017. The portfolio comprised 2% shares and 98% bonds (with bonds decreasing by almost 5 billion euros in 2017 (excluding UBB/Interlease). At year-end 2017, 86% of these bonds consisted of government paper, the most important being Belgian, Czech, French, Spanish, Slovak and Hungarian. A detailed list of these bonds is provided in the 'Risk management' section.

Other assets and other liabilities

Other important items on the assets side of the balance sheet were loans and advances to credit institutions and investment firms (24 billion euros, up almost 8 billion euros year-on-year, due primarily to higher reverse repos), derivatives (positive mark-to-market valuation of 6 billion euros mainly for interest rate contracts, almost 3 billion euros less than a year earlier), and cash and cash balances with central banks and other demand deposits at credit institutions (30 billion euros, 9 billion euros more than at year-end 2016, owing to the placement of excess liquidity with central banks).
Other significant items on the liabilities side of the balance sheet were derivatives (negative mark-to-market valuation of 7 billion euros mainly for interest rate contracts, down 2 billion euros year-on-year) and deposits from credit institutions and investment firms (33 billion euros, up 1 billion euros year-on-year).

Equity

On 31 December 2017, our total equity came to 15.7 billion euros. This figure included 14.1 billion euros in parent shareholders' equity, 1.4 billion euros in additional tier-1 instruments and 0.2 billion euros in minority interests. Total equity rose by 1.5 billion euros in 2017, with the most important components in this respect being the inclusion of the annual profit (+2 billion euros, excluding minority interests), the payment of a dividend to KBC Group (-0.5 billion euros) and the remeasurement of defined benefit plans (+0.1 billion euros).
Our solvency position remained strong as a result, with a common equity ratio of 14.5% (fully loaded). Detailed calculations of our solvency indicators are given in the 'Capital adequacy' section. The group's liquidity position also remained excellent, as reflected in an LCR ratio of 139% and an NSFR ratio of 134%.

Review of the business units

Our group's management structure centres on three business units: 'Belgium', 'Czech Republic' and 'International Markets'. The latter is responsible for the other core countries in Central and Eastern Europe (Slovakia, Hungary and Bulgaria) and Ireland.

- The Belgium Business Unit comprises the activities of KBC Bank NV and its Belgian subsidiaries, the most important of which are CBC Banque, KBC Asset Management, KBC Lease Group and KBC Securities.
- The Czech Republic Business Unit comprises all KBC's activities in the Czech Republic. These consist primarily of the activities of the ČSOB group (under the ČSOB Bank, Era, Postal Savings Bank, Hypoteční banka, ČMSS and Patria brands) and ČSOB Asset Management.
- The International Markets Business Unit comprises the activities conducted by entities in the other Central and Eastern European core countries, namely ČSOB in Slovakia, K&H Bank in Hungary and UBB/CIBANK in Bulgaria, plus the activities conducted by KBC Bank Ireland in Ireland, which was included as one of the group's core countries at the start of 2017.

Besides financial reporting for three business units, we also report on a separate Group Centre. This centre includes the operating results of the group's holding-company activities, certain costs related to capital and liquidity management, costs related to the holding of participating interests and the results of the remaining companies and activities in the process of being run down.

The economic context

Belgium

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

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

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

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

Czech Republic

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

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

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

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

International Markets

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

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

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

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

Where do we stand in each of our countries?

Market position in 2017[1]	Belgium	Czech Republic	Slovakia	Hungary	Bulgaria	Ireland
Main brands	KBC CBC KBC Brussels	ČSOB	ČSOB	K&H	UBB (incl. CIBANK	KBC Bank Ireland
Network	659 bank branches Online channels	270 bank branches[2] Online channels	122 bank branches Online channels	207 bank branches Online channels	236 bank branches Online channels	16 bank branches Online channels
Clients (millions, estimate)	3.2	2.9	0.4	0.8	1.1	0.3
Loan portfolio (in billions of EUR)	97.8	24.3	7.3	5.0	3.3	12.1
Deposits and debt securities (in billions of EUR)	139.0	30.3	6.1	7.3	3.9	5.4
Market share (estimate)						
- bank products	20%	20%	11%	11%	10%	8%[3]
- investment funds	33%	22%	7%	13%	13%	-
Main activities and target groups	We offer a wide range of loan, deposit, asset management, insurance and other financial products in virtually all our countries, where our focus is on private individuals, SMEs and high-net-worth clients. Services for corporate clients additionally include cash management, payments, trade finance, lease, money market activities, capital market products, stockbroking and corporate finance.					
Macroeconomic indicators for 2017[4]						
- GDP growth (real)	1.7%	4.4%	3.4%	3.9%	3.9%	6.5%
- Inflation (average annual increase in consumer prices)	2.2%	2.5%	1.4%	2.4%	1.3%	0.3%
- Unemployment (% of the labour force at year-end; Eurostat definition)	6.6%	2.3%	7.4%	3.8%	6.6%	6.2%
- Government budget balance (% of GDP)	-1.1%	0.3%	-1.4%	-2.1%	0.8%	-0.3%
- Public debt (% of GDP)	103.2%	34.7%	51.0%	72.4%	25.0%	68.0%

1 Market shares and client numbers: based on own estimates. For traditional bank products: average estimated market share for loans and deposits. The method used to calculate the number of clients in the Czech Republic now deals more effectively with the double-counting of those who are clients of several group companies. Loan portfolio: see 'Risk management'. Deposits and debt securities: deposits from customers and debt securities (excluding repos). The number of bank branches does not include self-service branches. The Belgium Business Unit also includes the small network of 11 KBC Bank branches established in the rest of Europe, the US and Southeast Asia, which focus on activities and clients with links to KBC's core markets (not included in the number of branches in the table). Market shares are based in most instances on the latest available data (e.g., from the end of September 2017).
2 ČSOB bank branches and Postal Savings Bank financial centres and/or Era branches.
3 Retail segment (home loans and deposits for private individuals (excluding demand deposits)).
4 Data based on estimates made at the start of 2018.

Belgium

Specific objectives

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

A few achievements in 2017

We have invested heavily in the past few years to make our know-how available via a range of client contact points, including bank branches and (KBC Insurance) agencies, chat and video chat facilities, websites and mobile apps. Measures to further strengthen this omnichannel approach include expanding KBC Live – our regional contact centres – to offer enhanced chat and video chat facilities and more staff. We have also extended this successful service to entrepreneurs, the self-employed and members of the liberal professions. At the same time, we continued to expand and improve our digital systems, such as KBC Touch, KBC Sign, KBC Mobile, KBC Invest, KBC Assist and K’Ching.
We also offer a great many innovations that make our clients’ lives easier by enhancing their domestic comfort, for instance. Examples include the launch of KBC SmartHome (which, among other things, can warn the user via an app if smoke or leaking water is detected at their residence), KBC Home Assistance (a policy that provides qualified technicians to deal with certain unforeseen problems in the home) and KBC Insurance Check (an easy way for clients to check whether they are properly insured).
Digital channels are constantly growing in importance. It has also been possible to buy home insurance via the website since the middle of 2017 (and via KBC Mobile). We view it as part of our job, moreover, to guide clients through the digitalisation process. Since April 2017, for instance, clients wanting to take their first steps towards digital banking have been welcome at KBC for a KBC Go Digital Intro, and we also offer them *Digiwijs* sessions.

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

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

We give concrete shape to our wider role in the community via initiatives relating to entrepreneurship, environmental awareness, financial literacy and demographic ageing.
The KBC Service to Associations was launched to encourage involvement in clubs, societies and associations. The platform can be accessed via the KBC website and combines information and tools to help get clubs, societies and associations up and running. It is an ecosystem formed by KBC and four partners, which together provide a wide range of information and services to enable these bodies to be run efficiently.
Employees and businesses are looking for solutions that address their mobility needs more effectively and there is a strong focus right now on multi-mobility. In this context, KBC Autolease is placing ever more emphasis on the transition from a lease company to a mobility provider, by backing a variety of transport options, including bicycles with KBC Bike Lease, and by the steady ‘greening’ of its vehicle fleet.
A fine example in the area of financial literacy is the ‘Get-a-Teacher’ initiative in the Dutch-speaking part of Belgium. The initiative aims to further enhance financial knowledge, especially among young people. Get-a-Teacher’ gives schools the opportunity to ‘order’ a teacher from KBC. He or she is a KBC employee who has been screened and selected for this

role. The initiative is a free, no-obligation offer for both KBC and non-KBC clients, and is separated from the group's commercial communication.

Czech Republic

Specific objectives

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

A few achievements in 2017

As in previous years, we launched a variety of new products and services that respond to our clients' changing needs. For example, we worked on a new online banking experience for our retail clients and launched a new electronic banking platform for large companies and SMEs, with simplified and intuitive interactive possibilities. The new Patria Mobile Trader app enables clients to carry out investment transactions anywhere and at any time. Insurance claims can now be registered and monitored online, too, using ČSOB Pojišťovna's 'Klientská zóna' app. Postal Savings Bank clients, meanwhile, can also apply for a consumer loan online and access the funds within 15 minutes.
To obtain an even better understanding of the client experience, we now use 'Customer Journey Mapping' alongside traditional client satisfaction surveys. This approach (with direct input from clients) examines each step, starting from thinking about a financial service, through purchase and use, to even ending a contract. We are able as a result to improve and simplify our processes and product offering.

We once again achieved decent growth in the areas we targeted, such as consumer finance (+16% in 2017) and lending to SMEs (+5%). However, we also made progress in areas where we already have a sound track record, with for instance the volume of home loans expanding by no less than 11% in 2017. Overall, our lending activities increased by 8% in 2017 and clients also placed 9% more deposits with our group.
Česká pošta and ČSOB signed a ten-year agreement in 2017 to collaborate on banking and insurance services, building on a quarter of a century's mutual cooperation under the Poštovní spořitelna (Postal Savings Bank) brand. The agreement came into effect on 1 January 2018, as of which date ČSOB will be the sole partner for the supply of financial and insurance services.

About six out of ten ČSOB clients who took out home loans with the bank in 2017 also purchased home insurance from the group, while approximately half of them also took out life insurance. The number of bank-insurance clients – i.e. clients with both banking and insurance products from our group in their portfolio – increased by 13% in 2017. Stable bank-insurance clients – i.e. clients with at least 2 banking and 2 insurance products) increased by over 20%.

We took a number of initiatives in terms of our social engagement, focusing on environmental awareness, financial literacy, entrepreneurship and demographic ageing.
In 2017, we sent over 200 ČSOB ambassadors to 50 primary and secondary schools to provide interactive and engaging lessons on subjects relating to financial literacy. Our Education Fund, meanwhile, has been supporting students in difficulty for many years. We view stimulating entrepreneurship as an important part of our sustainability strategy. In that regard, we help businesses get on their feet and support co-working centres and development hubs where start-ups can work and network in ideal conditions. We also offer financial support to the most promising start-ups through our InnovFin programme.
We want to support our clients throughout their lives and, therefore, pay particular attention to senior citizens. In collaboration with the Sue Ryder Home advisory centre, we launched the online portal 'Find your way through senior age', which provides elderly people with lots of practical information on legal matters, palliative care, subsidies and counselling. Environmental awareness naturally remains a top priority too. For instance, we have managed to reduce our energy consumption by over 20% in the past six years, and our head office in Prague now has a LEED (Leadership in

Energy and Environmental Design) certificate. Voluntary work and collaboration with NGOs remain very important within our group. In 2017, over 1 100 colleagues worked for a day at various NGOs, not only helping them in their work but also sharing knowledge and experience.

International Markets

Specific objectives

- To move from a branch-oriented distribution model to an omnichannel one in the Central European countries. We are fully committed to implementing a 'Digital First' strategy in Ireland (see below).
- To target income growth in Hungary through vigorous client acquisition in all banking segments and through more intensive cross-selling, in order to raise our market share and our profitability. Simplifying products and processes is another key focus.
- To maintain our robust growth in strategic products in Slovakia (i.e. home loans, consumer finance, SME funding and leasing), partly through cross-selling to ČSOB group clients. Just as in Hungary, simplifying products and processes is another key focus.
- To focus on substantially increasing our share of the lending market in all segments in Bulgaria, while applying a strict risk framework. The acquisition of United Bulgarian Bank in June 2017, by which our market share increased to 10%, should further support this growth.
- To implement a 'Digital First' strategy and create an outstanding client experience in Ireland, which became a fully fledged core country in 2017. We aim to differentiate ourselves through the instant and proactive delivery of products and services and through a high level of accessibility (including mobile and contact centre). Core country' status also means that we aim to achieve a market share of at least 10% in the retail and micro-SME segments and to focus fully on bank-insurance in the same way as we do in our other core markets. We will offer insurance products through partnerships and co-operation agreements.
- To implement a socially responsible approach in all countries, with a particular focus on environmental awareness, financial literacy, entrepreneurship and health.

A few achievements in 2017

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

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

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

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

How do the business units contribute to the group result?

Consolidated income statement, KBC Bank: Result after tax, attributable to equity holders of the parent (in million EUR)	2017	2016
Belgium Business Unit	1 021	1 015
Czech Republic Business Unit	669	563
International Markets Business Unit	417	406
Hungary	137	120
Slovakia	69	83
Bulgaria	44	18
Ireland	167	184
Group Centre (including planned divestments)	-104	41
Total net result, KBC Bank	2 003	2 026

A complete overview of the underlying results and a brief commentary for each business unit is provided under ‘Notes on segment reporting' in the ‘Consolidated financial statements’ section.

Risk Management

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

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

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

- the ‘Risk governance’ section;
- parts of the ‘Credit risk’ section: the introduction, ‘Credit risk management at transactional level’, ‘Managing credit risk at portfolio level’, the ‘Loan and investment portfolio' table (audited parts are indicated in the footnote to the table), the ‘Details for the loans and investment portfolio of KBC Bank Ireland’ table, ‘Forbearance measures’ and the ‘Other credit exposure’ table
- parts of the ‘Market risk in trading activities’ section: the introduction, ‘Managing market risk’ and ‘Risk analysis and quantification’;
- parts of the ‘Market risk in non-trading activities’ section: the introduction, ‘Managing market risk in non-trading activities’, ‘Interest rate risk’ (except for the ‘Impact of a parallel 10-basis-point increase in the swap curve for KBC Bank’ table , the ‘Exposure to sovereign bonds ‘table and ‘Foreign exchange risk’;
- parts of the ‘Liquidity risk’ section: the introduction, ‘Managing liquidity risk’ and ‘Maturity analysis’;

Risk governance

Main elements in our risk governance model:

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

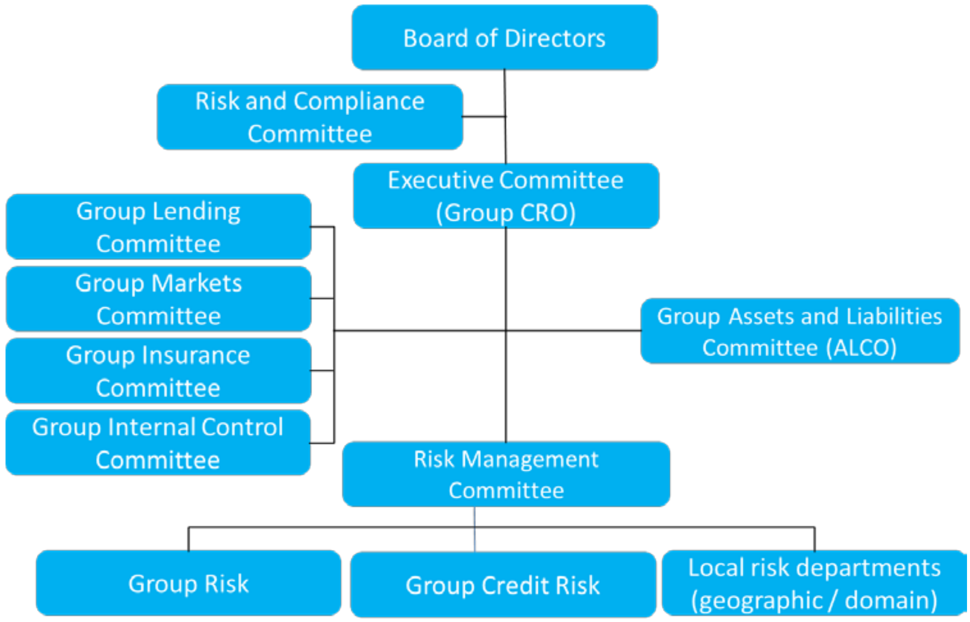
Relevant risk management bodies and control functions:

- Executive Committee:
  - makes proposals to the Board of Directors about risk and capital strategy, risk appetite, and the general concept of the risk management framework;
  - decides on the integrated and risk-type-specific risk management frameworks and monitors their implementation throughout the group;
  - allocates capital to activities in order to maximise the risk-adjusted return;
  - acts as the leading risk committee, covering material issues that are channelled via the specific risk committees or the Group Assets & Liabilities Committee (Group ALCO);
  - monitors the group’s major risk exposure to ensure conformity with the risk appetite.
- Group ALCO:
  - is a business committee that assists the Executive Committee in the domain of (integrated) balance sheet management at group level. It handles matters related to ALM and liquidity risk.
- Risk committees:
  - The Risk Management Committee supports the Executive Committee in assessing the adequacy of, and compliance with, the KBC Risk Management Framework and defines and implements the vision, mission and strategy for the CRO Services of the KBC group.
  - The activity-based Group Risk Committees (for lending, markets and insurance, respectively) support the Executive Committee in setting and monitoring limits for these activities at group level. Liquidity and ALM issues related to these activities are addressed by the Group ALCO.
  - The Group Internal Control Committee (GICC) supports the Executive Committee in monitoring and strengthening the quality and effectiveness of KBC’s internal control system.

- In order to strengthen the voice of the risk function and to ensure that the decision-making bodies of the business entities are appropriately challenged on matters of risk management and receive expert advice, KBC has deployed independent Chief Risk Officers (CROs) throughout the group according to a logical segmentation based on entity and/or business unit. Close collaboration with the business is assured since they take part in the local decision-making process and, if necessary, can exercise a veto. Independence of the CROs is achieved through a direct reporting line to the Group CRO.
- Group Risk and Group Credit Risk (known collectively as 'the Group risk function') have a number of responsibilities, including monitoring risks at an overarching group-wide level, developing risk and capital models (while business models are typically developed by business), performing independent validations of all risk and capital models, developing risk frameworks and advising/reporting on issues handled by the Executive Committee and the risk committees. When appropriate, dedicated working groups comprising risk and business-side representatives are set up to deal with emerging risks or unexpected developments in an integrated way (covering all risk types).

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

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



Want to learn more?
More information on risk management can be found in our Risk Report at www.kbc.com, under 'investor relations', 'reports', 'risk reports'.

Risk appetite

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

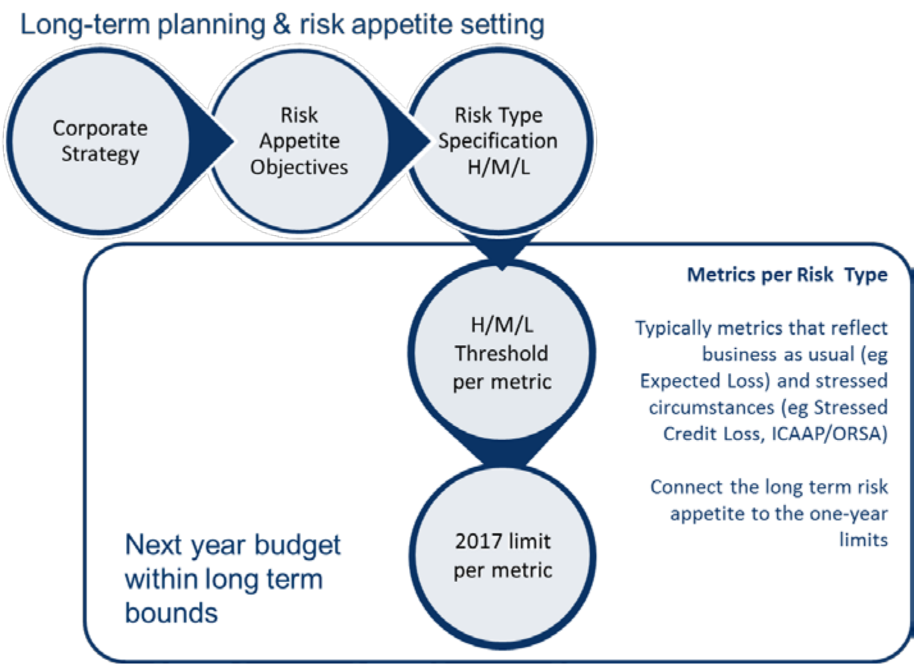
How much risk KBC is prepared to assume and its tolerance for risk is captured in the notion of 'risk appetite'. It is a key instrument in the overall (risk) management function of the KBC group, as it helps us to better understand and manage risks by explicitly expressing – both qualitatively and quantitatively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

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

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

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

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



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

Credit risk

What is it?

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

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

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

Managing credit risk at transactional level

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

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

Managing credit risk at portfolio level

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

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

Risk modelling

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

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

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

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

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

2017

Outstanding loan portfolio of

154

billion euros

97%

in Europe

6%

in impaired loans

Credit cost ratio account for

-0.06%

of the outstanding loan portfolio

Credit risk exposure in the banking activities

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

The main source of credit risk is the loan and investment portfolio. This portfolio has been built up mainly through what can be considered as pure, traditional lending activities. It includes all retail lending such as mortgage loans and consumer loans, all corporate lending such as (committed and uncommitted) working capital credit lines, investment credit, guarantee credit and credit derivatives (protection sold) and all non-government debt securities in the investment books of the group's bank entities. The table excludes other credit risks, such as trading exposure (issuer risk), counterparty risk associated with interprofessional transactions, international trade finance (documentary credit, etc.) and government bonds. We describe these items separately below.
The loan and investment portfolio as defined in this section differs significantly from 'Loans and advances to customers' in Note 4.1 of the 'Consolidated financial statements' section. For more information, please refer to the 'Ratio's used'.

Loan and investment portfolio	31-12-2017	31-12-2016
Total loan portfolio (in billions of EUR)		
Amount granted	191	181
Amount outstanding	154	148
Loan portfolio breakdown by business unit (as a % of the portfolio of credit outstanding)[1]		
Belgium	63%	65%
Czech Republic	16%	15%
International Markets	18%	17%
Group Centre	3%	3%
Total	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit outstanding)[1]		
Private individuals	42%	42%
Finance and insurance	5%	6%
Governments	3%	3%
Corporates	50%	49%
Services	12%	12%
Distribution	8%	8%
Real estate	7%	7%
Building and construction	4%	4%
Agriculture, farming, fishing	3%	3%
Automotive	2%	2%
Other[2]	14%	14%
Total	100%	100%
Loan portfolio breakdown by region (as a % of the portfolio of credit outstanding)[1, 6]		
Western Europe	71%	73%
Central and Eastern Europe	26%	23%
North America	1%	2%
Other	2%	2%
Total	100%	100%
Loan portfolio breakdown by risk class (part of the portfolio, as a % of the portfolio of credit outstanding)[1, 3]		
PD 1 (lowest risk, default probability ranging from 0.00% up to, but not including, 0.10%)	29%	30%
PD 2 (0.10% – 0.20%)	9%	9%
PD 3 (0.20% – 0.40%)	18%	17%
PD 4 (0.40% – 0.80%)	15%	14%
PD 5 (0.80% – 1.60%)	12%	12%
PD 6 (1.60% – 3.20%)	8%	9%
PD 7 (3.20% – 6.40%)	4%	5%
PD 8 (6.40% – 12.80%)	2%	2%
PD 9 (highest risk, ≥ 12.80%)	2%	2%
Total	100%	100%
Impaired loans[4] (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans[5]	9 186	10 583
Specific impairment	4 039	4 874
Portfolio-based impairment (i.e. based on PD 1 to 9)	237	288
Credit cost ratio		
Belgium Business Unit	0.09%	0.12%
Czech Republic Business Unit	0.02%	0.11%
International Markets Business Unit	-0.74%	-0.16%
Ireland	-1.70%	-0.33%
Slovakia	0.16%	0.24%
Hungary	-0.22%	-0.33%
Bulgaria	0.83%	0.32%
Group Centre	0.40%	0.67%
Total	-0.06%	0.09%
Impaired loans ratio		
Belgium Business Unit	2.8%	3.3%
Czech Republic Business Unit	2.4%	2.8%
International Markets Business Unit	19.7%	25.4%
Group Centre	9.8%	8.8%
Total	6.0%	7.2%

Loan and investment portfolio	31-12-2017	31-12-2016
Impaired loans that are more than 90 days past due (PD 11 + 12; in millions of EUR or %)		
Impaired loans that are more than 90 days past due	5 242	5 711
Specific impairment for impaired loans that are more than 90 days past due	3 361	3 603
Ratio of impaired loans that are more than 90 days past due		
Belgium Business Unit	1.4%	1.7%
Czech Republic Business Unit	1.6%	1.9%
International Markets Business Unit	11.3%	13.4%
Group Centre	7.3%	5.8%
Total	3.4%	3.9%
Cover ratio [Specific loan loss impairment]/[impaired loans]		
Total	44%	46%
Total (excluding mortgage loans)	54%	54%

The Belgium Business Unit also includes the small network of 11 KBC Bank branches established in the rest of Europe, the US and Southeast Asia. These branches, which focus on activities and clients with links to KBC's core markets, have a total loan portfolio of approximately 6 billion euros.
1 Unaudited figures.
2 Individual sector shares not exceeding 3%.
3 Internal rating scale.
4 Figures differ from those appearing in Note 4.2 of the 'Consolidated financial statements' section, due to differences in scope.
5 Breakdown of year-end figures: the drop of 1 397 million euros between the figures for 2017 and 2016 was due to this category of loan decreasing by 393 million euros at the Belgium Business Unit, by 41 million euros at the Czech Republic Business Unit and by 982 million euros at the International Markets Business Unit (1 433 million euros of which in Ireland), and by an increaseof 19 million euros at the Group Centre,.
6 A more detailed breakdown by country is available in KBC's Quarterly Report – 4Q2017 at www.kbc.com.

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

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

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

Forbearance measures

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

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

- lowering or postponing interest or fee payments;
- extending the term of the loan to ease the repayment schedule;
- capitalising arrears;

- declaring a moratorium (temporary principal and/or interest payment holidays);
- providing debt forgiveness.

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

A client with a forborne loan will in principle be assigned a PD class that is higher than the one it had before the forbearance measure was granted, given the higher risk of the client. Conform the IFRS9 requirements, a facility with a forborne tag will - as from 01/01/2018 - always result in a “stage 2” allocation (note that this will only be the case for non-defaulted clients, since defaulted clients are always in “stage 3”).

If a client/facility has been assigned ‘defaulted’ status (before or at the time forbearance measures are granted), the client/forborne facility (depending on whether defaulted status is assigned at client or facility level) must remain defaulted for at least one year. Only upon strict conditions can the client/facility be reclassified as ‘non-defaulted’. A forborne facility with a ‘non-defaulted’ status will be tagged as ‘forborne’ for at least two years after the forbearance measure has been granted, or after the client/facility becomes non-defaulted, and can only be removed when strict extra criteria have been met (non-defaulted, regular payments, etc.).

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

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

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

Gross carrying value	Opening balance	Movements: Loans which have become forborne	Movements: Loans which are no longer considered to be forborne	Movements: Repayments	Movements: Write-offs	Movements: Other[1]	Closing balance
2017							
Total	7 083	954	-1 677	-375	-478	335	5 841
Of which: KBC Bank Ireland	5 083	167	-787	-220	-419	-	3 824
2016							
Total	7 794	1 379	-1 054	-861	-192	17	7 083
Of which: KBC Bank Ireland	5 383	320	-201	-296	-123	0	5 083

Impairment	Opening balance	Movements: Existing impairment on loans which have become forborne	Movements: Decrease in impairment because loans are no longer forborne	Movements: Increase in impairment on forborne loans	Movements: Decrease in impairment on forborne loans	Movements: Other[2]	Closing balance
2017							
Total	1 967	75	-586	222	-284	28	1 422
Of which: KBC Bank Ireland	1 511	0	-537	92	-227	0	838
2016							
Total	2 203	213	-427	292	-276	-38	1 967
Of which KBC Bank Ireland	1 607	0	-134	228	-190	0	1 511

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

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

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

Other credit risks in the banking activities

The main sources of other credit risk are:

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

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

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

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

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

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

Exposure to sovereign bonds

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

Structured credit exposure

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

Regulatory capital

Under the phased-in approach, the regulatory capital requirements for credit risk increased from 5 202 million euros at the end of 2016 to 5 472 million euros at the end of 2017. Under the fully loaded approach, these requirements increased from 5 275 million euros at the end of 2016 to 5 507 million euros at the end of 2017. This increase in weighted credit risks during 2017 was driven largely by the acquisition of UBB. For more details, please see the 'Credit risk' section in KBC's Risk Report, which is available at www.kbc.com.

Market risk in trading activities

What is it?

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

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

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

Managing market risk

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

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

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

experience over the previous two years. The HVaR is calculated and monitored at desk and entity level, as well as at KBC group level.

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

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

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

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

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

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

Risk analysis and quantification

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

Market risk (HVaR) (in millions of EUR)		
Holding period: 10 days	2017	2016
Average for 1Q	19	16
Average for 2Q	26	15
Average for 3Q	27	15
Average for 4Q	22	14
As at 31 December	18	20
Maximum in year	31	20
Minimum in year	15	11

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

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

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

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

Regulatory capital

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

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

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

The total capital requirement at year-end 2017 was 76 million euros higher than a year earlier. Almost all the increase is due to higher internal model-based capital requirements for ČSOB. Rather than position increases, most of the increase was due to more volatile scenarios in the HVaR and SVaR windows used for calculating RWA requirements. The capital requirements due to the Standardized approach were rather stable, the FX risk decreased due to a refinement in the HVaR model during 2017 which allows all trading book FX and FX Options risk to be captured by the HVaR model. For more details, please see the 'Market risk' section in KBC's Risk Report, which is available at www.kbc.com.

Non-financial risks

Operational risk

What is it?

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

Managing operational risk

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

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

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

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

The building blocks for managing operational risks

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

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

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

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

Regulatory capital requirements

We use the Standardised approach for operational risk under Basel III. Operational risk capital at KBC group level totalled 811 million euros at the end of 2016 and 873 million euros at the end of 2017. The increase is mainly due to the acquisition of UBB.

Additional focus on information risk management

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

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

Reputational risk

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

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

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

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

Business and strategic risks

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

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

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

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

As far as emerging climate-related risks are concerned, KBC is actively engaged in the transition to a low-carbon economy. Climate-related risks for a bankinsurer may consist in, among other things, being able to respond to changing product preferences of our clientele, reporting and stakeholder pressure, and exposure to litigationWe already disclose climate-related issues under the Carbon Disclosure Project and have a good oversight of the impact of our operations on climate. We have strict policies in place to limit the environmental impact of our lending, investment and insurance activities. An even better understanding of our exposure to climate-related risks and the indirect impact of our core activities on climate will be gained when a project on sustainable finance is launched in 2018.

Information on legal disputes is provided in Note 5.7 of the ‘Consolidated financial statements’ section

Market risk in non-trading activities

Managing market risk in non-trading activities

What is it?

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

- mismatches in the banking activities linked to the branch network’s acquisition of working funds and the use of those funds (via lending, among other things);
- the risks associated with holding an investment portfolio for the purpose of reinvesting shareholders’ equity (the so-called strategic position);
- the structural currency exposure stemming from the activities abroad (investments in foreign currency, results posted at branches or subsidiaries abroad).

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

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

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

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

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

Interest rate risk

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

Impact of a parallel 10-basis-point increase in the swap[2] curve for the KBC Bank (in millions of EUR)	Impact on value[1]	
	2017	2016
Total	-76	-83

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

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

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

Swap BPV (10 basis points) of the ALM book* (in millions of EUR)	2017	2016
Average for 1Q	-79	-24
Average for 2Q	-74	-35
Average for 3Q	-73	-50
Average for 4Q	-76	-83
As at 31 December	-76	-83
Maximum in year	-79	-83
Minimum in year	-73	-24

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

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

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

Interest sensitivity gap of the ALM book (including derivatives) (in millions of EUR)	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2017	-624	-7 114	4 165	5 656	4 540	2 120	-8 743	0
31-12-2016	-3 218	-2 698	7 941	6 631	7 421	2 780	-18 856	0

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

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

Credit spread risk

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

Exposure to sovereign bonds at year-end 2017, carrying value[1] (in millions of EUR)								
Total (by portfolio)	Available for sale	Held to maturity	Designated at fair value through profit or loss	Loans and receivables	Held for trading	Total	*For comparison purposes: total at year-end 2016*	Economic impact of +100 basis points[3]
KBC core countries								
Belgium	2 120	10 515	0	0	357	12 993	16 134	-589
Czech Rep.	1 687	4 344	0	6	42	6 079	6 815	-240
Hungary	621	1 365	0	46	193	2 224	2 174	-89
Slovakia	1 007	1 475	0	0	0	2 483	2 569	-150
Bulgaria	616	102	0	0	260	978	327	-60
Ireland	355	798	0	0	0	1 153	1 100	-56
Southern Europe								
Greece	0	0	0	0	0	0	0	0
Portugal	237	36	0	0	0	273	246	-15
Spain	2 390	249	0	0	0	2 640	2 692	-141
Italy	1 382	79	0	0	1	1 463	1 497	-72
Other countries								
France	1 496	2 911	0	0	0	4 406	4 972	-318
Poland	1 008	354	0	0	10	1 372	1 168	-61
Germany	212	187	0	0	1	400	286	-10
Austria	183	286	0	0	0	469	476	-23
Netherlands	0	259	0	0	1	260	266	-13
U.S.	0	976	0	0	0	976	772	-38
Rest[2]	1 387	1 186	0	0	89	2 662	2 470	-48
Total carrying value	14 701	25 123	0	52	954	40 830	43 963	-
Total nominal value	12 895	23 671	0	52	912	3 7530	40 110	-

1 The carrying amount refers to the amount at which an asset or a liability is recognised in the company's books, i.e. the fair value amount for instruments categorised as available for sale, designated at fair value through profit or loss and held for trading and the amortised cost amount for instruments categorised as held to maturity. The table excludes exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.
2 Sum of countries whose individual exposure is less than 0.5 billion euros (KBC Group Level) at year-end 2017.
3 Theoretical economic impact in fair value terms of a parallel 100-basis-point upward shift in the spread over the entire maturity structure (in millions of euros). Only a portion of this impact is reflected in profit or loss and/or equity. Figures relate to non trading sovereign positions for banking and insurance (impact on trading book exposure was very limited and amounted to -10 million euros at year-end 2017).

Main changes in 2017:
- The carrying value of the total sovereign bond exposure decreased by 3.1 billion euros. There was a significant increase in exposure to bonds issued by Bulgaria (+0.7 billion euros, cf acquisition of UBB), but a decrease in exposure to Belgium (-3.1 billion euros), the Czech Republic (-0.7 billion euros),) and France (-0.6 billion euros).

Revaluation reserve for available-for-sale assets at year-end 2017:
- The carrying value of the total available-for-sale government bond portfolio incorporated a revaluation reserve of 0.9 billion euros, before tax (129 million euros for Belgium, 135 million euros for Italy, 149 million euros for Spain, 71 million euros for Slovakia, and 390 million euros for the other countries combined).

Portfolio of Belgian government bonds:
- Belgian sovereign bonds accounted for 32% of our total government bond portfolio at the end of 2017, reflecting the importance to KBC of Belgium, the group's primary core market. The importance of Belgium, in general, is also reflected in the 'Loan and investment portfolio' table at the start of the 'Credit risk' section, in the contribution that Belgium makes to group profit and in the various components of the result (see 'Notes on segment reporting' under 'Consolidated financial statements').
- At year-end 2017, the credit ratings assigned to Belgium by the three main international agencies were 'Aa3' from Moody's, 'AA' from Standard & Poor's and 'AA-' from Fitch. More information on Belgium's macroeconomic performance is provided in the separate section dealing with Belgium. For more information, please refer to the rating agencies' websites.
- Apart from interest rate risk, the main risk to our holdings of Belgian sovereign bonds is a widening of the credit spread. The potential impact of a 100-basis-point upward shift in the spread (by year-end 2017) can be broken down as follows:
  - Theoretical full economic impact (see previous table): the impact on IFRS profit or loss is very limited since the lion's share of the portfolio of Belgian sovereign bonds was classified as 'Available For Sale' (16%; impact only upon realisation) and 'Held To Maturity' (81%; no impact on profit or loss); the impact on IFRS unrealised gains on available-for-sale assets is -81 million euros (after tax) for an increase of 100 basis points.
  - Impact on liquidity: a widening credit spread affects the liquidity coverage ratio (LCR), but the group has a sufficiently large liquidity buffer.

In addition, the KBC group holds a non-sovereign bond portfolio based on supra-nationals, banks and corporate. The sensitivity of the value of this portfolio to a 100-basis-point change in the credit spread is shown in the following table.

Exposure to non-sovereign bonds at year-end, by rating: economic impact of +100 basis points (in millions of EUR)	31-12-2017	31-12-2016
Bonds rated AAA	-122	-150
Bonds rated AA+, AA, AA-	-80	-99
Bonds rated A+, A, A-	-31	-36
Bonds rated BBB+, BBB, BBB-	-30	-48
Non-investment grade and non-rated bonds	-42	-16
Total carrying value	6 444	7 899
Total nominal value	6 793	7 723

Equity risk

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

Equity portfolio of the KBC Bank (breakdown by sector, in %)	Banking activities	
	31-12-2017	31-12-2016
Financials	47%	60%
Consumer non-cyclical	0%	0%
Communication	0%	0%
Energy	0%	0%
Industrials	37%	26%
Utilities	0%	0%
Consumer cyclical	8%	5%
Materials	0%	0%
Other and not specified	8%	9%
Total	100%	100%
In billions of EUR	0.25	0.26
of which unlisted	0.2	0.1

* The main differences between the 0.25 billion euros in this table and the 0.72 billion euros for 'Equity instruments' in the table appearing in Note 4.1 of the 'Consolidated financial statements' section – besides a number of minor differences in the scope of consolidation – are that:
(a) Shares in the trading book (0.5 billion euros) are excluded above, but are included in the table in Note 4.1.
(b) Real estate participations that are not consolidated are classified as 'investments in building' in this table, but classified as 'shares' in the table in Note 4.1 (as they are not consolidated).
(c) Most 'investments in funds' are treated on a 'look-through' basis (according to the underlying asset mix of the fund and therefore also partially classified as 'fixed-income instruments'), whereas they are classified as 'shares' in the table in Note 4.1.

Impact of a 25% drop in equity prices (in millions of EUR)	Impact on value	
	2017	2016
Total	-69	-64

Non-trading equity exposure (in millions of EUR)	Net realised gains (in income statement)		Net unrealised gains on year-end exposure (in equity)	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
Total	89	113	60	123

Real estate risk

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

Impact of a 25% drop in real estate prices (in millions of EUR)	impact on value	
	2017	2016
Total	-100	-92

Inflation risk

KBC's exposure to inflation is secondary in nature, i.e. via changes in interest rates. We monitor and hedge this risk in line with the policy for managing interest rate risk (see above). The direct exposure of KBC to the inflation risk is limited and mainly arises from contractual payments that are linked to wage inflation, e.g., in the non-life insurance business in Central Europe and in the pension fund for own employees

Foreign exchange risk

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

Impact of a 10% decrease in the currency price (in millions of EUR)	Impact on value	
		Bank Group
	31-12-2017	31-12-2016
USD	-0.63	-1.37
GBP	0.14	-0.01
CZK	-0.96	-0.68
CHF	0.02	0.01
DKK	-0.01	-0.00
RON	-5.13	-2.08
SEK	0.00	0.03

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

Capital sensitivity to market movements

The available capital is impacted when the market is stressed. Stress can be triggered by a number of market parameters, including by swap rates or bond spreads that increase or by equity prices that fall. At KBC, we use this capital sensitivity as a common denominator to measure the vulnerability of the banking book to different market risk shocks.
Common equity tier-1 (CET1) capital is most sensitive to a parallel increase in bond spreads. This sensitivity is caused by investments in sovereign and corporate bonds whose spread component has not been hedged. The loss in available capital in the event of a fall in equity prices is caused primarily by positions in pension funds that would be hit by such a shock.

CET1 sensitivity to main market drivers, KBC Bank (as % of CET1)		
IFRS impact caused by	31-12-2017	31-12-2016
+100-basis-point parallel shift in interest rates	-0,4%	-0,3%
+100-basis-point parallel shift in spread	-0,8%	-1,0%
-25% in equity prices	-0,0%	-0,1%
Joint scenario	-1,2%	-1.4%

Liquidity risk

What is it?

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

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

Managing liquidity risk

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

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

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

- *Contingency liquidity risk*. This risk is assessed on the basis of liquidity stress tests, which measure how the liquidity buffer of the group’s bank entities changes under extreme stressed scenarios. This buffer is based on assumptions regarding liquidity outflows (retail customer behaviour, professional client behaviour, drawing of committed credit lines, etc.) and liquidity inflows resulting from actions to increase liquidity (‘repoing’ the bond portfolio, reducing unsecured interbank lending, etc.). The liquidity buffer has to be sufficient to cover liquidity needs (net cash and collateral outflows) over (i) a period that is required to restore market confidence in the group following a KBC-specific event, (ii) a period that is required for markets to stabilise after a general market event and (iii) a combined scenario, which takes a KBC-specific event and a general market event into account. The overall aim of the liquidity framework is to remain sufficiently liquid in stress situations, without resorting to liquidity-enhancing actions which would entail significant costs or which would interfere with the core banking business of the group.
- *Structural liquidity risk*. We manage our funding structure so as to maintain substantial diversification, to minimise funding concentrations in time buckets, and to limit the level of reliance on short-term wholesale funding. We manage the structural funding position as part of the integrated strategic planning process, where funding – in addition to capital, profits and risks – is one of the key elements. At present, our strategic aim is to maintain sufficiently high buffers in terms of LCR and NSFR via a funding management framework, which sets clear funding targets for the subsidiaries (own funding, reliance on intra-group funding) and provides further incentives via a system of intra-group pricing to the extent subsidiaries run a funding mismatch.

  In the table below, we have illustrated the structural liquidity risk by grouping the assets and liabilities according to the remaining term to maturity (contractual maturity date). The difference between the cash inflows and outflows is referred to as the ‘net funding gap’. At year-end 2017, KBC had attracted 34 billion euros’ worth of funding on a gross basis from the professional interbank and repo markets.
- *Operational liquidity risk*. Operational liquidity management is conducted in the treasury departments, based on estimated funding requirements. Group-wide trends in funding liquidity and funding needs are monitored on a daily basis by the Group Treasury function, ensuring that a sufficient buffer is available at all times to deal with extreme liquidity events in which no wholesale funding can be rolled over.

Maturity analysis

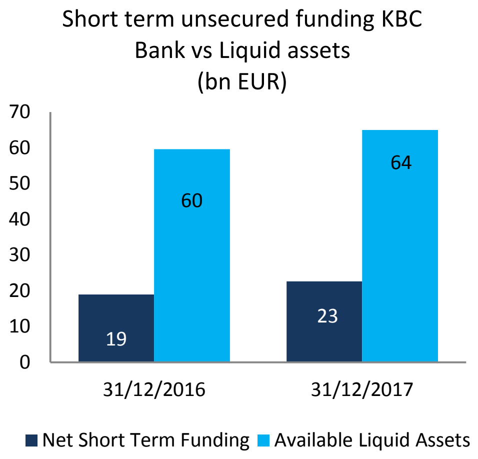
Liquidity risk (excluding intercompany deals)* (in billions of EUR)	<= 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	On demand	Not defined	Total
31-12-2017									
Total inflows	34	13	17	65	46	32	28	22	256
Total outflows	45	18	8	41	7	1	112	25	256
Professional funding	18	8	1	5	0	0	1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

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

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

Liquid asset buffer

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



Funding information

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

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

- Funding from customers (circa 157 billion euros, 72% of the total figure), consisting of demand deposits, time deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network. Some 59% of the funding from customers relates to private individuals and SMEs.
- Debt issues placed with institutional investors (15 billion euros, 7% of the total figure), mainly comprising IFIMA debt issues (2.3 billion euros), covered bonds (6.6 billion euros), the contingent capital notes issued in January 2013 (0.8 billion USD), tier-2 issues (2 billion euros) and KBC Group NV senior debt (3.5 billion euros).
- Net unsecured interbank funding (22.9 billion euros, 10% of the total figure).
- Net secured funding (-15.7 billion euros in repo funding, -7% of the total figure) and certificates of deposit (22.6 billion euros, 10% of the total figure). Net secured funding was negative at year-end 2017 due to the fact that KBC carried out more reverse repo transactions than repo transactions.
- Total equity (15.7 billion euros, 7% of the total figure, including an additional tier-1 issue of 1.4 billion euros).

Please note that:

- In November 2012, we announced our 10-billion-euro Belgian residential mortgage covered bonds programme. This programme gives KBC access to the covered bond market, allowing it to diversify its funding structure and reduce the cost of long-term funding. Since then, we have issued covered bonds each year (including 0,5 billion euros' worth in 2017).
- In 2016 and 2017, we borrowed 4.2 billion euros and 2.3 billion euros, respectively, from the ECB under the targeted longer-term refinancing operations (TLTRO II).
- The contingent capital notes (the 'CoCo', issued in January 2013, original maturity date 25 January 2023) are still included in the end-of-year figures, but were called on 25 January 2018.

LCR and NSFR

Both the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are defined in the 'Glossary of financial ratios and terms'. Our NSFR stood at 134% at year-end and our average LCR over 2017 was 139%.
The LCR is based on the Delegated Act requirements; from 31 December 2017 onward, KBC discloses the 12 month average LCR in accordance with EBA guidelines on LCR disclosure.
The NSFR is calculated based on the latest proposal on the amendment to the CRR (Regulation (EU) No 575/2013).

Capital adequacy

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

Our statutory auditors have audited the information in this section that forms part of the IFRS financial statements, namely the 'Solvency at group level' table (the audited parts are indicated in a footnote to the table), 'ICAAP and ORSA' and 'Stress testing'.

Solvency at KBC Bank

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

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

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

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

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

Altogether, this brings the fully loaded CET1 requirement to 10.6% (4.5% (pillar 1) + 1.75% (P2R) + 2.5% (conservation buffer) + 1.5% (systemic buffer) +0.35% (countercyclical buffer)), with an additional P2G of 1%. KBC clearly exceeds this requirement: at year-end 2017, the fully loaded CET1 ratio came to 14.5%, which represented a capital buffer of 3 267 million euros relative to the minimum requirement of 10.6%. Furthermore, since part of the capital requirements is to be gradually built up by 2019, the relevant requirement for 2018 on a phased-in basis amounts to 9.875% of CET1 (4.5% (pillar 1) + 1.75% (P2R) + 1.875% (conservation buffer) +1.5% (systemic buffer) + 0.25% (countercyclical buffer)). The regulatory minimum solvency targets were also amply exceeded throughout the entire financial year.

Solvency KBC Bank (in millions of EUR) consolidated, CRD IV,/CRR (Basel III), fully loaded	31/12/2017	31/12/2016
Total regulatory capital (after profit appropriation)	15 756	16 229
Tier-1 capital	13 484	12 625
Common equity	12 077	11 219
Parent shareholders' equity (excluding minorities)	14 083	12 568
Intangible fixed assets (including deferred tax impact) (-)	-271	-231
Goodwill on consolidation (including deferred tax impact) (-)	-752	-631
Minority interests	33	15
Hedging reserve (cash flow hedges) (-)	1 339	1 356
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	-1	-18
Value adjustment due to the requirements for prudent valuation (-)	-124	-140
Dividend payout (-)	-1.199	-531
Renumeration of AT1 instruments (-)	-2	-2
Deduction re. financing provided to shareholders (-)	-91	-91
IRB provision shortfall (-)	-268	-203
Deferred tax assets on losses carried forward (-)	-670	-873
Additional going concern capital	1 407	1 406
CRR compliant AT1 instruments	1 400	1 400
Minority interests to be included in additional going concern capit	7	6
Tier-2 capital	2 273	3 604
IRB provision excess (+)	316	367
Subordinated liabilities	1 947	3 228
Minority interests to be included in tier 2 capital	9	8
Capital requirement		
Total weighted risks	83 117	78 482
Solvency ratios		
Common equity ratio	14.5%	14.3%
Tier-1 ratio	16.2%	16.1%
Total Capital ratio	19.0%	20.7%

(*) Audited figures, except the 'value adjustment due to requirements for prudent valuation' and the 'IRB provision shortfall' (-268 millions of EUR) in the table above.

Leverage ratio

At year-end 2017, our fully loaded leverage ratio at KBC Bank stood at 5.0% (see table below) as the higher total exposure was offset by a higher level of tier-1 capital. More details, including a description of the processes used to manage the risk of excessive leverage, can be found in KBC's Risk Report, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor).

In millions of EUR		
Leverage ratio KBC Bank (Basel III fully loaded)	31/12/2017	31/12/2016
Tier-1 capital	13 483	12 625
Total exposures	269 242	248 760
Total Assets	256 322	239 333
Adjustment for derivatives	-3 911	-5 784
Adjustment for regulatory corrections in determining Basel III Tier-1 capital	-2 176	-2 170
Adjustment for securities financing transaction exposures	816	1 094
Off-balance sheet exposures	18 191	16 287
Leverage ratio	5.0%	5.1%

ICAAP and ORSA

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

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

Stress testing

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

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

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

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

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

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

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

Corporate governance statement

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

Name	Position	Period served on the Board in 2017	Expiry date of current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors	Members of the EC	AC	RCC
Number of meetings in 2017				10					6	9
LEYSEN Thomas	Chairman	Full year	2019	10	●					
THIJS Johan	President of the Executive Committee	Full year	2021	10				● (c)		
FALQUE Daniel	Executive Director	Full year	2020	10				●		
HOLLOWS John	Executive Director	Full year	2021	9				●		
LUTS Erik	Executive Director	From 5 May	2021	5				●		
POPELIER Luc	Executive Director	Full year	2021	10				●		
SCHEERLINCK Hendrik	Executive Director	From 5 May	2021	6				●		
VAN RIJSSEGHEM Christine	Executive Director	Full year	2018	10				●		
ARISS Nabil	Independent Director	Full year	2018	7	●		●		5	7
CALLEWAERT Katelijn	Non-Executive Director	Full year	2021	10	●	●				
DE BECKER Sonja	Non-Executive Director	Full year	2020	9	●	●				
DEPICKERE Franky	Non-Executive Director	Full year	2019	10	●	●				9 (c)
MAGNUSSON Bo	Independent Director	Full year	2020	9	●		●		6	8
NONNEMAN Walter	Non-Executive Director	Full year	2021	10	●	●				
VANHOVE Matthieu	Non-Executive Director	Full year	2021	10	●	●				
WITTEMANS Marc	Non-Executive Director	Full year	2018	10	●	●			6 (c)	

Statutory auditor: PricewaterhouseCoopers (PwC), represented by Roland Jeanquart and Gregory Joos.
Secretary to the Board of Directors: Johan Tyteca.
Abbreviations: Board of Directors: Board; Executive Committee: EC; Audit Committee: AC; Risk & Compliance Committee: RCC.
(c) Chairman of this committee.
* Luc Gijsens, who was an executive director up to and including 4 May 2017, attended four Board meetings.

Changes in the composition of the Board in 2017

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

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

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

The composition of the AC and RCC remained unchanged in 2017.

Proposed changes in the composition of the Board in 2018

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

Composition of the EC

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

Main features of the internal control and risk management systems

In application of the provisions of the Companies Code, the main features of the internal control and risk management systems at the KBC Group are set out below (Part 1 contains general information, while Part 2 deals specifically with the financial reporting process). These features also apply to KBC Bank as it is a member of the KBC group.

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

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

We examine the strategy and organisational structure of the KBC group in the ‘Group profile’ section of this annual report.

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

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

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

Corporate culture and integrity policy

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

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

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

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

- combating money laundering and the funding of terrorism, and observing embargoes;
- preventing fiscal irregularities including special mechanisms for tax evasion;
- protecting the investor by, for instance, complying with relevant codes of conduct for investment services and the distribution of financial services, preventing conflicts of interest (MiFID) and market abuse, including insider trading;
- protecting privacy, confidentiality of information and the professional duty of discretion;
- protecting insurance policyholders;
- respecting rules on market practices and consumer protection;
- respecting the governance aspects of CRD IV, Solvency II and/or local laws, including incompatibility of offices, remuneration policy, 'Fit & Proper' requirements, conflicts of interest and the provision of advice on outsourcing.

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

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

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

Combating corruption and bribery

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

The main risks associated with corruption and bribery include potential manipulation, conflicts of interest, non-objective pricing and subjective awarding of contracts. Given the potential consequences of these risks and especially the impact on the group's reputation, KBC pursues a policy of zero-tolerance towards fraud and gross malpractice. Combating corruption and avoiding conflicts of interest, in general, are dealt with as part of an authoritative training course, which 338 employees attended in Belgium in 2017. This topic is also covered by an e-learning course, which was taken by more than 1 000 members of staff in Belgium in the same period. At the group's Central European entities, anti-corruption and anti-bribery courses are integrated into compliance training and provided face-to-face or via e-learning. All employees have to take these courses at three banks (more than 7 000 staff followed e-learning courses at ČSOB Bank in the Czech Republic, as did over 2 000 staff at ČSOB Bank in Slovakia, and roughly 4 000 staff at K&H Bank in Hungary). At CIBANK/United Bulgarian Bank, courses were provided to new and existing employees. In Ireland, this training formed part of the compliance ethics e-learning course, which is provided each year (almost 1 200 staff members took the course).

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

KBC has a policy in place regarding whistleblowers. It expects staff going about their work to look out for signs of crime, any serious infringements of rules or regulations and other malpractice on the part of employees and clients. Every member of staff has a basic moral duty to report any suspicions of such conduct. KBC encourages all its employees to use the customary reporting lines and to discuss any specific concerns with line management first. If that is not possible, they can resort to one of the reporting channels specified in the policy for the protection of whistleblowers. Under that policy, KBC guarantees to protect the identity of the whistleblowers and to protect them against any detrimental consequences of acting in good faith to voice their suspicions in the way set out in the internal rules. In accordance with these principles, KBC likewise protects and respects the rights of the person about whom concerns are reported. Group Compliance oversees how this policy is implemented in practice. In principle, the local compliance function is the entity where all the reports and files are centralised. It has to inform the Group Compliance's Ethics & Fraud Unit about every whistleblowing file. The whistleblower policy is required to be published internally and externally (the 'Policy for the Protection of Whistleblowers in the KBC group' is available under 'Corporate Sustainability' at www.kbc.com).

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

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

1 The business side assumes responsibility for managing its own risks

As the first line of defence, the business operations side has to be aware of the risks in its area of activity and have adapted and effective controls in place. This responsibility extends to all types of risk, including fraud and compliance with regulatory or legal requirements. In this regard, the business side can call upon the services of its own support departments, such as Inspection, Human Resources and Accounting. Besides turning to this first-line expertise, it can also seek advice from independent second-line functions.

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

Independent of the business side and following specific regulations and advanced industry standards, second-line control functions are tasked with drawing up a group-wide framework for all relevant types of risk. The functions support implementation of this framework in their own particular area of work and monitor how it is used. Besides their support and supervisory tasks, the second-line functions also have an advisory role in assisting business-side management in the use of value, risk and capital management instruments and techniques. More information on value and risk management is provided in the relevant section of this report.

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

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

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

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

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

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

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

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

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

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

Periodic reporting at company level is based on a documented accounting process. A manual on the accounting procedures and financial reporting process is available. Periodic financial statements are prepared directly from the general ledger. Bookkeeping accounts are linked to underlying inventories. The result of these controls can be demonstrated.

Periodic financial statements are prepared in accordance with local accounting policies and periodic reports on own funds in accordance with the most recent National Bank of Belgium (NBB) resolutions of 15 November 2011.

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

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

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

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

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

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

Each year (since 2012), when preparing the Internal Control Statement for the supervisory authorities, the legal entities have to assess themselves as to whether they comply with the Group Key Control Accounting and External Financial Reporting standards. The findings of this self-assessment are registered in the risk function's Group Risk Assessment Tool. Business process management (BPM) techniques are also applied, using process inventories, process descriptions (turtle diagrams) and analyses of the potential risks in the processes (Failure Mode & Effects Analysis (FMEA)), supplemented by the questionnaire completed by the CFOs.
In this way, the CFOs formally confirm by substantiated means that all the defined roles and responsibilities relating to the end-to-end process for external financial reporting have been properly assumed within their entity. The veracity of this confirmation can be checked at any time by all the internal and external stakeholders involved.

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

For details of the AC's supervisory work, see the second paragraph of point 4 in the first part of this text.

Shareholder structure on 31 December 2017

The Act of 2 May 2007 concerning the disclosure of significant participations in issuers whose shares are admitted to trading on a regulated market and containing miscellaneous provisions, does not apply to KBC Bank because the securities it issues that carry voting rights are not included on a regulated market.

At 31 December 2017, the shareholder structure of KBC Bank NV was as follows:

	Number of shares
KBC Group NV	915 228 481
KBC Insurance NV	1
Total	915 228 482

Disclosure under Article 34 of the Belgian Royal Decree of 14 November 2007

Article 34 of the Belgian Royal Decree of 14 November 2007 concerning the obligations of issuers of financial instruments admitted to trading on a regulated market, does not apply to KBC Bank because it has not permitted any securities carrying voting rights to be included on a regulated market for trading.

Additional information

- Acquisition of treasury shares. KBC Bank NV and its subsidiaries do not hold any treasury shares.
- Conflicts of interest that fall within the scope of Articles 523, 524 and 524*ter* of the Belgian Companies Code. There were no such conflicts during financial year 2017.
- The Board worked out an arrangement regarding transactions and other contractual ties between the company (including its affiliated companies) and its directors, not covered by the conflict of interest rule set out in Articles 523 or 524*ter* of the Companies Code. It has been incorporated into the *Corporate Governance Charter* of KBC Bank NV.
- Discharge to directors and to the statutory auditor. It will be requested at the General Meeting to grant discharge to the directors and auditor for the performance of their mandate in financial year 2017.
- At year-end 2017, the AC comprised the following members:
  - Marc Wittemans (non-executive director), who holds a Master’s Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences. He is Managing Director of MRBB CVBA, the holding company of the Boerenbond (farmers' union), and is the Chairman of the AC.
  - Nabil Ariss (independent director), who is a graduate from HEC Paris (1983) and holds an MBA from the University of Chicago Booth School of Business (1987). Mr Ariss advised corporates and financial institutions for 26 years, first at McKinsey, then at J.P. Morgan (from 1992 on), where he developed the corporate finance business with financial institutions. He retired from J.P. Morgan as vice chairman in May 2013.
  - Bo Magnusson (independent director), who is a graduate of the High School Social Science Programme and holds certificates in Accounting, Macroeconomics, Treasury Management and Financial & Risk Management. He held different positions at SEB (1982-2011), including in the areas of accounting and finance. During his career there, he was Head of the Retail Division (2005-2008), Deputy President and CEO (2008-2011) and Head of Group Staff & Business Support (2009-2011). He was Chairman of 4T Sverige AB (2012-2015) and Chairman of Norrporten AB (2013-2016). He is Chairman of the Board of Carnegie Holding AB and of Carnegie Investment Bank AB, Chairman of SBAB Bank AB and of Sveriges Säkerställda Obligationer AB (a subsidiary of SBAB Bank AB), and Chairman of Rikshem AB and of Rikshem Intressenter AB (holding company and owner of Rikshem AB).

  These members possess the requisite individual and collective expertise in the activities conducted by the bank and in the areas of accounting and/or auditing, based on their education and extensive business experience.
- At year-end 2017, the AC comprised the following members:
  - Franky Depickere (non-executive director), who holds Master’s Degrees in Trade & Finance (UFSIA Antwerp) and in Financial Management (VLEKHO Business School). He was internal auditor at CERA Bank and has held positions and offices in various financial institutions. He is currently Managing Director at Cera and KBC Ancora. Mr Depickere is the Chairman of the RCC.
  - Nabil Ariss (independent director),
  - Bo Magnusson (independent director).

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

- The Remuneration Committee of KBC Group NV is also authorised to act in relation to KBC Bank NV. It advises the Board of Directors of KBC Group NV regarding the remuneration policy pursued at both KBC Group NV and KBC Bank NV. At year-end 2017, the Remuneration Committee was made up of Thomas Leysen (Chairman), Júlia Király and Philippe Vlerick.
- On the proposal of the Nomination Committee of KBC Group NV, the Board – in implementation of Article 31, § 2 of the Act of 25 April 2014 on the status and supervision of credit institutions – aims to achieve at least a 15% representation of the under-represented sex within a period of three years. When a number of candidates are nominated to fill an office and they all meet the set requirements, preference will be given to appointing a female candidate.
- In compliance with the laws on the incompatibility of offices held by managers of credit institutions, the following is a list of the external offices held by the executive managers and directors of KBC Bank NV in other companies, with the exception of those offices performed in companies within the meaning of Article 27, §3, para. three of the Act of 22 March 1993.

Annex 1
to the annual report of the Board of Directors for the financial year ending on 31 December 2017

Naamloze vennootschap (company with limited liability): KBC Bank NV
Trade register: Brussels 623 074
VAT number or national number: 462.920.226

Company name	Registered office	Sector	Office held	Listed (N= not)	Share of capital held (N= none)
Nabil Ariss, Independent Director					
Callewaert Katelijn, Director					
Cera Beheersmaatschappij NV	Belgium	Management	Executive Director	N	N
Almancora Beheersmaatschappij NV	Belgium	Management	Executive Director	N	N
Cera CVBA	Belgium	Management	Member of the Executive Committee	N	N
Sonja De Becker, Director					
SBB Accountants en Belastingconsulenten BV CVBA	Belgium	Accountancy & consulting	Chairman of the Board of Directors	N	N
M.R.B.B. CVBA	Belgium	Holding company	Chairman of the Board of Directors	N	N
SBB Bedrijfsdiensten BV CVBA	Belgium	Accountancy & consulting	Executive Director	N	N
BB-Patrim CVBA	Belgium	Holding company	Chairman of the Board of Directors	N	N
Agri Investment Fund CVBA	Belgium	Holding company	Director	N	N
Acerta CVBA	Belgium	Holding company	Director	N	N
Franky Depickere, Director					
Almancora Beheersmaatschappij NV	Belgium	Management	Executive Director	N	N
Cera CVBA	Belgium	Management	Executive Director	N	N
Cera Beheersmaatschappij NV	Belgium	Management	Executive Director	N	N
Euro Pool System International BV	Netherlands	Packaging	Director	N	N
BRS Microfinance Coop CVBA	Belgium	Finance	Director	N	17.76%
Thomas Leysen, Chairman of the Board of Directors					
Umicore NV	Belgium	Non-ferrous metals	Chairman of the Board of Directors	Euronext	N
Corelio NV	Belgium	Media	Chairman of the Board of Directors	N	N
Booischot NV	Belgium	Real estate	Director	N	N
Mediahuis NV	Belgium	Publishing	Chairman of the Board of Directors	N	N
Erik Luts, Executive Director					
De Bremberg NV	Belgium	Education	Director	N	N
Belgian Mobile Wallet NV	Belgium	Telecommunications	Director	N	N
Bo Magnusson, Independent Director					
Rikshem AB	Sweden	Real estate	Chairman of the Board of Directors	N	N
Rikshem Intressenter AB	Sweden	Holding company	Chairman of the Board of Directors	N	N
Carnegie Investment Bank AB	Sweden	Investment Bank	Chairman of the Board of Directors	N	N
SBAB AB	Sweden	Mortgage Institution	Chairman of the Board of Directors	N	N
Sveriges Sakerstallda obligationer AB	Sweden	Mortgage Institution	Chairman of the Board of Directors	N	N
Carnegie Holding AB	Sweden	Holding company	Chairman of the Board of Directors	N	N
Walter Nonneman, Director					
Cera Beheersmaatschappij NV	Belgium	Management	Director	N	N
Fluxys Belgium NV	Belgium	Electricity & gas	Independent Director	Euronext	N
Matthieu Vanhove, Director					
BRS Microfinance Coop CVBA	Belgium	Finance	Executive Director	N	17.76%
Cera Beheersmaatschappij NV	Belgium	Management	Director	N	N
Marc Wittemans, Director					
Aktiefinvest CVBA	Belgium	Real estate	Executive Director/CEO – Chairman of the Board of Directors	N	N
Arda Immo NV	Belgium	Real estate	Chairman of the Board of Directors	N	19.06%
SBB Accountants en Belastingconsulenten BV CVBA	Belgium	Accountancy & consulting	Director	N	N
SBB Bedrijfsdiensten BV CVBA	Belgium	Accountancy & consulting	Director	N	N
M.R.B.B. CVBA	Belgium	Holding company	Executive Director/CEO	N	N
Agri Investment Fund CVBA	Belgium	Holding company	Director	N	N
Acerta CVBA	Belgium	Holding company	Director	N	N
Acerta Consult CVBA	Belgium	HR services	Director	N	N
Acerta Public NV	Belgium	IT services & software	Director	N	N
Shéhérazade développement CVBA	Belgium	IT services & software	Director	N	N
Aveve NV	Belgium	Agricultural and horticultural	Director	N	N

Consolidated financial statements

Consolidated income statement

In millions of EUR	Note	2017	2016
Net interest income	3.1	3 546	3 635
Interest income	3.1	5 760	6 147
Interest expense	3.1	- 2 214	- 2 512
Dividend income	3.2	20	27
Net result from financial instruments at fair value through profit or loss	3.3	860	551
Net realised result from available-for-sale assets	3.4	114	134
Net fee and commission income	3.5	2 023	1 753
Fee and commission income	3.5	2 706	2 175
Fee and commission expense	3.5	- 683	- 422
Net other income	3.6	25	140
TOTAL INCOME		6 588	6 240
Operating expenses	3.7	- 3 568	- 3 399
Staff expenses	3.7	- 1 690	- 1 589
General administrative expenses	3.7	- 1 718	- 1 663
Depreciation and amortisation of fixed assets	3.7	- 160	- 146
Impairment	3.9	44	- 145
on loans and receivables	3.9	87	- 126
on available-for-sale assets	3.9	- 2	- 1
on goodwill	3.9	0	0
on other	3.9	- 41	- 19
Share in results of associated companies and joint ventures	3.10	8	23
RESULT BEFORE TAX		3 073	2 719
Income tax expense	3.11	- 891	- 525
RESULT AFTER TAX		2 182	2 195
Attributable to minority interest		179	169
Attributable to equity holders of the parent		**2 003**	**2 026**

- We have dealt with the main items in the income statement under ‘Review of the consolidated financial statements’ in the ‘Report of the Board of Directors’ and ‘Review of the business units’ sections. The statutory auditor has not audited these sections.
- The results for United Bulgarian Bank and Interlease, which were acquired in mid-2017, have been incorporated into the group's results as of the second half of 2017 (contribution to net profit for that period: 27 million euros). For more information on this matter, see Note 6.6 in this report.

Consolidated statement of Comprehensive income

(in millions of EUR)	2017	2016
RESULT AFTER TAX	2 182	2 195
attributable to minority interest	179	169
attributable to equity holders of the parent	2 003	2 026
Other comprehensive income - to be recycled to P&L	24	- 272
Net change in revaluation reserve (AFS assets) - Equity	- 63	- 103
Fair value adjustments before tax	12	- 1
Deferred tax on fair value changes	0	- 2
Transfer from reserve to net profit	- 75	- 100
Impairment losses	0	0
Net gains/losses on disposal	- 75	- 114
Deferred income tax	0	14
Net change in revaluation reserve (AFS assets) - Bonds	77	7
Fair value adjustments before tax	74	39
Deferred tax on fair value changes	37	- 10
Transfer from reserve to net profit	- 33	- 22
Impairment losses	0	0
Net gains/losses on disposal	- 32	- 29
Amortization & impairment of revaluation reserve for AFS assets following reclassification to L&R and HTM	- 14	- 5
Deferred income tax	13	12
Net change in revaluation reserve (AFS assets) - Other	0	0
Fair value adjustments before tax	0	0
Deferred tax on fair value changes	0	0
Transfer from reserve to net profit	0	0
Impairment losses	0	0
Net gains/losses on disposal	0	0
Deferred income tax	0	0
Net change in hedging reserve (cash flow hedge)	17	- 193
Fair value adjustments before tax	220	- 380
Deferred tax on fair value changes	- 245	123
Transfer from reserve to net profit	42	64
Gross amount	64	92
Deferred income tax	- 22	- 28
Net change in translation differences	- 7	20
Gross amount	89	- 16
Deferred income tax	- 96	36
Net change related to associated companies & joint ventures	0	- 1
Gross amount	- 2	- 2
Deferred income tax	2	0
Other movements	- 1	0
Other comprehensive income - not to be recycled to P&L	74	- 250
Net change in defined benefit plans	80	- 250
Remeasurements (IAS 19)	113	- 364
Deferred tax on remeasurement	- 33	114
Net change on own credit risk - liabilities designated at FV(T)PL	- 6	0
Fair Value adjustments before tax	- 8	0
Deferred tax on OCR adjustments	3	0
Transfer to Retained Earnings on realisations : Gross amounts	0	0
Transfer to Retained Earnings on realisations : Deferred tax	0	0
Net change related to associated companies & joint ventures	0	0
Remeasurements (IAS 19)	0	0
Deferred tax on remeasurement	0	0
TOTAL COMPREHENSIVE INCOME	2 280	1 673
attributable to minority interest	181	170
attributable to equity holders of the parent	2 100	1 503

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2017	31-12-2016
Cash, cash balances at central banks and other demand deposits from credit institutions	-	29 762	20 711
Financial assets	4.0	220 184	211 848
Held for trading	4.0	7 509	9 787
Designated at fair value through profit or loss	4.0	63	1 129
Available for sale	4.0	19 637	21 084
Loans and receivables	4.0	166 927	151 140
Held to maturity	4.0	25 803	28 297
Hedging derivatives	4.0	245	410
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	-	- 78	202
Tax assets	5.2	1 575	2 276
Current tax assets	5.2	45	49
Deferred tax assets	5.2	1 530	2 227
Non-current assets held for sale and assets associated with disposal groups	5.10	21	8
Investments in associated companies and joint ventures	5.3	210	180
Investment property	5.4	314	272
Property and equipment	5.4	2 532	2 249
Goodwill and other intangible assets	5.5	1 019	854
Other assets	5.1	785	732
TOTAL ASSETS		256 322	239 333

LIABILITIES AND EQUITY (in millions of EUR)	Note	31-12-2017	31-12-2016
Financial liabilities	4.0	238 273	222 646
Held for trading	4.0	6 998	8 586
Designated at fair value through profit or loss	4.0	1 482	3 900
Measured at amortised cost	4.0	228 509	208 455
Hedging derivatives	4.0	1 284	1 704
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	-	- 86	204
Tax liabilities	5.2	210	217
Current tax liabilities	5.2	72	124
Deferred tax liabilies	5.2	139	93
Liabilities associated with disposal groups	5.10	0	0
Provisions for risks and charges	5.6	373	207
Other liabilities	5.7	1 895	1 902
TOTAL LIABILITIES		240 666	225 175
Total equity	5.9	15 656	14 158
Parent shareholders' equity	5.9	14 083	12 568
Additional Tier-1 instruments included in equity	5.9	1 400	1 400
Minority interests		173	190
TOTAL LIABILITIES AND EQUITY		256 322	239 333

- See Note 1.1 for changes in the above presentation.
- The balance sheet at year-end 2017 contains figures for United Bulgarian Bank and Interlease, which were acquired in mid-2017. For more information on this matter, see Note 6.6 in this report.

Consolidated statement of changes in equity

In millions of EUR	Issued and paid up share capital	Share premium	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Remea-surement of defined benefit obligations	Own credit risk (through OCI)	Retained earnings	Translation differences	Parent share-holders' equity	Additional Tier-1 instruments included in equity	Minority interests	Total equity
31-12-2017												
Balance at the beginning of the period (01-01-2017)	**8 948**	**895**	**645**	**- 1 356**	**- 153**	**- 4**	**3 556**	**37**	**12 568**	**1 400**	**190**	**14 158**
Net result for the period	0	0	0	0	0	0	2 003	0	2 003	0	179	2 182
Other comprehensive income for the period	0	0	6	17	80	- 6	- 1	0	97	0	1	98
Total comprehensive income	**0**	**0**	**6**	**17**	**80**	**- 6**	**2 002**	**0**	**2 100**	**0**	**181**	**2 280**
Dividends	0	0	0	0	0	0	- 531	0	- 531	0	0	- 531
Coupon additional Tier-1 instruments	0	0	0	0	0	0	- 54	0	- 54	0	0	- 54
Change in minorities	0	0	0	0	0	0	0	0	0	0	- 198	- 198
Total change	**0**	**0**	**6**	**17**	**80**	**- 6**	**1 418**	**0**	**1 515**	**0**	**- 17**	**1 498**
Balance at the end of the period	**8 948**	**895**	**651**	**- 1 339**	**- 73**	**- 10**	**4 974**	**37**	**14 083**	**1 400**	**173**	**15 656**
of which revaluation reserve for shares			57									
of which revaluation reserve for bonds			593									
of which relating to equity method			4	0	0	0	0	16	20			20
31-12-2016												
Balance at the beginning of the period (01-01-2016)	**8 948**	**895**	**742**	**- 1 163**	**97**	**0**	**2 349**	**19**	**11 888**	**1 400**	**202**	**13 490**
Net result for the period	0	0	0	0	0	0	2 026	0	2 026	0	169	2 195
Other comprehensive income for the period	0	0	- 97	- 193	- 250	0	0	18	- 523	0	1	- 522
Total comprehensive income	**0**	**0**	**- 97**	**- 193**	**- 250**	**0**	**2 025**	**18**	**1 503**	**0**	**170**	**1 673**
Dividends	0	0	0	0	0	0	- 769	0	- 769	0	0	- 769
Coupon additional Tier-1 instruments	0	0	0	0	0	0	- 54	0	- 54	0	0	- 54
Change in minorities	0	0	0	0	0	0	0	0	0	0	- 182	- 182
Total change	**0**	**0**	**- 97**	**- 193**	**- 250**	**0**	**1 203**	**18**	**680**	**0**	**- 12**	**668**
Balance at the end of the period	**8 948**	**895**	**645**	**- 1 356**	**- 153**	**0**	**3 552**	**37**	**12 568**	**1 400**	**190**	**14 158**
of which revaluation reserve for shares			120									
of which revaluation reserve for bonds			525									
of which relating to equity method			13	0	0		0	7	20			20

- For information on additional tier-1 instruments and number of shares, see Note 5.9.
- For information on the shareholder structure, see the ‘Corporate governance statement’ in the ‘Report of the Board of Directors’ section.
- The 'Dividends' item in 2017 (531 million euros) includes the final dividend for 2016 (paid in May 2017). In 2016, it included a final dividend of 165 million euros for 2015 (paid in May 2016) and an interim dividend of 604 million euros as an advance on the dividend for 2016 (i.e. 769 million euros in total). Please note that, subject to the approval of the General Meeting of Shareholders, a total dividend of 1 199 million euros will be paid to KBC Group for 2017.
- Net change in the revaluation reserve for equity instruments: the 63-million-euro decline in 2017 was mainly attributable to a transfer to the net result (gains on sales), partly offset by positive changes in fair value. The 103-million-euro decline in 2016 came about primarily because of the sale of Visa Europe Limited shares following the public offering of Visa Inc.
- In 2017, the announced reduction in the tax rate in Belgium (see Note 3.11), along with the offsetting effect of the increase in long-term interest rates, had primarily the following impact: net change in the revaluation reserve for bonds: +69 million euros; net change in hedging reserve (cashflow hedges): +17 million euros; and net change in defined benefit plans: +80 million euros (also positively impacted by the actual return on plan assets, which was higher than the expected return). In 2016, the fall in long-term interest rates had mainly the following impact: net change in the revaluation reserve for bonds: +6 million euros; net change in hedging reserve (cashflow hedges): -193 million euros; and net change in defined benefit plans: -250 million euros.

Consolidated cashflow statement

In millions of EUR	Note	2017	2016
Operating activities			
Result before tax	C.Inc.statem.	3 073	2 719
Adjustments for:	-	- 472	15
Result before tax related to discontinued operations	C.Inc.statem.	0	0
Depreciation, impairment and amortisation of property and equipment, intangible assets, investment property and securities	3.9, 4.2, 5.4, 5.5	214	177
Profit/Loss on the disposal of investments	-	- 13	- 10
Change in impairment on loans and advances	3.9, 4.2	- 87	126
Change in other provisions	5.6	120	- 10
Other non realised gains or losses	-	- 698	- 244
Income from associated companies and joint ventures	3.10	- 8	- 23
Cashflows from operating profit before tax and before changes in operating assets and liabilities	-	2 601	2 735
Changes in operating assets (excl. cash & cash equivalents)		1 043	- 2 410
Loans and receivables	4.1	- 4 798	- 4 773
Available for sale	4.1	1 865	- 773
Held for trading	4.1	2 777	716
Designated at fair value through P&L	4.1	1 067	2 290
Hedging derivatives	4.1	165	104
Operating assets associated with disposal groups & other assets	6.6	- 32	26
Changes in operating liabilities (excl. cash & cash equivalents)	-	9 816	18 042
Deposits at amortised cost	4.1	7 301	14 460
Debt certificates at amortised cost	4.1	6 444	12 106
Financial liabilities held for trading	4.1	- 1 373	156
Financial liabilities designated at fair value through P&L	4.1	- 2 442	- 7 621
Liability-derivatives hedge accounting	4.1	- 199	- 867
Operating liabilities associated with disposal groups & other liabilities	-	86	- 192
Income taxes paid	3.11	- 365	- 295
Net cash from (used in) operating activities		**13 095**	**18 072**
Investing activities			
Purchase of held-to-maturity securities	4.1	- 2 029	- 2 279
Proceeds from the repayment of held-to-maturity securities at maturity	4.1	4 422	1 430
Acquisition of a subsidiary or a business unit, net of cash acquired (increase in participation intrests included)	-	185	0
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed (decrease in participation intrests included)	-	7	0
Purchase of shares in associated companies and joint ventures	5.3	0	0
Proceeds from the disposal of shares in associated companies and joint ventures	5.3	0	0
Dividends received from associated companies and joint ventures	5.3	24	22
Purchase of investment property	5.4	- 14	- 35
Proceeds from the sale of investment property	5.4	17	26
Purchase of intangible fixed assets (excl. goodwill)	5.5	- 103	- 81
Proceeds from the sale of intangible fixed assets (excl. goodwill)	5.5	6	8
Purchase of property and equipment	5.4	- 754	- 671
Proceeds from the sale of property and equipment	5.4	145	243
Net cash from (used in) investing activities		**1 906**	**- 1 335**
Financing activities			
Purchase or sale of treasury shares	C.Change equity	0	0
Issue or repayment of promissory notes and other debt securities	4.1	- 2 747	- 1 234
Proceeds from or repayment of subordinated liabilities	4.1	1 401	1 074
Principal payments under finance lease obligations		0	0
Proceeds from the issuance of share capital	C.Change equity	0	0
Proceeds from the issuance or repayment of preference shares	C.Change equity	0	0
Dividends paid	C.Change equity	- 585	- 823
Net cash from (used in) financing activities		**- 1 931**	**- 983**

In millions of EUR	Note	2017	2016
Change in cash and cash equivalents			
Net increase or decrease in cash and cash equivalents		13 070	15 754
Cash and cash equivalents at the beginning of the period		26 771	10 998
Effects of exchange rate changes on opening cash and cash equivalents		606	19
Cash and cash equivalents at the end of the period		40 447	26 771
Additional information			
Interest paid (2)	3.1	- 2 214	- 2 512
Interest received (2)	3.1	5 760	6 147
Dividends received (including equity method)	3.2, 5.3	44	49
Components of cash and cash equivalents			
Cash and cash balances with central banks	C.Bal.sheet	29 762	20 148
Loans and advances to banks repayable on demand and term loans to banks < 3 months	4.1	20 117	11 646
Deposits from banks repayable on demand and redeemable at notice	4.1	- 9 431	- 5 023
Cash and cash equivalents included in disposal groups	-	0	0
Total		40 447	26 771
Of which not available		0	0

1 The notes referred to do not always contain the exact same amounts as those included in the cashflow statement, as – among other things – adjustments have been made to take account of acquisitions or disposals of subsidiaries, as set out in IAS 7.
2 'Interest paid' and 'Interest received' in this overview are the equivalent of the 'Interest expense' and 'Interest income' items in the consolidated income statement. Given the large number of underlying contracts that generate interest expense and interest income, it would take an exceptional administrative effort to establish actual cashflows. Moreover, it is reasonable to assume that actual cashflows do not differ much from the accrued interest expense and accrued interest income, as most rate products pay interest regularly within the year.

- KBC uses the indirect method to report on cashflows from operating activities.
- Cash and cash equivalents rose sharply in 2017, due largely to an increase in reverse repos and cash balances with central banks. It was generated out of net cash from operating activities, thanks to the higher level of deposits.
- Issue or repayment of promissory notes and other debt securities: KBC IFIMA, ČSOB (Czech Republic) and KBC Bank NV accounted for the lion's share of the figure for 2017, which related primarily to 0.6 billion euros' worth of these instruments being issued and -3 billion euros being redeemed by these companies. KBC IFIMA, ČSOB Bank (Czech Republic) and KBC Bank NV likewise accounted for the bulk of the figure for 2016, which related primarily to 1.5 billion euros' worth of these instruments being issued and -2.6 billion euros being redeemed by these companies.
- Proceeds from or repayment of subordinated liabilities: KBC IFIMA, ČSOB (Czech Republic) and KBC Bank NV accounted for the lion's share of the figure for 2017, which related primarily to 2 billion euros' worth of these instruments being issued and -0.6 billion euros being redeemed. KBC IFIMA, ČSOB Bank (Czech Republic) and KBC Bank NV likewise accounted for the bulk of the figure for 2016, which related primarily to 1.5 billion euros' worth of these instruments being issued and -0.3 billion euros being redeemed.
- In January 2018, KBC called the 1-billion-US-dollar contingent capital note (CoCo) that had been issued in January 2013. The capital value of the CoCo had already been deducted from tier-2 capital at year-end 2017.
- There were no material acquisitions or divestments of group companies or activities in 2016. In 2017, we acquired a 99.9% stake in United Bulgarian Bank (UBB) and a 100% stake in Interlease (see Note 6.6). With the acquisition being paid for entirely in cash, its impact on cashflows from investing activities was -0.6 billion euros (or +0.2 billion euros after deducting the cash and cash equivalents acquired). On 12 December 2017, PKO Bank Polski Group completed the acquisition of all the shares of KBC TFI in Poland. The impact of this deal on KBC's results and cashflow, however, was negligible.

1.0 Notes on accounting policies

Note 1.1: Statement of compliance

These consolidated financial statements, including all the notes, were authorised for issue on 15 March 2018 by the Board of Directors. They have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ('endorsed IFRS') and present one year of comparative information. All amounts are shown in millions of euros and rounded to the million.

The following amended IFRS became effective on 1 January 2017 but did not affect the financial statements:
- IFRS 12 (Disclosure of Interests in Other Entities): Clarification of the scope of disclosure requirements in IFRS 12 from Annual Improvements Cycle – 2014-2016.
- IAS 12 (Income Taxes): Recognition of Deferred Tax Assets for Unrealised Losses.

The following amended IFRS became effective on 1 January 2017 and had an impact on the financial statements:
- IAS 7 (Statement of Cash Flows): Disclosure initiative amendments mean that additional information on material changes in liabilities arising from financing activities, is provided in the notes to the cashflow statement.

The following changes in presentation and accounting policies were applied in 2017:
- For financial liabilities, IFRS 9 changes the presentation of gains and losses on own credit risk for financial instruments designated at fair value through profit or loss. KBC early adopted this aspect of IFRS 9 with effect from 1 January 2017 and the gains and losses on own credit risk now go through other comprehensive income. The impact of early adoption is minimal given the limited effect of own credit risk.
- A change in presentation was made to 'Net fee and commission income'. In order to obtain a more transparent breakdown of net fee and commission income, this item was broken down as follows with effect from 2017 (reference figures restated accordingly): (i) Asset management services: includes the income and expense relating to entry and management fees, (ii) Banking services: includes the income and expense associated with credit or guarantee-related fees, payment service fees and securities-related fees, and (iii) Distribution: includes the income and expense relating to the distribution of mutual funds, banking products and insurance products.
- In order to align with the consolidated financial reporting framework (FINREP) of the European Banking Authority, the presentation of the balance sheet was slightly changed. With effect from 2017, 'Cash and cash balances' also includes other demand deposits with credit institutions and, consequently, has been renamed 'Cash, cash balances at central banks and other demand deposits with credit institutions'. The reference figures have been restated (resulting in 563 million euros shifting mainly from 'Loans and receivables'). The restatements concern the balance sheet and the related notes 4.0.

The following IFRS were issued but not yet effective at year-end 2017. KBC will apply these standards when they become mandatory.

- IFRS 9
  - In July 2014, the IASB issued IFRS 9 (Financial Instruments) on the classification and measurement of financial instruments, as a replacement for the relevant requirements of the present IAS 39 (Financial Instruments: Recognition and Measurement). The mandatory effective date for IFRS 9 is 1 January 2018. A project relating to IFRS 9 had been running for some time at KBC and implementation of the systems and processes was largely finalised in 2017. It will make use of transition relief as regards disclosing comparative information at the date of initial application.
  - Classification and measurement: classification and measurement of financial assets under IFRS 9 depends on the specific business model in place and the assets' contractual cashflow characteristics. The impact of first time application is due primarily to a rebalancing of part of the treasury bond portfolio (reclassification from 'Available-for-sale' to 'Amortised cost'), the recognition of unrealised gains and losses on a limited number of investments that have failed the contractual cashflow characteristics test, and the reversal of frozen available-for-sale reserves. These frozen reserves existed under IAS 39 due to historical reclassifications out of the 'Available-for-sale' category to the 'Held-to-maturity' or 'Loans and receivables' categories, but need to be reversed on transition to IFRS 9.
  - Impairment of financial instruments: financial instruments that are subject to impairment will be classified into three stages, namely Stage 1: Performing; Stage 2: Underperforming (where lifetime expected credit losses are required to be measured); and Stage 3: Non-performing or impaired.

KBC has established policies and processes to assess whether credit risk has increased significantly at the end of each reporting period and, therefore, whether ‘staging’ is required (i.e. moving from one stage to another). For the loan portfolio, a multi-tier approach has been adopted to staging, based on internal credit ratings, forbearance measures, collective assessment and days past due as a backstop. A similar multi-tier approach will be used for the investment portfolio, except that KBC will use the low-credit-risk exemption, meaning that all investment grade bonds in scope are considered to be in 'Stage 1', unless any of the other triggers indicate otherwise. For 'Stage 1' and 'Stage 2' – under IAS 39 – KBC records incurred-but-not-reported (IBNR) impairment losses, which are influenced by emergence periods. Under IFRS 9, impairment of financial assets is calculated on a 12-month expected credit loss (ECL) basis for 'Stage 1' and on a lifetime ECL basis for 'Stage 2'. As a consequence, impairment levels are generally expected to increase. Forward looking information is incorporated into the staging criteria and measurement of ECL. Different macroeconomic factors are taken into consideration and KBC applies three scenarios to evaluate a range of possible outcomes. The impact of first time application has been positively influenced by the current benign macroeconomic environment. Impairment levels under IFRS 9 will differ from current prudential requirements because of (i) application of a through-the-cycle estimate for prudential purposes as opposed to a point-in-time estimate under IFRS 9, (ii) application of a 12-month PD for prudential purposes as opposed to a lifetime PD under IFRS 9 (for 'Stage 2' and 'Stage 3') and (iii) inclusion of prudential floors and downturn adjustments in the PD, EAD and LGD estimates for prudential purposes

- Hedge accounting: KBC will use the option to continue with hedge accounting under IAS 39 and await further developments at the IASB regarding macro hedging.
- KBC will not make use of any transitional arrangements with regard to the impact of IFRS 9 on capital. Consequently, own funds, capital and the leverage ratio will reflect the full impact of IFRS 9.
- Overall, the first time application of IFRS 9 will have an estimated negative impact of approximately 47 basis points on common equity tier-1 capital, due primarily to part of the treasury bond portfolio being reclassified. In accordance with IFRS, KBC will provide the transition disclosures in the earnings report for the first interimreporting of 2018.

- IFRS 15
  - In May 2014, the IASB issued IFRS 15 (Revenue from Contracts with Customers) concerning the recognition of revenue. The new standard will become effective on 1 January 2018. During 2017, the analysis of its impact was performed. KBC has identified the relevant contracts and assessed them using the new five-step model for revenue recognition. The main focus related to the (i) identification of the performance obligations and (ii) variable consideration in certain asset management contracts. However, as expected, no major impact was identified.

- IFRS 16
  - In January 2016, the IASB issued IFRS 16 (Leases), which will become effective on 1 January 2019. The new standard does not significantly change the accounting treatment of leases for lessors and, therefore, its impact is expected to be limited for KBC (given that it is mainly a lessor and not a lessee). An analysis of its impact is ongoing.

- Other
  - The IASB published several limited amendments to existing IFRSs in the course of 2017. They will be applied when they become mandatory, but their impact is currently estimated to be negligible.

Note 1.2: Summary of significant accounting policies

a. Criteria for consolidation and for inclusion in the consolidated accounts according the equity method

All (material) entities (including structured entities) over which the consolidating entity exercises, directly or indirectly, exclusive control – as defined in IFRS 10 – are consolidated according to the method of full consolidation.

(Material) companies over which joint control is exercised, directly or indirectly, are consolidated according to the equity method (IFRS 11).
(Material) investments in associates, i.e. companies over which KBC has significant influence, are also accounted for using the equity method.
As allowed under IAS 28, investments held by venture capital organisations are classified as 'held for trading' (measured at fair value through profit or loss).
Changes in ownership interests (that do not result in a loss of control) are accounted for as equity transactions. They do not affect goodwill or profit or loss.

b. Effects of changes in foreign exchange rates

Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the spot rate at balance sheet date.
Negative and positive valuation differences, except for those relating to the funding of shares and investments of consolidated companies in a foreign currency, are recognised in profit or loss.
Non-monetary items measured at historical cost are translated into the functional currency at the historical exchange rate that existed on the transaction date.
Non-monetary items carried at fair value are translated at the spot rate of the date the fair value was determined. Translation differences are reported together with changes in fair value.
Income and expense items in foreign currency are taken to profit or loss at the exchange rate prevailing when they were recognised.
The balance sheets of foreign subsidiaries are translated into the reporting currency (euros) at the spot rate at balance sheet date (with the exception of the capital and reserves, which are translated at the historical rate). The income statement is translated at the average rate for the financial year as a best estimate of the exchange rate on the transaction date.
Differences arising from the use of one exchange rate for assets and liabilities, and another for net assets (together with the exchange rate differences – net of deferred taxes – on loans concluded to finance participating interests in foreign currency) are recognised in equity, commensurate with KBC's share.

c. Financial assets and liabilities (IAS 39)

Financial assets and liabilities are recognised in the balance sheet when KBC becomes a party to the contractual provisions of the instruments. Regular-way purchases or sales of financial assets are recognised using settlement date accounting.

All financial assets and liabilities – including derivatives – must be recognised in the balance sheet according to the IAS 39 classification system. Each classification is subject to specific measurement rules.

The IAS 39 classifications are as follows:

- *Loans and receivables (L&R)*. These include all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

- *Held-to-maturity assets (HTM)*. These are all non-derivative financial assets with a fixed maturity and fixed or determinable payments that KBC intends and is able to hold to maturity.

- *Financial assets at fair value through profit or loss* (abbreviated in various notes to 'Designated at fair value'). This category includes held-for-trading (HFT) assets and other financial assets designated at fair value through profit or loss (FIFV). Held-for-trading assets are assets held for the purpose of selling them in the short term or assets that are part of a portfolio of assets held for trading purposes. All derivatives with a positive replacement value are considered to be held for trading unless they are designated and effective hedging instruments. Other financial assets designated at fair value through profit or loss are measured in the same way as held-for-trading assets. KBC may use the fair value option when doing so results in more relevant information, because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The fair value option may also be used for financial assets with embedded derivatives.

- *Available-for-sale assets (AFS)*. These are all non-derivative financial assets that do not come under one of the above classifications. These assets are measured at fair value, with all fair value changes being recognised in equity until the assets are sold or until there is an impairment in value. In this case, the cumulative revaluation gain or loss will be recognised in income for the financial year.

- *Held-for-trading liabilities*. These are liabilities held with the intention of repurchasing them in the short term. All derivatives with a negative replacement value are also considered to be held for trading unless they are designated and effective hedging instruments. These liabilities are measured at fair value, with any fair value changes reported in profit or loss.

- *Financial liabilities designated at fair value through profit or loss (FIFV)*. These are measured at fair value, with any fair value changes recorded in profit or loss, apart from gains and losses on own credit risk, which will go through other comprehensive income. This fair value option may be used under the same conditions as FIFV assets. Additionally, this classification may be used to account for (unbundled) deposit components (i.e. financial liabilities not including a discretionary participation feature) as defined in IFRS 4.

- *Other financial liabilities*. These are all other non-derivative financial liabilities that are not classified under one of the two liability classifications above. They are measured at amortised cost.

- *Hedging derivatives*. These are derivatives used for hedging purposes.

Financial instruments are reported according to the dirty price convention, i.e. accrued interest is presented under the same heading as the financial instruments for which the interest has accrued.

KBC applies the following general rules:

- *Amounts receivable*. These are classified under ‘Loans and receivables’ and are measured on acquisition at fair value, including transaction costs. Loans with a fixed maturity are subsequently measured at amortised cost using the effective interest method, i.e. an interest rate is applied that exactly discounts all estimated future cashflows from the loans to the net carrying value. This interest rate takes account of all related fees and transaction costs. Loans with no fixed maturity date are measured at amortised cost.
  Impairment losses are recognised for loans and advances for which there is evidence – either on an individual or portfolio basis – of impairment at balance sheet date. Whether or not evidence exists is determined on the basis of the probability of default (PD). The PD depends on a number of loan-specific characteristics, such as the type of loan, the borrower’s line of business, the geographical location of the borrower and other elements key to a borrower’s risk profile. Loans with the same PD therefore have a similar credit risk profile.
  - Loans and advances with a PD of 12 (individual problem loans with the highest probability of default) are individually tested for impairment (and written down on an individual basis if necessary). The impairment amount is calculated as the difference between the loans’ carrying value and their net present value.
  - Loans and advances with a PD of 10 or 11 are also considered to be individual problem loans. Material loans are tested individually. The impairment amount is calculated as the difference between the loans’ carrying value and their present value. Non-material loans are tested on a statistical basis. The impairment amount calculated according to the statistical method is based on IRB Advanced models (PD x LGD x EAD).
  - Loans and advances with a PD lower than 10 are considered normal loans. Incurred-but-not-reported (IBNR) losses are recognised for loans with a PD of 1 through 9. IBNR losses are based primarily on IRB Advanced models (PD x LGD x EAD), with all parameters being adjusted to reflect the point-in-time nature of these losses. The main adjustment relates to the PD, i.e. the time horizon of the PD is shortened on the basis of the emergence period. This is the period between the time an event occurs that will lead to an impairment and the time KBC identifies this event, and is dependent on the review frequency, the location and degree of involvement with the counterparties. The emergence period is between 1 and 12 months for retail portfolios and between 1 and 11 months for corporate portfolios. On average, emergence periods for corporate portfolios are shorter than for their retail counterparts.

- When impairment is identified, the carrying value of the loan is reduced via an impairment account and the loss recognised in the income statement. If, in a subsequent period, the estimated impairment amount increases or decreases due to an event that occurs after the impairment loss was recognised, the previously recognised impairment will be increased or reduced accordingly through adjustment of the impairment account. Loans and the related amounts included in the impairment accounts are written off when there is no realistic prospect of recovery in future or if the loan is forgiven. A renegotiated loan will continue to be tested for impairment, calculated on the basis of the original effective interest rate applying to the loan.
For off-balance-sheet commitments (commitment credit) classified as uncertain or irrecoverable and doubtful, provisions are recognised if the general IAS 37 criteria are satisfied and the more-likely-than-not criterion met. These provisions are recognised at their net present value.
Interest on loans written down as a result of impairment is recognised using the contractual rate of interest used to measure the impairment loss.

- *Securities*. Depending on whether or not securities are traded on an active market and depending on what the intention is when they are acquired, securities are classified as loans and receivables, held-to-maturity assets, held-for-trading assets, financial assets at fair value through profit or loss, or available-for-sale assets. Securities classified as loans and receivables or held-to-maturity assets are initially measured at fair value, including transaction costs. They are subsequently measured at amortised cost. The difference between the acquisition cost and the redemption value is recognised as interest and recorded in the income statement on an accruals basis over the remaining term to maturity. It is taken to the income statement on an actuarial basis, based on the effective rate of return on acquisition. Individual impairment losses for securities classified as loans and receivables or held-to-maturity are recognised – according to the same method as is used for amounts receivable as described above – if there is evidence of impairment at balance sheet date.
Held-for-trading securities are initially measured at fair value excluding transaction costs and subsequently at fair value, with all fair value changes being recognised in profit or loss for the financial year.
Securities classified initially as 'Financial assets at fair value through profit or loss' that are not held for trading are measured in the same way as held-for-trading assets.
Available-for-sale securities are initially measured at fair value (including transaction costs) and subsequently at fair value, with changes in fair value being recorded separately in equity until the sale or impairment of the securities. In this case, the cumulative fair value changes are transferred from equity to profit or loss for the financial year. Impairment losses are recognised if evidence of impairment exists on the balance sheet date. For listed equity and other variable-yield securities, a significant (more than 30%) or prolonged (more than one year) decline in their fair value below cost is evidence of impairment. For fixed-income securities, impairment is measured on the basis of the recoverable amount of the acquisition cost. Impairment losses are taken to the income statement for the financial year. For equity and other variable-yield securities, impairment is reversed through a separate equity heading. Reversals of impairment on fixed-income securities occur through profit or loss for the financial year. However, if it cannot be demonstrated objectively that the reason for prolonged impairment no longer exists (i.e. the loss event triggering impairment has not completely disappeared), any increases in fair value will be recorded in equity. This continues until there is no longer any evidence of impairment. At that moment, impairment is completely reversed through profit or loss and any difference in fair value recorded in equity.

- *Derivatives*. All derivatives are classified as held-for-trading assets or held-for-trading liabilities unless they are designated and effective hedging instruments. Held-for-trading derivatives are measured at fair value, with fair value changes being recognised in profit or loss for the financial year. Held-for-trading derivatives with a positive replacement value are recorded on the asset side of the balance sheet; those with a negative replacement value on the liabilities side.

- *Amounts owed*. Liabilities arising from advances or cash deposits received are recorded in the balance sheet at amortised cost. The difference between the amount made available and the nominal value is reflected on an accruals basis in the income statement. It is recorded on a discounted basis, based on the effective rate of interest.

- *Embedded derivatives*. Derivatives embedded in contracts that are measured on an accruals basis (held-to-maturity assets, loans and receivables, other financial liabilities) or at fair value, with fair value changes being recorded in equity (available-for-sale assets), are separated from the contract and measured at fair value (with fair value adjustments being taken to the income statement for the financial year), if the risk relating to the embedded derivative is considered not to be closely related to the risk on the host contract. The risk may not be reassessed subsequently, unless the terms of the contract are changed and this has a substantial impact on the contract's cashflows. Contracts with embedded derivatives are however primarily classified as financial instruments at fair value through profit or loss, making it unnecessary to separate the embedded derivative, since the entire financial instrument is measured at fair value, with fair value changes being taken to the income statement.

- *Hedge accounting*. KBC applies hedge accounting when all the requisite conditions (according to the hedge accounting requirements that have not been carved out in the IAS 39 version as approved by the EU) are fulfilled. These conditions are that the hedge relationship must be formally designated and documented on the inception of the hedge, the hedge must be expected to be highly effective and this effectiveness must be able to be measured reliably, and the measurement of hedge effectiveness must take place on a continuous basis during the reporting period in which the hedge can be considered to be effective.
  For fair value hedges, both the derivatives hedging the risks and the hedged positions are measured at fair value, with all fair value changes being taken to the income statement. Accrued interest income from rate swaps is included in net interest income. Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold. In this case, the gain or loss recorded in equity on the hedged position (for fixed-income financial instruments) will be taken to profit or loss on an accruals basis until maturity.
  KBC uses fair value hedges for a portfolio of interest rate risk to hedge the interest rate risk for a portfolio of loans and savings deposits using interest rate swaps. The interest rate swaps are measured at fair value, with fair value changes reported in profit or loss. Accrued interest income from these swaps is included in net interest income. The hedged amount of loans is measured at fair value as well, with fair value changes reported in profit or loss. The fair value of the hedged amount is presented as a separate line item of the assets on the balance sheet. KBC makes use of the 'carved-out' version of IAS 39, so that no ineffectiveness results from anticipated repayments, as long as underhedging exists. In case of hedge ineffectiveness, the cumulative change in the fair value of the hedged amount will be amortised through profit or loss over the remaining lifetime of the hedged assets or immediately removed from the balance sheet if the ineffectiveness is due to the fact that the corresponding loans have been derecognised.
  For cashflow hedges, derivatives hedging the risks are measured at fair value, with those fair value gains or losses determined to be an effective hedge being recognised separately in equity. Accrued interest income from rate swaps is included in net interest income. The ineffective portion of the hedge is recognised in income for the financial year. Hedge accounting will be discontinued if the hedge accounting criteria are no longer met. In this case, the derivatives will be treated as held-for-trading derivatives and measured accordingly.
  Foreign currency funding of a net investment in a foreign entity is accounted for as a hedge of that net investment. This form of hedge accounting is used for investments not denominated in euros. Translation differences (account taken of deferred taxes) on the funding are recorded in equity, along with translation differences on the net investment.

- *Financial guarantee contracts*. These are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the initial or revised terms of a debt instrument. A financial guarantee contract is initially recognised at fair value and subsequently measured at the greater of the following:
  1. the amount determined in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets; and
  2. the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18: Revenue.

- *Fair value adjustments (market value adjustments)*. Fair value adjustments are recognised on all financial instruments measured at fair value, with fair value changes being taken to profit or loss or recognised in equity. These fair value adjustments include all close-out costs, adjustments for less liquid instruments or markets, adjustments relating to 'mark-to-model' measurements, adjustments for counterparty exposures and adjustments for funding costs.

d. Goodwill and other intangible assets

Goodwill is defined as any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. It is recognised as an intangible asset and is carried at cost less impairment losses. Goodwill is not amortised, but is tested for impairment at least once a year or if there is either internal or external evidence for doing so. An impairment loss is recognised if the carrying value of the cash-generating unit to which the goodwill belongs exceeds its recoverable amount. Impairment losses on goodwill cannot be reversed. For each new business combination, KBC has to choose whether to measure minority interests at fair value or as their proportionate share of the acquiree's net identifiable assets. This choice determines the amount of goodwill recognised.
Software is recognised as an intangible asset if the capitalisation criteria are met. System software is capitalised and amortised at the same rate as hardware, i.e. over three years, from the moment the software is available for use. Standard software and customised software developed by a third party are capitalised and amortised over five years according to the straight-line method from the moment the software is available for use. Internal and external development expenses for internally-generated software for investment projects are capitalised and written off according to the straight-line method over five years, while for core systems with a longer useful life, the period is eight years. Investment projects are large-scale projects that introduce or replace an important business objective or model. Internal and external research expenses for these projects and all expenses for other ICT projects concerning internally-generated software (other than investment projects) are taken to the income statement directly.

e. Property and equipment and investment property

All property and equipment is recognised at cost (including directly allocable acquisition costs), less accumulated depreciation and impairment. The rates of depreciation are determined on the basis of the anticipated useful life of the assets and are applied according to the straight-line method from the moment the assets are available for use. Impairment is recognised when there is evidence of impairment and if the carrying value of the asset exceeds its recoverable value (i.e. the higher of the asset's value in use and net selling price). Amounts written down can be reversed through the income statement. When property or equipment is sold, the realised gains or losses are taken directly to the income statement. If property or equipment is destroyed, the remaining amount to be written off is taken directly to the income statement.
The accounting policy outlined for property and equipment also applies to investment property.
External borrowing costs that are directly attributable to the acquisition of an asset are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred. Capitalisation commences when expenses are incurred for the asset, when the borrowing costs are incurred and when activities that are necessary to prepare the asset for its intended use or sale are in progress. When development is interrupted, the *capitalisation* of borrowing costs is suspended. The *capitalisation* of borrowing costs ceases when all the activities necessary to prepare the asset for its intended use or sale are complete.

f. Retirement benefit obligations

Retirement benefit obligations are included under the 'Other liabilities' item and relate to obligations for retirement and survivor's pensions, early retirement benefits and similar pensions or annuities.
Defined benefit plans are those under which KBC has a legal or constructive obligation to pay extra contributions to the pension fund if this last has insufficient assets to settle all the obligations to employees resulting from employee service in current and prior periods.
The retirement benefit obligations under these plans for employees are calculated according to IAS 19, based on the projected-unit-credit method, with each period of service granting additional entitlement to pension benefits.
Changes in the net defined benefit liability/asset are recognised in operating expenses (current service costs), in interest expense (net interest costs) and in other comprehensive income (remeasurements).

g. Tax liabilities

This heading includes current and deferred tax liabilities.
Current tax for the period is measured at the amount expected to be paid, using the rates of tax in effect for the balance sheet date.
Deferred tax liabilities are recognised for all taxable temporary differences between the carrying value of an asset or liability and its tax base. They are measured using the tax rates in effect on realisation of the assets or settlement of the liabilities to which they relate and which reflect the fiscal consequences of the manner in which the entity expects to recover or to settle the carrying value of the underlying asset or liability at balance sheet date. Deferred tax assets are recognised for all deductible temporary differences between the carrying value of assets and liabilities and their tax base, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

h. Provisions

Provisions are recognised in the balance sheet:
- if an obligation (legal or constructive) exists on the balance sheet date that stems from a past event, and
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation.

i. Equity

Equity is the residual interest in the net assets after all liabilities have been deducted.
Equity instruments have been differentiated from financial instruments in accordance with the IAS 32 rules.

The revaluation reserve for available-for-sale assets is included in equity until disposal or impairment of the assets. At that time, the cumulative gain or loss is transferred to profit or loss for the period.

Put options on minority interests (and, where applicable, combinations of put and call options resulting in forward contracts) are recognised as financial liabilities at the present value of the exercise prices. The corresponding minority interests are deducted from equity. When the share in equity held by minority interests changes, KBC adjusts the carrying value of the majority and minority interests in order to reflect the changes in their relative interests in the consolidated companies. KBC recognises any difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or received, directly in equity and attributes it to the majority interest holder.

j. Exchange rates used*

	Exchange rate at 31-12-2017		Exchange rate average in 2017	
	1 EUR = … … currency	Change from 31-12-2016 Positive: appreciation relative to EUR Negative: depreciation relative to EUR	1 EUR = … … currency	Change relative to average in 2016 Positive: appreciation relative to EUR Negative: depreciation relative to EUR
BGN	1.95580	0%	1.95580	0%
CZK	25.535	6%	26.351	3%
GBP	0.88723	-3%	0.87443	-6%
HUF	310.33	0%	309.29	1%
USD	1.1993	-12%	1.1310	-2%

* Rounded figures

Note 1.3: Critical estimates and significant judgements

When preparing the consolidated financial statements and applying KBC's accounting policies, management is required to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Some degree of uncertainty is inherent in almost all amounts reported. The estimates are based on the experience and assumptions that KBC's management believes are reasonable at the time the financial statements are being prepared.

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are detailed in, but not limited to, the following notes: 3.3, 3.9, 4.2, 4.4–4.7, 5.2,5.4–5.6 and 5.8.

2.0 Notes on segment reporting

Note 2.1: Segment reporting based on the management structure

Detailed information on the group's management structure can be found in the 'Our business units' section (which has not been audited by the statutory auditor). In line with IFRS 8, KBC has identified the Executive Committee and Board of Directors as 'chief operating decision-makers', responsible for allocating the resources and assessing the performance of the different parts of the company. The operating segments are based on the internal financial reporting to these policy bodies and on the location of the company's activities, resulting in geographical segmentation.

The three operating segments are (essentially):

- the Belgium Business Unit (all activities in Belgium);
- the Czech Republic Business Unit (all activities in the Czech Republic);
- the International Markets Business Unit (activities in Ireland, Hungary, Slovakia and Bulgaria, reported together in accordance with IFRS 8.16).

For reporting purposes, there is also a Group Centre (comprising the results of the holding company, items that have not been allocated to the other business units, and the results of companies to be divested).

Segment reporting

- The policy bodies analyse the performance of the segments based on a number of criteria, with the 'Result after tax' being the most important results indicator. The segment data is based entirely on IFRS data (with no adjustments).
- In principle, we assign a group company in its entirety to one specific segment/business unit. Exceptions are only made for those items that cannot clearly be allocated to a specific segment, such as subordination charges attached to subordinated loans (such items are recognised under Group Centre).
- We allocate the funding cost of participating interests to the Group Centre. Any funding cost in respect of leveraging at KBC Group NV level is also recognised under Group Centre.
- Transactions among the different segments are reported at arm's length.
- We recognise 'Net interest income' in the segment information without dividing it up into 'Interest income' and 'Interest expense'. This is permitted under IFRS because the bulk of the business units' income is in the form of interest, and management assesses and co-ordinates those business units primarily on the basis of net interest income.
- We do not provide any information on income from sales to external clients per group of products or services, since the information is prepared at consolidated level chiefly for each business unit, and not per client group or product group.
- Information on the impact of United Bulgarian Bank and Interlease (Bulgaria), which were acquired in mid-2017, is provided in Note 6.6.

Note 2.2 : Results by segment

In millions of EUR	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 Bank
Income statement 2017									
Net interest income	1 881	861	818	*236*	*205*	*99*	*278*	- 14	3 546
Dividend income	14	0	0	*0*	*0*	*0*	*0*	5	20
Net result from financial instruments at fair value through profit or loss	541	221	96	*62*	*15*	*13*	*5*	2	860
Net realised result from available-for-sale assets	40	17	2	*2*	*0*	*1*	*0*	54	114
Net fee and commission income	1 487	258	280	*178*	*60*	*40*	*- 1*	- 2	2 023
Net other income	95	40	- 112	*4*	*8*	*- 4*	*- 116*	2	25
TOTAL INCOME	4 058	1 398	1 084	*481*	*288*	*148*	*167*	47	6 588
Operating expenses (a)	- 2 105	- 594	- 781	*- 325*	*- 186*	*- 79*	*- 188*	- 88	- 3 568
Impairment	- 105	- 23	191	*8*	*- 12*	*- 20*	*215*	- 18	44
on loans and receivables	- 87	- 5	197	*11*	*- 11*	*- 17*	*215*	- 18	87
on available-for-sale assets	0	- 1	- 1	*0*	*0*	*- 1*	*0*	0	- 2
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
on other	- 18	- 17	- 5	*- 3*	*- 1*	*- 2*	*0*	0	- 41
Share in results of associated companies and joint ventures	- 13	21	0	*0*	*0*	*0*	*0*	0	8
RESULT BEFORE TAX	1 834	802	495	*164*	*90*	*49*	*193*	- 58	3 073
Income tax expense	- 632	- 133	- 79	*- 27*	*- 21*	*- 5*	*- 26*	- 46	- 891
RESULT AFTER TAX	1 202	669	416	*137*	*69*	*44*	*167*	- 104	2 182
Attributable to minority interests	180	0	- 1	*0*	*0*	*0*	*0*	0	179
Attributable to equity holders of the parent	1 021	669	417	*137*	*69*	*44*	*167*	- 104	2 003
[a] Of which non-cash expenses:	- 47	- 52	- 64	*- 27*	*- 14*	*- 9*	*- 15*	- 2	- 164
Depreciation and amortisation of fixed assets	- 46	- 53	- 60	*- 27*	*- 14*	*- 5*	*- 15*	- 1	- 160
Other	- 1	1	- 3	0	0	- 4	0	- 1	- 4
Acquisitions of non current assets*	451	210	209	45	113	22	30	0	871

* Non current assets held for sale and disposal groups, investment property, property and equipment, investments associated companies and goodwill and other intangible assets

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 Bank
Income statement 2016									
Net interest income	2 137	822	720	*224*	*210*	*43*	*244*	- 45	3 635
Dividend income	16	0	0	*0*	*0*	*0*	*0*	10	27
Net result from financial instruments at fair value through profit or loss	341	116	87	*64*	*15*	*2*	*6*	6	551
Net realised result from available-for-sale assets	38	48	35	*17*	*16*	*2*	*0*	13	134
Net fee and commission income	1 275	244	242	*170*	*54*	*15*	*- 1*	- 8	1 753
Net other income	94	17	2	*2*	*6*	*- 2*	*- 4*	27	140
TOTAL INCOME	3 902	1 248	1 087	*477*	*300*	*61*	*246*	4	6 240
Operating expenses (a)	- 2 088	- 560	- 692	*- 318*	*- 181*	*- 37*	*- 154*	- 58	- 3 399
Impairment	- 121	- 26	34	*12*	*- 16*	*- 6*	*44*	- 32	- 145
on loans and receivables	- 113	- 23	42	*15*	*- 15*	*- 3*	*45*	- 32	- 126
on available-for-sale assets	0	0	0	*0*	*0*	*0*	*0*	0	- 1
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
on other	- 8	- 3	- 7	*- 3*	*0*	*- 3*	*- 1*	0	- 19
Share in results of associated companies and joint ventures	0	23	0	*0*	*0*	*0*	*0*	0	23
RESULT BEFORE TAX	1 693	685	429	*171*	*103*	*17*	*136*	- 87	2 719
Income tax expense	- 509	- 121	- 23	*- 51*	*- 21*	*0*	*49*	128	- 525
RESULT AFTER TAX	1 184	564	406	*120*	*83*	*18*	*184*	41	2 195
Attributable to minority interests	169	0	0	*0*	*0*	*0*	*0*	0	169
Attributable to equity holders of the parent	1 015	563	406	*120*	*83*	*18*	*184*	41	2 026
[a] Of which non-cash expenses:	- 47	- 46	- 51	*- 25*	*- 12*	*- 2*	*- 12*	2	- 142
Depreciation and amortisation of fixed assets	- 47	- 47	- 52	*- 25*	*- 12*	*- 2*	*- 12*	- 1	- 146
Other	0	1	0	0	0	0	0	3	4
Acquisitions of non current assets*	438	224	125	34	36	34	21	0	787

* Non current assets held for sale and disposal groups, investment property, property and equipment, investments associated companies and goodwill and other intangible assets

How do the business units contribute to the group result?

Belgium

In 2017, our Belgium Business Unit recorded a net result of 1 021 million euros, compared with 1 015 million euros a year earlier.

Net interest income (1 881 million euros) declined by 12%, owing to a number of negative items, including low reinvestment yields, less interest income being generated by the dealing rooms, a reduction in early repayment penalties for home loans and pressure on credit margins. These negative items were partially offset by factors including the positive effect of lower funding costs and growth in the volume of credit. Our net interest margin in Belgium narrowed further from 1.80% in 2016 to 1.57% in 2017. The volume of loans and advances to customers (93 billion euros, excluding reverse repos) rose by 2% and deposits from customers and debt securities (139 billion euros, excluding repos) went up by 7%.
Our net fee and commission income (1 487 million euros) rose by 17%, primarily on account of the higher level of fee income from our asset management activities and, to a lesser extent, higher securities-related fees.
The other income items comprised gains realised on the sale of shares and bonds (40 million euros), dividends received on securities held in our portfolios (14 million euros), our trading and fair value income (541 million euros, well up on the figure for 2016, thanks to stronger dealing room results) and other income (95 million euros). Besides mainly the usual items (including the results from KBC Autolease), 'other income' also included a number of mostly smaller one-off items.

Our costs in Belgium rose by 1% to 2 105 million euros in 2017, due to various factors, the most notable of which were higher staff expenses (including pension costs) and ICT costs. Our cost/income ratio came to 52%, compared with 54% in 2016.

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

Taxes in Belgium were negatively influenced by the up-front impact of the future reduction in the rate of corporation tax (77 million euros; also see the Group Centre).

Czech Republic

In 2017, the Czech Republic Business Unit recorded a net profit of 669 million euros, compared with 563 million euros a year earlier. The higher average exchange rate (+3%) of the Czech koruna accounted for roughly 17 million of the 106-million-euro increase.

On balance, net interest income in the Czech Republic (861 million euros) went up by 5%, as the negative impact of persistently low income generated by reinvestments and pressure on margins were offset by the positive impact of the higher exchange rate, an increase in the level of interest income being earned by the dealing room and volume growth of loans. As regards the latter, our loans and advances to customers (22 billion euros, excluding reverse repos) rose by 8% in 2017 (due in part to robust growth in home loans). Deposits from customers and debt securities (30 billion euros, excluding repos) grew by 9% year-on-year. The net interest margin in the Czech Republic widened a little from 2.94% in 2016 to 2.99% in 2017.
At 258 million euros, our net fee and commission income was up 6%, due primarily to higher fees for asset management services and the exchange rate effect.
The other income items chiefly comprised gains realised on the sale of shares and bonds (17 million euros), trading and fair value income (221 million euros in 2017, as opposed to 116 million euros in 2016, due primarily to very strong dealing room results) and other income (40 million euros, positively influenced by the settlement of an old legal case).

Costs rose by 6% to 594 million euros in 2017, owing to a number of factors, including the higher exchange rate and various other items (including higher staff expenses and ICT costs). Consequently, the cost/income ratio for our banking activities amounted to a very solid 42%, compared with 45% in 2016.

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

International Markets

In 2017, the net result at our International Markets Business Unit amounted to 417 million euros, as opposed to 406 million euros a year earlier. Hungary accounted for 137 million euros of this figure, Slovakia for 69 million euros, Bulgaria for 44 million euros and Ireland for 167 million euros.
The results for the business unit as a whole and for Bulgaria also include the results recorded by United Bulgarian Bank and Interlease for the second half of 2017. Where 'on a comparable basis' appears in the text, we mean excluding the effect of this acquisition.

Net interest income for the business unit as a whole came to 818 million euros in 2017, up 14% year-on-year (+6% on a comparable basis), due primarily to lower funding and liquidity costs in Ireland. As regards volumes, loans and advances to customers for the business unit as a whole (24 billion euros, excluding reverse repos) rose by 13% in 2017, or by 4% on a comparable basis, with the decline in Ireland (-1%, mainly on account of the further scaling back of corporate lending) being more than offset by increases in Slovakia (+8%, due in part to home loans), Hungary (+11%) and Bulgaria (a three-fold increase with the inclusion of United Bulgarian Bank, or +11% on a comparable basis). Deposits from customers and debt securities at the business unit (23 billion euros, excluding repos) went up by almost 23%, or by 7% on a comparable basis. Deposits grew in all countries: in Ireland (+8%), Slovakia (+6%), Hungary (+7%) and Bulgaria (a five-fold increase with the inclusion of United Bulgarian Bank, or +14% on a comparable basis). The business unit's average net interest margin rose from 2.55% to 2.77%.
Net fee and commission income went up by 16% (6% on a comparable basis) to 280 million euros, which was chiefly attributable to fees charged for payments.
The other income items chiefly comprised gains realised on the sale of shares and bonds (2 million euros), trading and fair value income (96 million euros), and other income (-112 million euros). The latter was significantly lower than in 2016, as it was negatively influenced in 2017 by a provision of 116 million euros being recognised for the sector-wide review of tracker mortgages originated in Ireland prior to 2009 (see Note 3.6).

Costs rose by 13% to 781 million euros in 2017 (up 7% on a comparable basis). The increase occurred chiefly in Ireland (higher bank taxes, increased ICT costs, professional fees and staff expenses). Consequently, the cost/income ratio came to 72%, as opposed to 64% in 2016.

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

Group Centre

Besides financial reporting for three business units, we also report on a separate Group Centre.

In 2017, it generated a net result of -104 million euros, compared with 41 million euros a year earlier. Included in the 2016 figure are certain costs related to capital and liquidity management (to achieve liquidity and solvency targets at bank group level, including the subordination charges attached to subordinated loans), costs related to the holding of participating interests (chiefly funding costs) and the results of companies scheduled for run-down (the former Antwerp Diamond Bank, KBC Finance Ireland, etc.).

The 2017 result was significantly influenced by: (see Note 3.11)

- the change in the corporation tax system in Belgium (-140 million euros), especially the up-front impact of the announced reduction in the rate of corporation tax on deferred taxes recognised on the balance sheet;
- deferred tax assets in respect of the liquidation of IIB Finance (66 million euros).

Note 2.3 : Balance-sheet information by segment (business unit)

The table below presents some of the main on-balance-sheet products by segment :

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 Bank
31-12-2017									
Deposits from customers & debt certificates excl. repos	138 970	30 336	22 746	*7 314*	*6 106*	*3 934*	*5 392*	2 205	194 257
Demand deposits	43 126	19 588	11 297	*5 496*	*3 071*	*1 926*	*805*	0	74 011
Saving accounts	44 416	7 668	4 609	*942*	*1 227*	*837*	*1 603*	0	56 692
Time deposits	12 975	750	6 236	*844*	*1 397*	*1 131*	*2 864*	0	19 961
Debt certificates	36 415	1 839	340	*31*	*188*	*0*	*121*	2 205	40 798
Special and other deposits	2 039	492	264	0	223	41	0	0	2 795
Loans & advances to customers excluding reverse repos	92 595	22 303	24 192	*4 215*	*6 574*	*2 709*	*10 694*	0	139 090
Term loans	47 276	8 104	5 405	*1 936*	*2 158*	*562*	*749*	0	60 784
Mortgage loans	33 682	10 653	15 503	*1 556*	*2 943*	*1 100*	*9 905*	0	59 838
Other	11 638	3 546	3 284	724	1 473	1 048	40	0	18 468
31-12-2016									
Deposits from customers & debt certificates excl. repos	129 539	26 279	18 475	*6 824*	*5 817*	*836*	*4 999*	4 094	178 388
Demand deposits	39 421	16 229	8 283	*4 447*	*2 924*	*362*	*549*	0	63 933
Saving accounts	42 289	7 222	3 817	*944*	*1 195*	*113*	*1 565*	0	53 328
Time deposits	16 051	708	5 813	*1 404*	*1 230*	*361*	*2 819*	0	22 572
Debt certificates	29 785	1 670	344	*29*	*249*	*0*	*67*	4 067	35 866
Special and other deposits	1 993	450	219	0	219	0	0	27	2 689
Loans & advances to customers excluding reverse repos	90 483	19 552	21 489	*3 801*	*6 094*	*829*	*10 765*	4	131 528
Term loans	45 106	7 375	5 197	*1 762*	*2 123*	*268*	*1 043*	0	57 677
Mortgage loans	33 913	9 077	13 993	*1 451*	*2 608*	*234*	*9 700*	0	56 983
Other	11 464	3 100	2 299	587	1 363	327	22	4	16 867

3.0 Notes to the income statement

Note 3.1 : Net interest income

In millions of EUR	2017	2016
Total	3 546	3 635
Interest income	5 760	6 147
Available-for-sale assets	351	382
Loans and receivables	3 772	3 784
Held-to-maturity investments	654	772
Other assets not at fair value	159	74
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*4 936*	*5 012*
of which : Interest income on impaired financial assets	22	64
Financial assets held for trading	547	640
Hedging derivatives	273	287
Other financial assets at fair value through profit or loss	5	208
Interest expense	-2 214	-2 512
Financial liabilities measured at amortised cost	- 991	-1 015
Other	- 99	- 30
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*-1 089*	*-1 046*
Financial liabilities held for trading	- 613	- 756
Hedging derivatives	- 476	- 561
Other financial liabilities at fair value through profit or loss	- 29	- 145
Net interest expense on defined benefit plans	- 6	- 5

Note 3.2 : Dividend income

In millions of EUR	2017	2016
Total	20	27
Breakdown by type	20	27
Held-for-trading shares	11	12
Shares initially recognised at fair value through profit or loss	0	1
Available-for-sale shares	10	14

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

In millions of EUR	2017	2016
Total	860	551
Breakdown by type		
Trading instruments (including interest and fair value changes in trading derivatives)	338	696
Other financial instruments initially recognised at fair value through profit or loss	13	- 8
Of which: gains/losses own credit risk	0	8
Foreign exchange trading	592	- 93
Fair value adjustments in hedge accounting	- 84	- 44
Fair value microhedge	- 10	- 3
Changes in the fair value of the hedged item	- 24	287
Changes in the fair value of the hedging derivatives	14	- 290
Cashflow hedges	1	- 2
Changes in the fair value of the hedging derivatives, ineffective portion	1	- 2
Cashflow hedges	0	0
Portfolio fair value hedge of interest rate risk	8	- 2
Changes in the fair value of the hedged item	- 102	101
Changes in the fair value of the hedging derivatives	110	- 104
Discontinuation of hedge accounting in the case of a fair value hedge	- 18	0
Discontinuation of hedge accounting in the case of a cash flow hedge	- 65	- 37

- Foreign exchange trading results comprise total exchange differences, excluding those recognised on financial instruments at fair value through profit or loss.
- For more information on the impact of changes in own credit risk, see Notes 1.1 and 4.8.
- The interest component of ALM derivatives is recognised under ‘Net interest income’. Fair value changes in ALM derivatives, excluding those for which an effective cashflow hedge relationship exists, are recognised under ‘Net result from financial instruments at fair value through profit or loss’. Under fair value hedge accounting, changes in the fair value of hedged assets are also recognised under this heading, and offsetting takes place insofar as the hedge is effective.
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, we use the dollar offset method on a quarterly basis, which requires changes in the fair value of the hedged item to offset changes in the fair value of the hedging instrument within a range of 80%–125%, which is currently the case.
  - For cashflow hedges, we compare the designated hedging instrument with a perfect hedge of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the perfect hedge). The effectiveness of both tests must fall within a range of 80%–125%, which is currently the case.
  - We use the rules set out in the European version of IAS 39 (carve-out) to assess the effectiveness of fair value hedges for a portfolio of interest rate risk. IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, we make sure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- Day 1 profit: when the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or from the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case (i.e. the variables do not include only data from observable markets), day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. The impact of this is negligible for KBC.
- Fair value changes (due to marking-to-market) of a large proportion of ALM hedging instruments (that are treated as trading instruments) also appear under ‘Net result from financial instruments at fair value’, whereas most of the related assets are not recognised at fair value (i.e. not marked-to-market).

- Most significant fluctuations between 2017 and 2016: the substantially higher level of income generated by the dealing-room activities, especially in Belgium and the Czech Republic, and a more positive impact from various market value adjustments were the main drivers behind the increase in the 'Net result from financial instruments at fair value through profit or loss'.

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

In millions of EUR	2017	2016
Total	114	134
Breakdown by portfolio		
Fixed-income securities	26	21
Shares	89	113

- In 2016, the net realised result included the capital gain of 99 million euros (84 million euros (after tax)) generated by the sale of Visa Europe shares (following the public offering of Visa Europe).

Note 3.5 : Net fee and commission income

In millions of EUR	2017	2016
Total	2 023	1 753
Income	2 706	2 175
Expense	- 683	- 422
Breakdown by type		
Asset Management Services	1 184	983
Income	1 230	1 010
Expense	- 45	- 28
Banking Services	768	718
Income	1 272	997
Expense	- 504	- 279
Distribution	71	52
Income	204	167
Expense	- 133	- 115

- See Note 1.1 for changes in the above presentation.
- The lion’s share of the fees and commissions related to lending is recognised under ‘Net interest income’ (effective interest rate calculations).

Note 3.6 : Other net income

In millions of EUR	2017	2016
Total	25	140
Of which net realised result following		
The sale of loans and receivables	3	2
The sale of held-to-maturity investments	7	3
The repurchase of financial liabilities measured at amortised cost	0	- 7
Other: of which:	15	143
Income concerning leasing at the KBC Lease-group	59	64
Tracker mortgage review provision	- 116	- 4
Settlement of an old legal file	14	0

- Provisioning for the tracker mortgage review in 2017 concerns KBC Bank Ireland, which – like all major lenders in Ireland at the time – had offered tracker mortgages (i.e. between 2003 and 2008). In December 2015, the Central Bank of Ireland (CBI) requested the Irish banking industry, including KBC Bank Ireland, to undertake a broad and wide ranging examination of tracker-mortgage related issues. The purpose of the tracker mortgage review was to identify cases where clients' contractual rights under the terms of their mortgage agreements had not been fully honoured and/or lenders had not fully complied with the various requirements and standards regarding disclosure and transparency for the client. In situations where client detriment was identified from this examination, KBC Bank Ireland had to provide appropriate redress and compensation in line with the CBI 'Principles for Redress'. In 2016, the bank recognised a provision of 4 million euros in respect of redress and compensation for clients identified as being impacted. Following further testing and engagement with the CBI during 2017, the bank identified more impacted clients for which redress and compensation was required. During 2017, it recognised an additional provision of 116 million euros (54 million euros of which in the third quarter and 62 million euros in the fourth quarter of 2017), based on the best estimate of the potential liability at 31 December 2017. Redress and compensation payments are expected to be made to all impacted clients during 2018.

Note 3.7 : Operating expenses

In millions of EUR	2017	2016
Total	- 3 568	- 3 399
Breakdown by type		
Staff expenses	- 1 690	- 1 589
General administrative expenses	- 1 718	- 1 663
Of which bank tax	- 419	- 417
Depreciation and amortisation of fixed assets	- 160	- 146

- General administrative expenses include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes, utilities and other such expenses. They also include expenses related to the special tax imposed on financial institutions in various countries (totalling 417 million euros in 2016 and 419 million euros in 2017). The latter figure comprises 246 million euros in the Belgium Business Unit, 27 million euros in the Czech Republic Business Unit, 18 million euros in Slovakia, 4 million euros in Bulgaria, 107 million euros in Hungary and 17 million euros in Ireland.
- Share-based payments are included under staff expenses.
- The main equity-settled share-based payments are described below.
  Since 2000, KBC Group (the parent company of KBC Bank) has launched a number of stock option plans for its employees. The remaining number of outstanding options at year-end 2017 was very limited (63 730 options, average exercise price 89.21 euros). Changes in 2017 related to exercised options (-81 650 options).
- Cash-settled share-based payment arrangements also include the costs related to a phantom stock plan (included under 'Staff expenses'). These costs were negligible for 2017 and 2016.

Note 3.8 : Personnel

In numbers	2017	2016
Total average number of persons employed (in full-time equivalents)	29 079	27 910
Breakdown by employee classification		
Blue-collar staff	75	71
White-collar staff	28 833	27 666
Senior management	171	173

- Due to the fact that United Bulgarian Bank and Interlease were only acquired in mid-2017, just half of their figures have been included (1 156 FTEs in 2017).

Note 3.9 : Impairment (income statement)

In millions of EUR	2017	2016
Total	44	- 145
Impairment on loans and receivables	87	- 126
Breakdown by type		
Specific impairments for on-balance-sheet lending	86	- 75
Provisions for off-balance-sheet credit commitments	- 59	8
Portfolio-based impairments	60	- 58
Breakdown by business unit		
Business unit Belgium	- 87	- 113
Business unit Czech Republic	- 5	- 23
Business unit International Markets	197	42
of which: Hungary	*11*	*15*
of which: Slovakia	*- 11*	*- 15*
of which: Bulgaria	*- 17*	*- 3*
of which: Ireland	*215*	*45*
Group Centre	- 18	- 32
Impairment on available-for-sale assets	- 2	- 1
Breakdown by type		
Shares	- 2	- 1
Other	0	0
Impairment on goodwill	0	0
Impairment on other	- 41	- 19
Intangible assets, other than goodwill	- 11	- 11
Property and equipment and investment property	- 27	- 8
Held-to-maturity assets	0	0
Associated companies and joint ventures	0	0
Other	- 3	- 1

- ‘Impairment on loans and receivables’ was accounted for primarily by loans and advances to customers. Impairment charges in the International Markets Business Unit included loan loss provisioning in Ireland (a net reversal of 215 million euros in 2017 and 45 million euros in 2016 (see next bullet point)), in Hungary (a net reversal of 11 million euros in 2017 and 15 million euros in 2016), in Slovakia (net provisioning of 11 million euros in 2017 and 15 million euros in 2016) and in Bulgaria (net provisioning of 17 million euros in 2017 and 3 million euros in 2016). The bulk of the impairment charges in the Group Centre in 2016 and 2017 was accounted for by the former Antwerp Diamond Bank (Diamant Corporate Centre following the merger with KBC Bank).
- At KBC Bank Ireland, the loan portfolio – which contains a relatively large proportion of home loans and mortgages – has suffered in recent years as a consequence of the property crisis. The Irish loan portfolio stood at about 12 billion euros at the end of the year, just over 90% of which relates to mortgage loans. The group was able to recognise a net impairment reversal of 215 million euros for its Irish portfolio in 2017 (the net reversal came to 45 million euros in 2016). The net reversal in 2017 was accounted for primarily by the rise in the nine-month average housing price index, model-related adjustments and an improvement in the portfolio of non-performing loans.

- For information on total impairment recognised in the balance sheet, see Note 4.2.

Note 3.10 : Share in results of associated companies and joint ventures

In millions of EUR	2017	2016
Total	8	23
of which Ceskomoravská stavebni sporitelna a.s. (ČMSS)	21	23
of which Joyn International NV	-5	-
of which Payconiq Holding B.V.	-6	-

- The share in results of associated companies and joint ventures is accounted for primarily by ČMSS, a joint venture of ČSOB in the Czech Republic. More details are provided in Note 5.3.
- Impairment on (goodwill on) associated companies and joint ventures is included in 'Impairment' (see Note 3.9). The share in results of associated companies and joint ventures does not therefore take this impairment into account.

Note 3.11: Taxes and activities by country ('country-by-country reporting')

In millions of EUR	2017	2016
Total	- 891	- 525
Breakdown by type	- 891	- 525
Current taxes on income	- 365	- 295
Deferred taxes on income	- 525	- 230
Tax components		
Profit before tax	3 073	2 719
Income tax at the Belgian statutory rate	33.99%	33.99%
Income tax calculated	- 1 044	- 924
Plus/minus tax effects attributable to	154	400
Differences in tax rates, Belgium - abroad	288	239
Tax-free income	162	84
Adjustments related to prior years	2	11
Adjustments, opening balance of deferred taxes due to change in tax rate	- 231	- 9
Unused tax losses and unused tax credits to reduce current tax expense	23	31
Unused tax losses and unused tax credits to reduce deferred tax expense	16	110
Reversal of previously recognised deferred tax due to tax losses	0	- 20
Other (mainly non-deductible expenses)	- 105	- 46
Aggregate amount of temporary differences associated with investments in subsidiaries, branches and associated companies and interests in joint ventures, for which deferred tax liabilities have not been recognized*	0	196

* Reserves of joint or other subsidiaries, associated companies and branches that, at certain entities, will be taxed in full on distribution (recorded in full). For a significant number of entities, the foreign tax credit applies (5% is recorded, since 95% is definitively taxed). As from 2018, these dividends are 100% definitively taxed.

- For information on tax assets and tax liabilities, see Note 5.2.
- 'Income tax expense' in 2017 was positively impacted by deferred tax assets, 66 million euros of which at KBC Bank following the liquidation of IIB Finance Ireland (under Belgian tax law, the loss in paid-up capital that KBC Bank sustained as a result of the liquidation of IIB Finance Ireland is tax deductible for the parent company on the date of liquidation, rather than at the time the losses were incurred). The impact in 2016 came to 103 million euros, +65 million euros of which at KBC Credit Investments, -20 million euros at KBC Securities, +66 million euros at KBC Bank Ireland and -8 million euros at K&H Bank.
- Adjustments to deferred taxes due to change in the tax rate concern the reform of the Belgian corporation tax regime, which would impact KBC mainly because of the planned gradual decrease in the tax rate from 33.99% to 29.58% (from financial year 2018) and to 25% (from financial year 2020). This had a one-off negative impact on the income statement at the end of 2017 (-231 million euros due to a reduction in the amount of deferred tax assets). In addition, the increase in tax exemption for eligible dividends received (from 95% to 100%) had a positive impact of 13 million euros. Both these factors had an aggregate negative impact of 218 million euros for 2017. In segment reporting (Note 2.2), the portion related to the legacy business was charged to the Group Centre (140 million euros) and the rest to the Belgium Business Unit. We expect this to have a recurring positive impact on the income statement from 2018 onwards, because of the lower tax rate applying to the Belgian group companies and certain dividends received being 100% tax-exempt. However, the impact will be partly mitigated by other measures, including the reform of the notional interest deduction scheme.
- Breakdown of activities by country in 2017.

The table below provides a better insight into the activities of KBC Bank at the consolidated level, broken down by country, and complies with the Royal Decree of 27 November 2014 (amending the royal decrees concerning the financial statements and consolidated financial statements of credit institutions, investment firms and management companies of undertakings for collective investment).

The names of the different entities and the nature of their activities in each of the countries in this table can be found in the information included in the scope of consolidation (see Note 6.5).

	2017							2016						
In million euros	Turnover (*)	Average number of employees in FTE	Result before tax	Income tax expense	Current tax on income	Deferred tax	Received government funding	Turnover (*)	Average number of employees in FTE	Result before tax	Income tax expense	Current tax on income	Deferred tax	Received government funding
KBC home Countries (incl. Ireland)														
Belgium	3 565	10 597	1 358	- 617	- 139	- 478	0	3 383	10 585	1 215	- 356	- 100	- 256	0
Czech Republic	1 408	8 351	802	- 133	- 118	- 15	0	1 256	8 321	685	- 121	- 124	3	0
Hungary	481	3 654	164	- 27	- 25	- 2	0	477	3 658	171	- 51	- 26	- 25	0
Slovakia	277	2 503	91	- 21	- 18	- 3	0	289	2 483	104	- 21	- 23	2	0
Bulgaria	147	2 402	49	- 5	2	- 7	0	61	1 274	17	0	0	0	0
Ireland[1]	394	1 141	415	- 54	- 26	- 28	0	489	1 087	371	25	- 19	44	0
Other countries														
Great Britain[1]	82	50	51	- 1	- 1	0	0	61	63	38	10	10	0	0
USA[1]	34	57	3	3	- 4	7	0	37	61	11	- 2	- 2	0	0
France[1]	40	61	23	- 8	- 8	0	0	19	70	- 6	- 2	- 2	0	0
Netherlands[1]	25	27	24	- 6	- 6	0	0	21	26	15	- 4	- 4	0	0
Luxembourg	90	47	82	- 22	- 21	0	0	98	46	89	- 3	0	- 3	0
Germany[1]	6	21	- 1	0	0	0	0	12	47	- 2	0	0	0	0
Hong Kong[1]	12	60	4	0	0	0	0	17	63	6	0	- 1	0	0
Singapore[1]	15	44	7	- 1	- 1	0	0	0	20	0	0	0	0	0
Poland[1]	0	27	- 1	0	0	0	0	16	87	4	1	- 4	5	0
China[1]	12	30	2	0	- 1	1	0	5	19	0	0	0	0	0
Italy	0	7	- 1	0	0	0	0	0	0	0	0	0	0	0
India	1	0	1	0	0	0	0	0	0	0	0	0	0	0
Total	6 588	29 079	3 073	- 891	- 365	- 525	0	6 240	27 910	2 719	- 525	- 295	- 230	0

(*) Based on 'Total Income'

(1) Including branches KBC Bank

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

These notes need to be read in conjunction with note 1.1.

Note 4.1 : Financial assets and liabilities, breakdown by portfolio and product

In millions of EUR	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Total	Pro forma: Total excluding UBB & Interlease
FINANCIAL ASSETS, 31-12-2017								
Loans and advances to credit institutions and investment firms [a, c]	2	0	0	24 426	-	-	24 428	24 392
Loans and advances to customers [b]	0	38	0	140 997	-	-	141 036	139 240
Excluding reverse repos	*0*	*38*	*0*	*139 052*	-	-	*139 090*	*137 300*
Trade receivables	0	0	0	3 985	-	-	3 985	3 985
Consumer credit	0	0	0	3 857	-	-	3 857	3 519
Mortgage loans	0	23	0	59 815	-	-	59 838	58 994
Term loans	0	15	0	62 715	-	-	62 730	62 465
Finance leasing	0	0	0	5 308	-	-	5 308	5 149
Current account advances	0	0	0	4 728	-	-	4 728	4 537
Securitised loans	0	0	0	0	-	-	0	0
Other	0	0	0	590	-	-	590	590
Equity instruments	509	0	213	-	-	-	722	714
Debt securities issued by	1 154	24	19 424	868	25 803	-	47 273	46 533
Public bodies	954	0	14 701	52	25 123	-	40 830	40 104
Credit institutions and investment firms	121	0	2 766	125	511	-	3 523	3 523
Corporates	79	24	1 957	691	169	-	2 921	2 906
Derivatives	5 844	-	-	-	-	245	6 090	6 089
Other [3]	0	0	0	636	0	0	636	636
Total carrying value	7 509	63	19 637	166 927	25 803	245	220 184	217 605
[a] *Of which reverse repos* [2]							*19 572*	*19 572*
[b] *Of which reverse repos* [2]							*1 945*	*1 940*
[c] *Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months*							*20 117*	*20 081*
FINANCIAL ASSETS, 31-12-2016								
Loans and advances to credit institutions and investment firms [a,c]	6	0	0	16 883	-	-	16 889	
Loans and advances to customers [b]	1	722	0	132 759	-	-	133 481	
Excluding reverse repos	*1*	*45*	*0*	*131 483*	-	-	*131 528*	
Trade receivables	0	0	0	3 549	-	-	3 549	
Consumer credit	0	0	0	3 180	-	-	3 180	
Mortgage loans	0	29	0	56 955	-	-	56 983	
Term loans	0	693	0	58 938	-	-	59 631	
Finance leasing	0	0	0	4 916	-	-	4 916	
Current account advances	0	0	0	4 640	-	-	4 640	
Other	1	0	0	582	-	-	582	
Equity instruments	426	0	392	-	-	-	818	
Debt securities issued by	999	408	20 692	966	28 297	-	51 362	
Public bodies	712	47	15 177	16	28 010	-	43 961	
Credit institutions and investment firms	126	171	3 240	140	215	-	3 893	
Corporates	161	189	2 274	811	73	-	3 509	
Derivatives	8 355	-	-	-	-	410	8 765	
Other [3]	0	0	0	532	0	0	532	
Total carrying value	9 787	1 129	21 084	151 140	28 297	410	211 848	
[a] *Of which reverse repos* [2]							*11 776*	
[b] *Of which reverse repos* [2]							*1 953*	
[c] *Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months*							*11 646*	

1) Loans and advances in the "Designated at fair value" column relate primarily to reserve repo transactions and a small portfolio of home loans. In each case, the carrying value comes close to the maximum credit exposure

2) The amount of the reverse repos is virtually identical to the amount of the underlying assets (that have been lent out)

3) Financial assets not included under "Loans and advances to customers" as they are not directly related to commercial lending

In millions of EUR	Held for trading	Designated at fair value	Hedging derivatives	Measured at amortised cost	Total	Pro forma: Total excluding UBB & Interlease
FINANCIAL LIABILITIES, 31-12-2017						
Deposits from credit institutions and investment firms [a, c]	3	12	-	33 321	33 337	33 326
Deposits from customers and debt certificates [b]	219	1 470	-	192 828	194 517	191 518
Excluding repos	*219*	*1 470*	-	*192 568*	*194 257*	*191 257*
Demand deposits	0	0	-	74 011	74 011	72 577
Time deposits	11	403	-	19 807	20 221	19 408
Saving accounts	0	0	-	56 692	56 692	55 980
Special deposits	0	0	-	2 235	2 235	2 235
Other deposits	0	0	-	560	560	518
Certificates of deposit	0	14	-	22 579	22 593	22 593
Customer savings certificates	0	0	-	1 721	1 721	1 721
Non-convertible bonds	208	866	-	8 863	9 937	9 937
Non-convertible subordinated liabilities	0	186	-	6 361	6 547	6 547
Derivatives	5 867	0	1 284	-	7 151	7 151
Short positions	905	0	-	-	905	905
in equity instruments	13	0	-	-	13	13
in debt instruments	892	0	-	-	892	892
Other	3	0	-	2 360	2 363	2 363
Total carrying value	6 998	1 482	1 284	228 509	238 273	235 262
[a] *Of which repos*					*5 575*	*5 575*
[b] *Of which repos*					*260*	*260*
[c] *Of which deposits from banks repayable on demand*					*9 431*	*9 425*
FINANCIAL LIABILITIES, 31-12-2016						
Deposits from credit institutions and investment firms [a c]	5	1 766	-	30 249	32 020	
Deposits from customers and debt certificates [b]	541	2 134	-	176 021	178 697	
Excluding repos	*536*	*1 869*	-	*175 984*	*178 388*	
Demand deposits	0	0	-	63 933	63 933	
Time deposits	117	1 100	-	21 663	22 880	
Saving accounts	0	0	-	53 328	53 328	
Special deposits	0	0	-	2 056	2 056	
Other deposits	0	0	-	633	633	
Certificates of deposit	0	14	-	16 071	16 085	
Customer savings certificates	0	0	-	1 959	1 959	
Non-convertible bonds	424	744	-	11 519	12 687	
Non-convertible subordinated liabilities	0	276	-	4 859	5 135	
Derivatives	7 362	0	1 704	-	9 065	
Short positions	665	0	-	-	665	
in equity instruments	36	0	-	-	36	
in debt instruments	629	0	-	-	629	
Other	13	0	-	2 185	2 199	
Total carrying value	8 586	3 900	1 704	208 455	222 646	
[a] *Of which repos*					*9 420*	
[b] *Of which repos*					*309*	
[c] *Of which deposits from banks repayable on demand*					*5 023*	

1) The amount of the repos is virtually identical to the amount of the underlying assets (that have been lent out) (partly on balance sheet and partly obtained through reverse repos)

2) Financial liabilities not included under deposits from customers as they are not direclty related to commercial deposit acquisition

- We have dealt with the impact of the acquisition of United Bulgarian Bank (UBB) and Interlease in the pro forma ‘Total excluding UBB and Interlease’ column, which helps provide a clear view of changes in financial assets and liabilities (excluding the acquisition of these companies). For more information, please refer to Note 6.6.
- For reclassifications, see Note 4.9.
- Non-convertible bonds: comprise mainly KBC Bank issues and, to a lesser extent, KBC IFIMA issues. They are usually recognised under ‘Measured at amortised cost’. However, if they contain closely related embedded derivatives, they are recorded under ‘Designated at fair value’ (see accounting policies).
- Non-convertible subordinated liabilities: include the contingent capital note (CoCo) issued in January 2013 for an amount of 1 billion US dollars. Pursuant to IAS 32, this note was classified as a liability because it has a fixed term and obligatory interest payments. KBC called this CoCo in January 2018.
- More information on major new debt issues or redemptions is provided under the 'Consolidated cashflow statement'.
- Deposits from credit institutions and investment firms: include funding of 6.5 billion euros obtained from the ECB's TLTRO II programme announced in March 2016. KBC’s management has reasonable assurance that KBC will comply with the conditions attached and hence the interest has accordingly been recognised.

- Transferred financial assets that continue to be recognised in their entirety: KBC regularly lends and/or sells securities with the commitment to buy them back at a later date (repo transactions). Securities lent or sold with such a commitment are transferred to the counterparty, and, in exchange, KBC receives cash or other financial assets. However, KBC retains the main risks and income relating to these securities, and, therefore, continues to recognise them on its balance sheet. In addition, a financial liability is recognised equalling the cash collateral received.

  At year-end 2017, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 7 975 million euros (debt instruments classified as 'held for trading' (178 million euros), 'available for sale' (421 million euros), and 'held to maturity' (7 376 million euros)); and an associated financial liability with a carrying value of 5 312 million euros (178 million euros classified as 'held for trading', 422 million euros as 'available for sale', and 4 712 million euros as 'held to maturity'). At year-end 2016, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 8 370 million euros (debt instruments classified as 'held for trading' (113 million euros), 'available for sale' (695 million euros), and 'held to maturity' (7 561 million euros)); and an associated financial liability with a carrying value of 8 970 million euros (94 million euros classified as 'held for trading', 649 million euros as 'available for sale', and 8 227 million euros as 'held to maturity'). It should be noted that, at year-ends 2016 and 2017, KBC had fewer transferred securities on its balance sheet than outstanding repo transactions, since securities obtained in reverse repo transactions are often used for repo transactions.

Note 4.2 : Financial assets, breakdown by portfolio and quality

4.2.1 : Financial assets for which impairments have been recorded

In millions of EUR	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2017							
Unimpaired assets	7 509	63	19 572	162 143	25 802	245	215 333
Impaired assets			103	8 842	6		8 952
Impairment			- 38	- 4 058	- 5		- 4 101
Total carrying value	7 509	63	19 637	166 927	25 803	245	220 184
FINANCIAL ASSETS, 31-12-2016							
Unimpaired assets	9 787	1 130	21 019	145 983	28 296	410	206 626
Impaired assets			125	10 250	7		10 382
Impairment			- 61	- 5 093	- 5		- 5 160
Total carrying value	9 787	1 129	21 084	151 140	28 297	410	211 848

- Impairment: the concept of 'impairment' is relevant for all financial assets that are not designated at fair value through profit or loss. Fixed-income financial assets are impaired when impairment is identified on an individual basis. In the case of loans, they are impaired when they have a probability of default (or PD, see explanation below) rating of 10, 11 or 12. Impairment is recognised based on an estimate of the net present value of the recoverable amount. In addition, for credit in PD classes 1 to 9, impairment losses are recorded on a portfolio basis (IBNR), using a formula that takes account of the expected loss (EL) calculated using the internal rating based (IRB) advanced models and emergence period (or an alternative method if an IRB advanced model is not yet available).
- PD class: KBC has developed various rating models to determine the PD class. The output generated by these models is used to split the normal loan portfolio into internal rating classes ranging from PD 1 (lowest risk) to PD 9 (highest risk). More information on PD is provided under 'Credit risk' in the 'Risk management' section.

4.2.2 Impairments details

in millions of EUR	Available for sale: Fixed-income securities	Available for sale: Shares	Held to maturity: Fixed-income securities	Loans and receivables: Specific impairment	Loans and receivables: Portfolio-based impairment	Provision, off-balance-sheet credit commit-ments*
Impairments 31-12-2017						
Opening balance	0	61	5	4 829	264	76
Movements with an impact on results						
Impairment recognised	0	2	0	512	80	93
Impairment reversed	0	0	0	- 599	- 139	- 35
Movements without an impact on results						
Write-offs	0	- 1	0	- 1 237	0	- 4
Change in the scope of consolidation	8	4	0	476	6	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0	0
Other	0	- 35	- 1	- 140	3	2
Closing balance	8	30	5	3 843	215	133
Impairments 31-12-2016						
Opening balance	0	71	5	5 410	213	125
Movements with an impact on results						
Impairment recognised	0	1	0	582	106	41
Impairment reversed	0	0	0	- 507	- 55	- 42
Movements without an impact on results						
Write-offs	0	- 2	0	- 635	0	- 11
Change in the scope of consolidation	0	1	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0	0
Other	0	- 11	0	- 22	1	- 38
Closing balance	0	61	5	4 829	264	76

* These impairment losses are recognised on the liabilities side of the balance sheet. Changes in impairment losses of this kind are recorded under "Impairment on loans and receivables" in the Income Statement

- For information regarding the impact of changes in impairment on the income statement, see Note 3.9.
- Additional information on impairment relating to the loan portfolio is provided under ‘Credit risk’ in the ‘Risk management’ section.

Note 4.2.3 : Past due but not impaired

In millions of EUR	Less then 30 days past due	30 days or more, but less then 90 days past due
FINANCIAL ASSETS, 31-12-2017		
Loans & advances	2 943	425
Debt instruments	0	0
Derivatives	0	0
Total	2 943	425
FINANCIAL ASSETS, 31-12-2016		
Loans & advances	2 208	419
Debt instruments	0	0
Derivatives	0	0
Total	2 208	419

- Financial assets are past due if a counterparty fails to make a payment at the time agreed in the contract. The concept of ‘past due’ applies to a contract, not to a counterparty. For example, if a counterparty fails to make a monthly repayment, the entire loan is considered past due, but that does not mean that other loans to this counterparty are considered past due. Financial assets that are 90 days or more past due are always considered impaired.

Note 4.2.4: Guarantees received

- See Notes 4.3 and 6.1.

Note 4.3 : Maximum credit exposure and offsetting

	31-12-2017			31-12-2016		
In millions of EUR	Gross amount	Collateral received to mitigate the maximum exposure to credit risk	Net amount	Gross amount	Collateral received to mitigate the maximum exposure to credit risk	Net amount
Equity	722	0	722	818	0	818
Debt securities	47 273	70	47 203	51 362	68	51 295
Loans & advances	165 464	90 975	74 488	150 933	79 377	71 557
Of which designated at fair value through profit or loss	38	11	27	722	684	38
Derivatives (1)	6 090	1 902	4 188	8 765	2 646	6 120
Other (including accrued interest)	34 479	4 427	30 051	32 555	3 816	28 739
Total	254 027	97 375	156 652	244 434	85 906	158 528

1) 2016 : Adjusted figures

- Maximum credit exposure relating to a financial asset: generally the gross carrying value, net of impairment. Besides the amounts on the balance sheet, maximum credit exposure also includes the undrawn portion of irrevocable credit lines, financial guarantees granted and other irrevocable commitments. These amounts are included in the table under ‘Other’.
- The loan portfolio accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio are set out in detail under ‘Credit risk’ in the ‘Risk management’ section. All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.
- Collateral received: recognised at market value and limited to the outstanding amount of the relevant loans.

Financial instruments subject to offsetting, enforceable master netting agreements and similar agreements (in millions of EUR)	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments set off	Net amounts of financial instruments presented in the balance sheet	Amounts not set off in the balance sheet			Net amount
				Financial instruments	Cash collateral	Securities collateral	
FINANCIAL ASSETS, 31-12-2017							
Derivatives	9 463	3 374	6 090	3 343	1 262	450	1 034
Derivatives (excluding central clearing houses)	6 080	0	6 080	3 343	1 262	450	1 024
Derivatives with central clearing houses (1)	3 384	3 374	10	0	0	0	10
Reverse repurchase, securities borrowing and lending and similar agreements	32 802	11 285	21 517	0	0	21 483	34
Reverse repurchase	32 802	11 285	21 517	0	0	21 483	34
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	42 266	14 659	27 607	3 343	1 262	21 933	1 068
FINANCIAL ASSETS, 31-12-2016							
Derivatives	12 649	3 884	8 765	4 957	1 771	417	1 620
Derivatives (excluding central clearing houses) (2)	8 756	0	8 756	4 957	1 771	417	1 611
Derivatives with central clearing houses (1)	3 893	3 884	9	0	0	0	9
Reverse repurchase, securities borrowing and lending and similar agreements	19 984	6 255	13 729	31	0	13 631	67
Reverse repurchase	19 984	6 255	13 729	31	0	13 631	67
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	32 633	10 139	22 494	4 988	1 771	14 048	1 687
FINANCIAL LIABILITIES, 31-12-2017							
Derivatives	10 525	3 374	7 151	3 343	1 661	891	1 256
Derivatives (excluding central clearing houses)	7 141	0	7 141	3 343	1 661	891	1 246
Derivatives with central clearing houses (1)	3 384	3 374	10	0	0	0	10
Repurchase, securities lending and borrowing and similar agreements	17 120	11 285	5 836	151	0	5 684	1
Repurchase	17 120	11 285	5 836	151	0	5 684	1
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	27 645	14 659	12 987	3 494	1 661	6 575	1 257
FINANCIAL LIABILITIES, 31-12-2016							
Derivatives	12 949	3 884	9 065	4 957	1 834	607	1 668
Derivatives (excluding central clearing houses) (2)	9 045	0	9 045	4 957	1 834	607	1 647
Derivatives with central clearing houses (1)	3 905	3 884	20	0	0	0	20
Repurchase, securities lending and borrowing and similar agreements	15 984	6 255	9 729	31	0	9 692	6
Repurchase	15 984	6 255	9 729	31	0	9 692	6
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	28 933	10 139	18 794	4 988	1 834	10 299	1 674

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

(2) 2016 : Adjusted figures

- The criteria for offsetting are met if KBC currently has a legally enforceable right to set off the recognised financial assets and financial liabilities and intends either to settle the transactions on a net basis, or to realise the financial asset and settle the financial liability simultaneously. Financial assets and financial liabilities that are set off relate to financial instruments that were traded on (central) clearing houses.
- The amounts presented in the 'Financial instruments' column under the 'Amounts not set off in the balance sheet' heading are for financial instruments entered into under an enforceable master netting agreement or similar arrangement that does not meet the criteria defined in IAS 32. The amounts stated refer to situations in which offsetting can only be applied if one of the counterparties defaults, becomes insolvent or goes bankrupt. The same principle applies for financial instruments given or received as collateral. The value given in the table for non-cash collateral received (the 'Securities collateral' column under the 'Amounts not set off in the balance sheet' heading) corresponds with the market value. This is the value that is used if one of the counterparties defaults, becomes insolvent or goes bankrupt.

Note 4.4 : Fair value of financial assets and liabilities - general

- In line with the IFRS definition, KBC defines 'fair value' as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale. An imbalance between supply and demand (e.g., fewer buyers than sellers, thereby forcing prices down) is not the same as a forced transaction or distress sale. Distress sales or forced transactions are transactions that are either carried out on an occasional basis, due to – for example – regulatory changes or transactions that are not market-driven but rather entity or client-driven.
- All internal valuation models used at KBC are validated by an independent Risk Validation Unit. In addition, the Executive Committee has appointed a Group Valuation Committee (GVC) to ensure that KBC and its entities meet all the legal requirements for measuring financial assets and liabilities at fair value. The GVC monitors consistent implementation of the *KBC Valuation Framework*, which consists of various guidelines, including the *CDO Valuation Policy*, the *Group Market Value Adjustments Policy* and the *Group Parameter Review Policy.* The GVC meets at least twice a quarter to approve significant changes in valuation methods (including, but not limited to, models, market data and inputs) or deviations from group policies for financial assets and liabilities measured at fair value. The committee is made up of members from Finance, Risk Management and the Middle Office. Valuation uncertainty measurements are made and reported to the GVC every quarter. Lastly, certain fair values generated by valuation models are challenged by a team set up specifically for this purpose.
- Market value adjustments are recognised on all positions that are measured at fair value, with fair value changes being reported in profit or loss or in equity. They relate to close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk and funding costs. Credit value adjustments (CVAs) are used when measuring derivatives to ensure that the market value of the derivatives is adjusted to reflect the credit risk of the counterparty. In making this adjustment, both the mark-to-market value of the contract and its expected future fair value are taken into account. These valuations are weighted based on the counterparty credit risk that is determined using a quoted credit default swap (CDS) spread, or, if there is no such spread, on the counterparty credit risk that is derived from bonds whose issuers are similar to the derivative counterparty in terms of rating, sector and geographical location. A debt value adjustment (DVA) is made for contracts where the counterparty is exposed to KBC (as opposed to the other way around). It is similar to a CVA, but the expected future negative fair value of the contracts is taken into consideration. A funding value adjustment (FVA) is a correction made to the market value of uncollateralised derivatives in order to ensure that the (future) funding costs or income attached to entering into and hedging such instruments are factored in when measuring the value of the instruments.
- Account is taken of the effect of changes in own funding spreads when calculating the fair value of financial liabilities measured at fair value.
- The fair value of mortgage and term loans not measured at fair value in the balance sheet (see table) is calculated by discounting contractual cashflows at the risk-free rate. This calculation is then adjusted for credit risk by taking account of margins obtained on similar, but recently issued, loans. The fair value of the main portfolios takes account of prepayment risks and cap options.
- The fair value of demand and savings deposits (both of which are repayable on demand) is presumed to be equal to their carrying value.
- Most of the changes in the market value of loans and advances initially designated at fair value are accounted for by changes in interest rates. The effect of changes in credit risk is negligible.

Fair value of financial instruments which are not recognised at fair value in the balance sheet, In millions of EUR	Loans and advances		Financial assets held to maturity		Financial liabilities at amortised cost	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS, 31-12-2017						
Loans and advances to credit institutions and investment firms	24 426	24 572	-	-	-	-
Loans and advances to customers	140 997	140 574	-	-	-	-
Debt securities	868	899	25 803	28 381	-	-
Other	636	636	-	-	-	-
Total	166 927	166 681	25 803	28 381	-	-
Of which level 1		72		27 182		
Of which level 2		38 055		662		
Of which level 3		128 554		537		
FINANCIAL ASSETS, 31-12-2016						
Loans and advances to credit institutions and investment firms	16 883	16 876	-	-	-	-
Loans and advances to customers	132 759	133 743	-	-	-	-
Debt securities	966	985	28 297	30 953	-	-
Other	532	537	-	-	-	-
Total	151 140	152 141	28 297	30 953	-	-
Of which level 1		98		30 030		
Of which level 2		27 939		538		
Of which level 3		124 104		384		
FINANCIAL LIABILITIES, 31-12-2017						
Deposits from credit institutions and investment firms	-	-	-	-	33 321	33 246
Deposits from customers and debt certificates	-	-	-	-	192 828	193 667
Other	-	-	-	-	2 360	2 352
Total	-	-	-	-	228 509	229 265
Of which level 1						6
Of which level 2						126 409
Of which level 3						102 850
FINANCIAL LIABILITIES, 31-12-2016						
Deposits from credit institutions and investment firms	-	-	-	-	30 249	30 309
Deposits from customers and debt certificates	-	-	-	-	176 021	176 706
Liabilities under investment contracts	-	-	-	-	0	0
Other	-	-	-	-	2 185	2 184
Total	-	-	-	-	208 455	209 199
Of which level 1						70
Of which level 2						108 098
Of which level 3						101 031

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

Fair value hierarchy				31-12-2017				31-12-2016
In millions of EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Held for trading	1 122	4 480	1 907	7 509	1 031	6 692	2 064	9 787
Loans and advances to credit institutions and Investment firms	0	2	0	2	0	6	0	6
Loans and advances to customers	0	0	0	0	0	1	0	1
Equity instruments	503	5	0	509	301	125	0	426
Debt securities	619	406	129	1 154	730	61	208	999
Of which government securities	571	354	28	954	651	29	31	712
Derivatives	0	4 067	1 777	5 844	0	6 499	1 856	8 355
Other	0	0	0	0	0	0	0	0
Designated at fair value	14	38	10	63	44	898	188	1 129
Loans and advances to credit institutions and Investment firms	0	0	0	0	0	0	0	0
Loans and advances to customers	0	38	0	38	0	723	0	723
Equity instruments	0	0	0	0	0	0	0	0
Debt securities	14	0	10	24	44	176	187	408
Of which government securities	0	0	0	0	42	5	0	47
Available for sale	16 344	2 918	376	19 637	18 672	1 672	739	21 084
Equity instruments	10	10	193	213	133	10	249	392
Debt securities	16 334	2 907	183	19 424	18 539	1 663	490	20 692
Of which government securities	12 909	1 758	34	14 701	14 709	293	175	15 177
Hedging derivatives	0	245	0	245	0	410	0	410
Derivatives	0	245	0	245	0	410	0	410
Total	17 480	7 681	2 293	27 454	19 747	9 672	2 991	32 410
Financial liabilities measured at fair value								
Held for trading	905	3 875	2 218	6 998	665	5 686	2 235	8 586
Deposits from credit institutions and Investment firms	0	3	0	3	0	5	0	5
Deposits from customers and debt certificates	0	219	0	219	0	541	0	541
Derivatives	0	3 649	2 218	5 867	0	5 126	2 235	7 362
Short positions	905	0	0	905	665	0	0	665
Other	0	3	0	3	0	13	0	13
Designated at fair value	0	897	585	1 482	0	3 343	557	3 900
Deposits from credit institutions and Investment firms	0	12	0	12	0	1 766	0	1 766
Deposits from customers and debt certificates	0	885	585	1 470	0	1 577	557	2 134
Other	0	0	0	0	0	0	0	0
Hedging derivatives	0	1 284	0	1 284	0	1 704	0	1 704
Derivatives	0	1 284	0	1 284	0	1 704	0	1 704
Total	905	6 056	2 803	9 764	665	10 733	2 792	14 190

- The fair value hierarchy prioritises the valuation techniques and the respective inputs into three levels. The fair value hierarchy gives the highest priority to ‘level 1 inputs’.
  - This means that, when there is an active market, quoted prices have to be used to measure the financial assets or liabilities at fair value. Level 1 inputs are prices that are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency (and that are quoted in active markets accessible to KBC). They represent actual and regularly occurring market transactions on an arm’s length basis. The fair value is then based on a mark-to-market valuation derived from currently available transaction prices. No valuation technique (model) is involved.
  - If there are no price quotations available, the reporting entity establishes fair value using a model based on observable or unobservable inputs. The use of observable inputs needs to be maximised, whereas the use of unobservable inputs has to be minimised. Observable inputs are also referred to as ‘level 2 inputs’ and reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Examples of observable inputs are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs include discounted cashflow analysis, or reference to the current or recent fair value of a similar instrument.
  - Unobservable inputs are also referred to as ‘level 3 inputs’ and reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions regarding the risks involved). Unobservable inputs reflect a market that is not active. For example, proxies and correlation factors can be considered to be unobservable in the market.
- When the inputs used to measure the fair value of an asset or a liability can be categorised into different levels of the fair value hierarchy, the fair value measurement is classified in its entirety into the same level as the lowest level input that is significant

to the entire fair value measurement. For example, if a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.

- The valuation methodology and the corresponding classification in the fair value hierarchy of the most commonly used financial instruments are summarised in the table. This table provides an overview of the level in which the instruments are generally classified, but exceptions are possible. In other words, whereas the majority of instruments of a certain type are within the level indicated in the table, a small portion may actually be classified in another level.
- KBC follows the principle that transfers into and out of levels of the fair value hierarchy are made at the end of the reporting period. Transfers between the various levels are dealt with in more detail in Note 4.6.

	Instrument type	Products	Valuation technique
Level 1	Liquid financial instruments for which quoted prices are regularly available	FX spots, exchange traded financial futures, exchange traded options, exchange traded stocks, exchange traded funds, liquid government bonds, other liquid bonds, liquid asset backed securities (ABS) in active markets	Mark-to-market (quoted prices in active markets), for bonds: BVAL
Level 2	Plain vanilla/liquid derivatives	(Cross-currency) interest rate swaps (IRS), FX swaps, FX forwards, forward rate agreements (FRA), inflation swaps, dividend swaps, commodity swaps, reverse floaters, bond future options, interest rate future options, overnight index swaps (OIS), FX resets Caps & floors, interest rate options, European & American stock options, European & American FX options, forward starting options, digital FX options, FX strips of simple options, European swaptions, constant maturity swaps (CMS), European cancellable IRS, compound options, commodity options	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS) Option pricing model based on observable inputs (e.g., volatilities)
	Linear financial assets (without optional features) – cash instruments	Deposits, simple cashflows, repo transactions	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
	Asset backed securities	Medium liquid asset backed securities	BVAL,Third-party pricing (e.g., lead manager); prices corroborated by alternative observable market data, or using comparable spread method
	Debt instruments	KBC IFIMA own issues (liabilities), mortgage bonds held by ČSOB	Discounted cashflow analysis and valuation of related derivatives based on observable inputs
	Linear financial liabilities (cash instruments)	Loans, commercial paper	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
Level 3	Exotic derivatives	Target profit forwards, target strike forwards, Bermudan swaptions, digital interest rate options, quanto interest rate options, digital stock options, Asian stock options, barrier stock options, quanto digital FX options, FX Asian options, FX European barrier options, FX simple digital barrier options, FX touch rebates, double average rate options, inflation options, cancellable reverse floaters, American and Bermudan cancellable IRS, CMS spread options, CMS interest rate caps/floors, (callable) range accruals, outperformance options, auto-callable options, lookback options	Option pricing model based on unobservable inputs (e.g., correlation)
	Illiquid credit-linked instruments	Collateralised debt obligations (notes)	Valuation model based on correlation of probability of default of underlying assets
	Private equity investments	Private equity and non-quoted participations	Based on the valuation guidelines of the European Private Equity & Venture Capital Association (EVCA)
	Illiquid bonds/asset backed securities	Illiquid mortgage bonds/asset backed securities that are indicatively priced by a single pricing provider in an inactive market	BVAL,Third-party pricing (e.g., lead manager), where prices cannot be corroborated due to a lack of available/reliable alternative market data
	Debt instruments	KBC own issues (KBC IFIMA)	Discounted cashflow analysis and valuation of related derivatives based on unobservable inputs (indicative pricing by third parties for derivatives)

Note 4.6 : Financial assets and liabilities measured at fair value – transfers between levels 1 and 2

- In 2017, KBC reclassified 1 153 million euros' worth of debt instruments from level 1 to level 2, and approximately 120 million euros' worth of bonds from level 2 to level 1. Most of these reclassifications were attributable to a change in the valuation method, driven by the implementation in the third quarter of 2017 of an automated process that uses BVAL to price debt instruments. Provided by Bloomberg, BVAL is a fully transparent service that sets prices on the basis of various sources. Its use impacts fair value hierarchy levelling.

- In 2016, KBC transferred 52 million euros' worth of debt instruments out of level 1 and into level 2. It also reclassified approximately 93 million euros' worth of bonds from level 2 to level 1 because the market for those instruments became more active in 2016. Most of these reclassifications were carried out due to a change in the liquidity of covered bonds, corporate bonds and bonds issued by regional public authorities.

Note 4.7: Financial assets and liabilities measured at fair value – focus on level 3

- In 2017, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:

  - The following significant movements were observed in the 'financial assets held for trading' category:
    - The fair value of debt instruments fell by 79 million euros, owing primarily to the discontinuation of CDO transactions and disposals (106 million euros), instruments that had reached maturity, changes in fair value and movements in exchange rates (21 million euros), offset in part by acquisitions of investment certificates (40 million euros).
    - The fair value of derivatives declined by 79 million euros, due mainly to instruments that had reached maturity (375 million euros), partially offset by new transactions (230 million euros) and positive changes in fair value (70 million euros).
  - The carrying value of debt instruments in the financial assets designated at fair value through profit or loss category decreased by 177 million euros, primarily on account of the discontinuation of CDO transactions (162 million euros) and transfers out of level 3 (14 million euros) due to changes in liquidity. The rest of the decline was attributable to a combination of acquisitions and exchange rate movements.
  - The carrying value of securities classified as available-for-sale fell by 364 million euros:
    - The carrying value of unlisted shares dropped by 56 million euros, owing in the main to disposals and changes in the scope of consolidation (75 million euros), transfers out of level 3 due to changes in liquidity (49 million euros), partly offset by acquisitions (60 million euros) and positive changes in fair value (7 million euros).
    - The carrying value of bonds fell by 307 million euros, primarily on account of a net transfer out of level 3 arising from implementation of the BVAL pricing model (214 million euros), and disposals (101 million euros).
  - The total fair value of derivatives in the financial liabilities held for trading category declined by 17 million euros, due primarily to instruments that had reached maturity and changes in fair value (301 million euros), largely offset by new transactions (288 million euros).
  - The carrying value of debt instruments in the financial liabilities designated at fair value through profit and loss category increased by 28 million euros, due mainly to the issue of debt instruments (264 million euros) and changes in fair value (8 million euros), offset in part by own issues of debt instruments reaching maturity and discontinued CDO transactions (243 million euros).

- In 2016, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:

  - The carrying value of derivatives in the 'financial assets held for trading' category fell by 199 million euros, due primarily to deals reaching maturity (-558 million euros), offset in part by positive changes in fair value (+246 million euros, +140 million euros of which from assets that were still being held at the end of the year) and new acquisitions (+115 million euros). The carrying value of bonds in the 'financial assets held for trading' category also declined, falling by 79 million euros mainly on account of disposals (-111 million euros), deals reaching maturity (-35 million euros) and transfers from level 3 (-30 million euros), partially offset by new acquisitions (+87 million euros).
  - The carrying value of bonds in the 'financial assets designated at fair value through profit or loss' category fell by 195 million euros, mainly because a CDO note matured in January 2016.
  - In the 'available-for-sale' category, a net 48 million euros' worth of bonds was transferred to level 3, most of which was due to a change in their liquidity. This was boosted by a 24-million-euro increase in carrying value resulting chiefly from the net impact of the acquisition and disposal of positions. The carrying value of unlisted shares in the 'available-for-sale' category also declined, falling by 47 million euros primarily on account of disposals.
  - The carrying value of derivatives in the 'financial liabilities held for trading' category went up by 157 million euros, due mainly to new issues (+161 million euros) and positive changes in fair value (+494 million euros, +486 million euros of which from liabilities that were still recognised in the balance sheet at the end of the year), offset in part by deals reaching maturity (-487 million euros).

- Some level 3 assets are associated or economically hedged with identical level 3 liabilities, which means that KBC's exposure to unobservable inputs is lower than would appear from the gross figures. Most of the level 3 instruments are valued using third-party pricing sources, with KBC not developing any unobservable inputs itself. Consequently, KBC does not disclose specific quantitative information or sensitivity analyses regarding (changes in) unobservable inputs.

Note 4.8: Changes in own credit risk

Own debt issues designated at fair value ((+) profit (-) loss; amounts before tax)

In millions of EUR	31-12-2017	31-12-2016
Impact of change in own creditspread on the income statement	0	8
Total cumulated impact on date of balance sheet	- 15	- 6

- For financial liabilities, IFRS 9 changes the presentation of gains and losses on own credit risk for financial instruments designated at fair value through profit or loss. KBC early adopted this aspect of IFRS 9 with effect from 1 January 2017 and the gains and losses on own credit risk now go through other comprehensive income. The impact of early adoption is minimal given the limited effect of own credit risk.
- If no account is taken of the effect of changes in credit risk, the difference between the carrying value and redemption price of the financial liabilities designated at fair value through profit or loss is limited (less than 0.1 billion euros).

Note 4.9: Reclassification of financial assets and liabilities

Financial assets reclassified out of 'available for sale' to 'loans and receivables', situation at 31-12-2017
In millions of EUR

Carrying value			487
Fair value			515
	If not reclassifed (available for sale)	After reclassification (loans and receivables)	Impact
Impact on revaluation reserve (available-for-sale assets), before taxes	- 26	- 54	- 28
Impact on income statement, before taxes	0	0	0

- Reclassifications: in October 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 39 and IFRS 7 under 'Reclassification of financial assets'. Following the implementation of these amendments, the KBC group reclassified a number of assets out of the 'available for sale' category to the 'loans and receivables' category because they had become less liquid. On the date of reclassification, the assets in question met the definition of loans and receivables, and the group has the intention and ability to hold these assets for the foreseeable future or until maturity. KBC reclassified these assets on 31 December 2008. On the reclassification date (31 December 2008), the estimated recoverable amount of these assets came to 5 billion euros and the effective interest rate varied between 5.88% and 16.77%. The above reclassifications had a negative impact of 28 million euros on equity and a limited impact on the income statement.
- Other reclassifications (not included in the table):
  - In 2016, 0.1 billion euros' worth of debt instruments were reclassified out of the 'available for sale' category and into the 'held to maturity' category.
  - As a result, the relevant available-for-sale reserve is no longer exposed to changes in market rates. It has been frozen and is being written down on a *pro rata temporis* basis. As the relevant held-to-maturity security is also being written down, there is no net impact on the results.

Note 4.10 : Derivatives

	Held for trading				Microhedge: Fair value hedge				Cash flow hedge (1)				Portfolio hedge			
	Carrying value		Notional amount (2)		Carrying value		Notional amount (2)		Carrying value		Notional amount (2)		Carrying value		Notional amount (2)	
In millions of EUR	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold
31-12-2017																
Total	5 844	5 867	356 524	353 742	17	430	24 191	24 191	115	750	26 146	26 223	113	104	25 430	23 439
Breakdown by type																
Interest rate contracts	3 151	2 897	195 341	191 410	17	428	24 165	24 165	103	671	21 650	21 650	113	104	25 430	23 439
Of which Interest rate swaps & Futures	2 537	2 694	168 787	177 566	17	428	24 165	24 165	103	671	21 650	21 650	113	91	23 439	23 439
Of which Options	614	203	26 554	13 844	0	0	0	0	0	0	0	0	0	13	1 991	0
Foreign exchange contracts	1 395	1 553	132 988	133 945	0	2	26	26	12	79	4 495	4 573	0	0	0	0
Of which Currency and interest rate swaps & Futures	1 308	1 479	126 983	127 273	0	2	26	26	12	79	4 495	4 573	0	0	0	0
Of which Options	87	75	6 005	6 672	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	1 285	1 403	27 838	28 030	0	0	0	0	0	0	0	0	0	0	0	0
Of which Equity swaps	1 204	1 242	25 917	25 880	0	0	0	0	0	0	0	0	0	0	0	0
Of which Options	81	161	1 921	2 150	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Of which Credit default swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	13	13	357	358	0	0	0	0	0	0	0	0	0	0	0	0
31-12-2016																
Total	8 355	7 362	392 301	396 106	99	528	34 636	34 636	265	1 147	26 046	26 042	46	29	9 143	8 945
Breakdown by type																
Interest rate contracts	4 229	3 707	203 605	206 312	99	528	34 636	34 636	256	1 142	25 940	25 940	46	29	9 143	8 945
Of which Interest rate swaps & Futures	3 380	3 319	161 989	162 229	99	528	34 636	34 636	256	1 142	25 940	25 940	38	29	7 397	7 157
Of which Options	849	388	39 563	36 802	0	0	0	0	0	0	0	0	8	0	1 746	1 788
Foreign exchange contracts	2 498	2 013	155 370	156 625	0	0	0	0	9	5	106	102	0	0	0	0
Of which Currency and interest rate swaps & Futures	2 020	1 579	122 467	122 060	0	0	0	0	9	5	106	102	0	0	0	0
Of which Options	162	108	8 784	10 464	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	1 562	1 614	32 627	32 744	0	0	0	0	0	0	0	0	0	0	0	0
Of which Equity swaps	1 278	1 295	29 731	29 731	0	0	0	0	0	0	0	0	0	0	0	0
Of which Options	285	319	2 868	3 014	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	38	0	311	35	0	0	0	0	0	0	0	0	0	0	0	0
Of which Credit default swaps	38	0	311	35	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	28	27	389	390	0	0	0	0	0	0	0	0	0	0	0	0

1) Including hedges of a net investment in a foreign operation

2) For the notional amounts in this table, both legs of the derivatives are reported

- The Treasury departments of the various entities manage the interest rate risk. To prevent rate movements from having a negative impact, the maturities of assets and liabilities are adjusted on the balance sheet using interest rate swaps and other derivatives.
- The accounting mismatches due to the valuation of these derivatives and of the hedged assets and liabilities generate volatility in the income statement. This volatility is dealt with using various techniques provided for under IAS 39 rules for hedge accounting. KBC uses the following techniques:
  - Fair value hedges for a portfolio hedge of interest rate risk: used in interest rate risk management to hedge a portfolio of loans (term loans, home loans, instalment loans, straight loans) using interest rate swaps. The hedges are constructed in accordance with the requirements of the EU carve-out version of IAS 39 and allow changes in the fair value of the derivatives to be offset by changes in the fair value of the hedged assets and liabilities.
  - Various hedging techniques in accordance with the principles of IAS 39 to limit volatility:
    - Cashflow hedges: used to swap floating-rate assets and liabilities for a fixed rate. This technique allows changes in the fair value of the derivative to be recognised in equity (in a cashflow hedge reserve).
    - Fair value hedges: used in certain asset-swap constructions. Using this technique, the interest rate risk attached to a bond is hedged for investments that were made purely on account of the credit spread. The technique is also applied when certain fixed-term debt instruments are issued by the bank (senior debt issues).
    - Hedges of net investments in foreign operations: the exchange risk attached to foreign-currency investments is hedged by attracting funding in the currency concerned at the level of the investing entity. This way, the translation differences on the hedge can be recognised in equity.
- As regards the relationship between risk management and hedge accounting policy, ‘economic’ management takes priority and risks are hedged in accordance with the general ALM framework. Only then is a decision made on which, if any, of these techniques will be used to limit any resulting accounting mismatch.
- For information on fair value adjustments in hedge accounting, see Note 3.3.
- The estimated cashflows from the cashflow hedging derivatives broken down per time bucket are given in the table.

Estimated cashflows from cashflow hedging derivatives

In millions of EUR	Inflow	Outflow
Not more than three months	19	- 16
More than three but not more than six months	23	- 49
More than six months but not more than one year	80	- 120
More than one but not more than two years	120	- 315
More than two but not more than five years	329	- 906
More than five years	1 008	- 2 000

5.0 Notes on other balance sheet items

Note 5.1 : Other assets

In millions of EUR	31-12-2017	31-12-2016
Total	785	732
Income receivable (other than interest income from financial assets)	43	42
Other	742	690

Note 5.2 : Tax assets and tax liabilities

In millions of EUR	31-12-2017	31-12-2016
CURRENT TAXES		
Current tax assets	45	49
Current tax liabilities	72	124
DEFERRED TAXES	1 391	2 134
Tax assets by type of temporary difference	1 791	2 573
Employee benefits	113	176
Losses carried forward	773	1 049
Tangible and intangible fixed assets	41	25
Provisions for risks and charges	17	20
Impairment for losses on loans and advances	167	246
Financial instruments at fair value through profit or loss and fair value hedges	52	85
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	543	920
Other	85	52
Deferred tax liabilities by type of temporary difference	400	439
Employee benefits	12	10
Losses carried forward	0	0
Tangible and intangible fixed assets	73	97
Provisions for risks and charges	0	0
Impairment for losses on loans and advances	2	6
Financial instruments at fair value through profit or loss and fair value hedges	67	26
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	190	251
Other	56	50
Recognised in the balance sheet as follows:		
Deferred tax assets	1 530	2 227
Deferred tax liabilities	139	93
Unused tax losses and unused tax credits	216	450

- Deferred tax assets are recognised to the extent that it is probable that, on the basis of realistic financial projections, taxable profit will be available against which the deductible temporary differences can be utilised in the foreseeable future (limited to a period of eight to ten years).
- Unused tax losses and unused tax credits concern tax losses of group companies which are not capitalised due to insufficient proof of future taxable profit. Most tax losses and tax credits can be carried forward for 20 years or more.
- The net change in deferred taxes (-743 million euros in 2017) breaks down as follows:
    - a decrease in deferred tax assets: -782 million euros;
    - a decrease in deferred tax liabilities: -39 million euros.
  - The decline in deferred taxes was reinforced by the reform of the Belgian corporation tax system (the planned gradual decrease in the tax rate from 33.99% to 29.58% (from financial year 2018) and to 25% (from financial year 2020)). For more information, see Note 3.11. Deferred taxes on temporary differences are measured on the basis of the tax rates that are expected to be in effect when the differences reverse. In this respect – and as regards the change in the tax rate in Belgium – management uses its judgement to determine the temporary differences that are expected to be settled before 2020 (at a tax rate of 29.58%) and after 2020 (at a tax rate of 25%).
- The change in deferred tax assets was accounted for chiefly by:
  - the decrease in deferred tax assets via the income statement: -500 million euros (owing primarily to losses carried forward (-277 million euros), impairment (-90 million euros), hedges of net investments in foreign operations (-52 million euros), remeasurement of defined benefit plans (-33 million euros), financial instruments at fair value through profit or loss (-28 million euros), a decrease in fixed assets (-2 million euros) and other items (-17 million euros));
  - changes in cashflow hedges: -279 million euros;
  - other items (including exchange differences): -3 million euros.
- The change in deferred tax liabilities was accounted for chiefly by:
  - the decrease in deferred tax liabilities relating to available-for-sale securities: -52 million euros;
  - the decrease in deferred tax liabilities consequent on changes in cashflow hedges: -13 million euros;
  - the increase in deferred tax liabilities via the income statement: +26 million euros (owing primarily to the rise in financial instruments at fair value through profit or loss (+47 million euros) and the decrease related to tangible and intangible fixed assets (-20 million euros).
- The deferred tax assets presented in the balance sheet are attributable primarily to KBC Bank.

Note 5.3 : Investments in associated companies and joint ventures

In millions of EUR	31-12-2017	31-12-2016
Total	210	180
Overview of investments including goodwill		
Ceskomoravská stavebni sporitelna a.s. (CMSS)	176	178
Other	34	2
Goodwilll on associated companies and joint ventures	0	0
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	210	180
Listed	0	0
Fair value of investments in listed associated companies	0	0

- Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies. Joint ventures are companies over which KBC exercises joint control.

- Investments in associated companies' is accounted for primarily by ČMSS, a joint venture of ČSOB in the Czech Republic. The following is a summary of financial data for ČMSS (on 55% basis):

Ceskomoravská stavebni sporitelna a.s. In millions of EUR	2017	2016
Cash and cash balances with central banks	482	315
Financial assets	2 693	2 691
Non financial assets	35	33
TOTAL ASSETS	3 209	3 039
Financial liabilities	2 991	2 818
Non financial liabilities	42	42
Total equity	176	178
TOTAL LIABILITIES AND EQUITY	3 209	3 039
Total income	57	62
Interest income	93	99
Interest expense	- 48	- 49
Opex	- 28	- 28
Impairments	- 4	- 5
Income tax	- 4	- 5
Total profit	21	23
Other comprehensive income	0	- 1
Total comprehensive income	21	22

- Goodwill paid on associated companies and joint ventures is included in the nominal value of 'Investments in associated companies and joint ventures' shown on the balance sheet. An impairment test was performed and the necessary impairment losses on goodwill recognised (see table).

Note 5.4 : Property and equipment and investment property

In millions of EUR	31-12-2017	31-12-2016
Property and equipment	2 532	2 249
Investment property	314	272
Rental income	26	27
Direct operating expenses from investments generating rental income	5	6
Direct operating expenses from investments not generating rental income	2	1

MOVEMENTS TABLE	Land and buildings	IT equipment	Total Other equipment	Total property and equipment	Investment property
2017					
Opening balance	1 036	46	1 167	2 249	272
Acquisitions	205	24	525	754	14
Disposals	- 40	- 2	- 236	- 278	- 15
Depreciation	- 64	- 21	- 20	- 105	- 11
Other movements	- 22	4	- 70	- 88	54
Closing balance	1 115	51	1 366	2 532	314
of which accumulated depreciation and impairment	1 168	196	651	2 015	134
Fair value 31-12-2017					447
2016					
Opening balance	1 041	35	1 010	2 087	275
Acquisitions	80	28	563	671	35
Disposals	- 18	0	- 219	- 237	- 24
Depreciation	- 63	- 16	- 18	- 97	- 11
Other movements	- 4	- 1	- 169	- 174	- 3
Closing balance	1 036	46	1 167	2 249	272
of which accumulated depreciation and impairment	1 125	162	606	1 893	119
Fair value 31-12-2016					399

- Annual rates of depreciation: mainly 3% for buildings (including investment property), 33% for IT equipment, between 5% and 33% for other equipment. No depreciation is charged for land.
- There was a small amount (around 0.2 billion euros) for commitments for the acquisition of property and equipment. There are no material restrictions on title, or on property and equipment pledged as security for liabilities.
- Most investment property is valued by an independent expert on a regular basis and by in-house specialists on an annual basis, based primarily on the capitalisation of the estimated rental value and on unit prices of similar real property. Account is taken of all the market inputs available on the date of the assessment (including location and market situation, type of building and construction, state of repair, use, etc.).
- Certain other investment property is valued annually by in-house specialists based on the current annual rental per building and expected rental movements and on an individual capitalisation rate per building.

Note 5.5 : Goodwill and other intangible assets

In millions of EUR	Goodwill	Software developed inhouse	Software developed externally	Other	Total
2017					
Opening balance	628	77	142	7	854
Acquisitions	110	43	54	7	213
Disposals	0	0	- 1	- 5	- 6
Amortisation	0	- 26	- 27	- 1	- 54
Other movements	13	0	- 1	1	13
Closing balance	751	93	166	9	1 019
of which accumulated amortisation and impairment	72	83	398	23	576
2016					
Opening balance	626	60	139	6	831
Acquisitions	0	41	34	6	81
Disposals	0	- 1	- 3	- 5	- 8
Amortisation	0	- 23	- 26	- 1	- 49
Other movements	3	0	- 2	0	0
Closing balance	628	77	142	7	854
of which accumulated amortisation and impairment	118	70	335	23	546

- Goodwill: includes the goodwill paid on companies included in the scope of consolidation and relating to the acquisition of activities. Goodwill paid on associated companies: included in the nominal value of 'Investments in associated companies' shown on the balance sheet.
- For goodwill in respect of recent acquisitions, see Note 6.6.
- Impairment testing: a test was carried out to establish whether impairment on goodwill had to be recognised (see table and Note 3.9). This impairment test is performed at least once a year. We also carry out a high level assessment on a quarterly basis to see whether there is an indication of impairment. In the test, each entity is regarded as a separate cash-generating unit. Each entity has a specific risk profile and it is rare to have different profiles within a single entity.
- Impairment on goodwill under IAS 36: recognised in profit or loss if the recoverable amount of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cashflow analysis) and the fair value (calculated based on multiple analysis, etc.) less costs to sell.
- The main group companies to which goodwill relates are listed in the table. All of these companies have been valued using the discounted cashflow method (apart from the recently acquired United Bulgarian Bank/Interlease entities which have yet to be valued using this method, since goodwill is still provisional and there is no indication of impairment). The discounted cashflow method calculates the recoverable amount of an investment as the present value of all future free cashflows of the business. This method is based on long-term projections about the company's business and the resulting cashflows (i.e. projections for a number of years ahead (usually 15), and the residual value of the business at the end of the specific projection period). These long-term projections are the result of an assessment of past and present performances combined with external sources of information on future performances in the respective markets and the global macroeconomic environment. The terminal growth rate is determined using a long-term average market growth rate. The present value of these future cashflows is calculated using a compound discount rate which is based on the capital asset pricing model (CAPM). A risk-free rate, a market-risk premium (multiplied by an activity beta), and a country risk premium (to reflect the impact of the economic situation of the country where KBC is active) are also used in the calculation. KBC has developed two distinct discounted cashflow models, viz. a bank model and an insurance model. Free cashflows in both cases are the dividends that can be paid out to the company's shareholders, account taken of the minimum capital requirements.

Outstanding goodwill (in millions of EUR)			Discount rates throughout the specific period of cashflow projections	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
K&H Bank	222	223	14.0%-11.0%	12.8%-10.5%
CSOB Bank (Czech Republic)	279	267	10.7%-9.8%	10.1%-9.5%
UBB	109	0	-	-
KBC Asset Management NV	114	114	9.7%-9.4%	-
Rest	27	25	-	-
Total	751	628	-	-

- The period to which the cashflow budgets and projections relate is 15 years in most cases. This longer period is used to take account of the expected convergence of the Central and Eastern European economies with their Western European counterparts. This significant assumption is used in the model to reflect the dynamism of the economies in Central and Eastern Europe.
- The growth rate used to extrapolate the cashflow projections after the 15-year period is equal to the expected long-term growth rate of gross domestic product. This rate depends on the country and varied between 1.2% and 1.8% in 2017 (2% in 2016).
- No sensitivity analysis was carried out for entities where the recoverable amount exceeded the carrying value to such a large extent that no reasonably possible change in the key assumptions would result in the recoverable amount being less than or equal to the carrying value. The table gives an indication for K&H Bank of the change in key assumptions that would lead to their recoverable amount equalling their carrying value.

Changes in key assumptions[1]	Increase in discount rate[2]	Decrease in terminal growth rate[3]	Increase in targeted solvency ratio[4]	Decrease in annual net profit	Increase in annual impairments
K&H Bank	1.90%	-	2.90%	15.70%	106.20%

[1] Needless to say account should be taken of the fact that a change in these assumptions could affect other assumptions used to calculate the recoverable amount.
[2] Based on a parallel shift and absolute increase in the discount rate curve. Discount rates are in the 15.9%–12.9% bracket.
[3] Not relevant for K&H Bank as it would mean that the terminal growth rate will be negative.
[4] Absolute increase in the tier-1 capital ratio.

Note 5.6 : Provisions for risks and charges

In millions of EUR	Provision for restructuring	Provision for taxes and pending legal disputes	Other	Subtotal	Provision, off-balance-sheet credit commit-ments	Total
2017						
Opening balance	3	103	25	131	76	207
Movements with an impact on result						
Amounts allocated	6	123	7	137	93	230
Amounts used	- 2	- 14	- 4	- 20	- 4	- 24
Unused amounts reversed	0	- 2	- 2	- 4	- 35	- 39
Transfer to or from non-current liabilities regarding disposal groups	0	0	0	0	0	0
Change in consolidation scope	0	0	0	0	0	0
Other movements	0	- 1	- 1	- 2	2	0
Closing balance	8	209	24	241	133	373
2016						
Opening balance	9	115	29	153	125	278
Movements with an impact on result						
Amounts allocated	0	20	5	25	41	66
Amounts used	- 2	- 20	- 8	- 30	- 11	- 41
Unused amounts reversed	0	- 11	- 1	- 12	- 42	- 54
Transfer to or from non-current liabilities regarding disposal groups	0	0	0	0	0	0
Change in consolidation scope	- 1	0	0	- 1	0	- 1
Other movements	- 3	- 1	0	- 4	- 38	- 42
Closing balance	3	103	25	131	76	207

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- Other provisions included those set aside for miscellaneous risks.
- Information relating to the main legal disputes pending: claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. 'probable outflow', 'possible outflow' or 'remotely probable outflow'). Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies'). No provisions are constituted for 'possible outflow' cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 50 million euros). All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
- Probable outflow (related to 'Provisions for taxes and pending legal disputes'):
  - From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult were involved in the transfer of cash companies. Cash companies are characterised by the fact that the asset side of their balance sheets comprises primarily amounts receivable and cash, in addition to other liquid assets. On several occasions between 1995 and 1997, KB Consult acted as the intermediary between the sellers and buyers of such companies. There were various ways in which the bank could be involved, but in most cases they concerned payments or lending. KBC Bank and/or KB Consult were joined to proceedings in a number of cases. In addition, KB Consult was placed under suspicion by an investigating judge in 2004, and together with KBC Bank and KBC Group NV, was summoned to appear in the proceedings before a judge in chambers in Bruges. On 9 November 2011, the judge referred KB Consult and KBC Bank to Bruges Criminal Court on charges of uttering, but dismissed the charges against KBC Group NV. The Belgian state appealed the decision of no case to answer against KBC Group NV. On 27 October 2015, the indictments division ruled that proceedings were time-barred and upheld the original decision of no case to answer. The case as referred will now be heard before Bruges Criminal Court in the course of 2018. A suitable provision has been constituted to deal with the potential impact of claims for damages in this respect. The transfer of a cash company is in principle completely legitimate. However, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties. Referral to the criminal court does not in any way imply that any KBC entity has been convicted of an offence. KBC is fully defending its position in these cases, based, among other things, on the fact that, during the period in which the events took place, the legal entity was not liable to prosecution and, in particular, KBC was utterly lacking in criminal intent.
  - In March 2000, Rebeo and Trustimmo, two subsidiaries of Almafin (a subsidiary of KBC Bank), together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned by the Ministry of Finance to appear before the civil court in Brussels regarding non-payment of 16.7 million euros in taxes owed by Broeckdal. However, Broeckdal contested this claim and in December 2002 initiated court proceedings against the Ministry of Finance before the civil court in Antwerp. The civil case pending before the Brussels court was suspended until final judgment had been passed in the tax-related proceedings pending before the Antwerp court. Broeckdal was wound up by court order

on 2 November 2010 and was declared properly wound up and dissolved on 13 September 2011. The Belgian state revived the tax-related proceedings, further to which the Antwerp court handed down a default judgment on 9 May 2014 and deemed closure of the liquidation to imply an abandonment of proceedings. On 17 February 2017, the Belgian state revived the civil action in Brussels Court of First Instance. Judgment is expected in the last quarter of 2018. A suitable provision has been constituted to cover the potential risk.

- Possible outflow:
  - On 6 October 2011, Irving H. Picard, trustee for the substantively consolidated SIPA (Securities Investor Protection Corporation Act) liquidation of Bernard L. Madoff Investments Securities LLC and Bernard L. Madoff, sued KBC Investments before the bankruptcy court in New York to recover approximately 110 million US dollars' worth of transfers made to KBC entities. The basis for this claim was the subsequent transfers that KBC received from Harley International, a Madoff feeder fund established under the laws of the Cayman Islands. This claim is one of a whole set made by the trustee against several banks, hedge funds, feeder funds and investors. In addition to the issues addressed by the district court, briefings were held on the applicability of the Bankruptcy Code's 'safe harbor' and 'good defenses' rules to subsequent transferees (as is the case for KBC). KBC, together with numerous other defendants, filed motions for dismissal. District court Judge Jed Rakoff has made several intermediate rulings in this matter, the most important of which are the rulings on extraterritoriality and good faith defences. On 27 April 2014, Judge Rakoff issued an opinion and order regarding the 'good faith' standard and pleading burden to be applied in the Picard/SIPA proceeding based on sections 548(b) and 559(b) of the Bankruptcy Code. As such, the burden of proof that KBC should have been aware of the fraud perpetrated by Madoff in this matter is for Picard/SIPA. On 7 July 2014, Judge Rakoff ruled that Picard/SIPA's reliance on section 550(a) does not allow for the recovery of subsequent transfers received abroad by a foreign transferee from a foreign transferor (as is the case for KBC Investments Ltd). Therefore, the trustee's recovery claims have been dismissed to the extent that they seek to recover purely foreign transfers. In June 2015, the trustee filed a petition against KBC to overturn the ruling that the claim fails on extraterritoriality grounds. In this petition, the trustee also amended the original claim including the sum sought. The amount has now been increased to 196 million US dollars. On 22 November 2016, Judge Bernstein handed down an intermediate ruling dismissing the claims of the trustee in respect of those foreign transfers under the rules of international comity. In December 2017, the trustee appealed the final ruling issued earlier in 2017 dismissing the above claims. The case will take six to eighteen months before a decision is given.
  - In the spring of 2008, KBC issued two bonds, KBC IFIMA 5-5-5 and KBC Group 5-5-5 (totalling 0.66 billion euros – also see Note 8 in the 2011 and 2012 annual reports). These structured bonds had a term of five years, a gross coupon of 5%, and were linked until their maturity to the public debt of five countries (Belgium, France, Spain, Italy and Greece). They allowed for early redemption of the residual value as soon as a credit event occurred with respect to one of these countries. When the 5-5-5 bonds were launched, the sovereign risks were generally regarded as very low. However, the unexpected, far-reaching changes in market conditions early in 2010 (the Greek crisis) changed the original risk profile of these bonds. At the start of 2011, KBC proactively decided to offer additional security to holders of 5-5-5 bonds and informed them of this in writing: if a credit event occurred, investors would still get back the amount they had invested, less the coupons already received and less taxes and charges. On 9 March 2012, a credit event actually occurred in Greece, and KBC honoured the promise it made. On 8 October 2012, a number of parties who had subscribed to the 5-5-5 bonds issued by KBC Group NV and by KBC IFIMA raised proceedings before Brussels Court of First Instance, as they were not satisfied with the proposed settlement. In the case involving the KBC Group NV issue, the court handed down a judgment on 20 January 2016, which found in favour of one of the plaintiffs. KBC Bank and KBC Group NV have appealed the case, with the final submissions being filed on 16 March 2017. No date has been set yet for the court hearing.

Note 5.7 : Other liabilities

In millions of EUR	31-12-2017	31-12-2016
Total	1 895	1 902
Breakdown by type		
Retirement benefit plans or other employee benefits	473	577
Accrued charges (other than from interest expenses on financial liabilities)	258	244
Other	1 163	1 080

- For more information on retirement benefit obligations, see Note 5.8 (note that the amount recognised under 'Retirement benefit obligations or other employee benefits' in Note 5.7 relates to a broader scope than the amounts presented in Note 5.8).

Note 5.8 : Retirement benefit obligations

In millions of EUR	31-12-2017	31-12-2016
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	2 126	2 230
Current service cost	89	77
Interest cost	31	40
Plan amendments	0	0
Actuarial gain or loss arising from changes in demographic assumptions	- 3	5
Actuarial gain or loss arising from changes in financial assumptions	2	266
Experience adjustments	- 24	51
Past-service cost	1	- 1
Benefits paid	- 86	- 67
Exchange differences	- 8	- 9
Curtailments	0	1
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	5	0
Other	- 8	- 466
Defined benefit obligation at end of the period	2 124	2 126
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 600	1 995
Actual return on plan assets	113	124
Expected return on plan assets	*24*	*34*
Employer contributions	54	67
Plan participant contributions	21	21
Benefits paid	- 82	- 67
Exchange differences	- 5	- 8
Settlements	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	- 1	0
Other	0	- 532
Fair value of plan assets at the end of the period	1 699	1 600
of which financial instruments issued by the group	30	32
of which property occupied by KBC	5	6
Funded Status		
Plan assets in excess of defined benefit obligations	- 424	- 526
Reimbursement rights	54	54
Asset ceiling limit	- 37	- 28
Unfunded accrued/prepaid pension cost	- 407	- 500
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 500	- 185
Amounts recognised in the income statement	- 76	- 62
Amounts recognised in other comprehensive income	113	- 365
Employer contributions	56	67
Exchange differences	3	0
Transfers under IFRS 5	0	1
Changes in the scope of consolidation	- 6	0
Other	2	44
Unfunded accrued/prepaid pension cost at the end of the period	- 407	- 500
Amounts recognised in the income statement	**76**	**62**
Current service cost	89	77
Past-service cost	1	- 1
Interest cost	6	6
Plan participant contributions	- 21	- 21
Curtailments	0	0
Settlements	0	0
Changes in the scope of consolidation	0	0
Changes to the amounts recognised in other comprehensive income	**- 113**	**364**
Actuarial gain or loss arising from changes in demographic assumptions	- 3	5
Actuarial gain or loss arising from changes in financial assumptions	2	266
Actuarial result on plan assets	- 91	- 90
Experience adjustments	- 24	51
Adjustments to limits of the asset ceiling	- 6	24
Other	9	108
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	14	13

- The pension claims of the Belgian-based staff of the various KBC group companies are covered by pension funds and group insurance schemes. Retirement benefits that are actively accrued for the current workforce of KBC Bank and most of their Belgian subsidiaries are accrued exclusively through the KBC pension funds. Retirement benefits accrued through employer contributions are currently accrued primarily through a defined benefit plan, where the benefit is calculated based on the final salary of employees before they retire, the number of years they had been in the plan and a formula that applies a progressive rate scale. A defined contribution plan was introduced on 1 January 2014 for all new employees. In this plan, a contribution is deposited based on the current monthly salary and the amounts deposited are paid out together with the (guaranteed) return on retirement. Both types of pension plan are managed by the OFP Pensioenfonds KBC and the OFP Pensioenfonds Senior Management KBC, which uses the services of KBC Asset Management for the investment strategy. In addition, there are a number of smaller, closed group insurance schemes from the past that will continue to be funded.

- KBC Bank Ireland participated in a defined benefit plan until 31 August 2012. As of that date, no additional pension rights will be accumulated under that plan for future years of service. Benefits accrued in the plan continue to be linked to future salary increases of the participants (i.e. it will be managed dynamically). The assets of the pension plan have been separated from the assets of the bank. The employees of KBC Finance Ireland and the Dublin branch of KBC Bank are also signed up to this pension plan. The retirement benefits are calculated using a mathematical formula that takes account of age, salary and the length of time the participant was signed up.

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

Changes in main headings in the main table	2017	2016	2015	2014	2013
Defined benefit obligations	2 124	2 126	2 230	2 444	1 878
Fair value of plan assets	1 699	1 600	1 995	1 939	1 596
Unfunded accrued/prepaid pension cost	- 407	- 500	- 185	- 451	- 228
Impact of changes in the assumptions used in the actuarial calculation of plan assets and gross liabilities	2017	2016	2015	2014	2013
Impact on plan assets	0	0	0	0	0
Impact on defined benefit obligations	4	147	24	- 135	- 85

Additional information on retirement benefit obligations – DEFINED BENEFIT PLANS

	KBC pension fund	KBC Bank Ireland pension plan
Composition 31-12-2017		
Shares	39%	38%
Bonds	47%	40%
Real estate	9%	3%
Cash	5%	1%
Investment funds	0%	18%
Of which illiquid assets	*9%*	*17%*
Composition 31-12-2016		
Shares	34%	41%
Bonds	49%	35%
Real estate	13%	3%
Cash	4%	0%
Investment funds	0%	21%
Of which illiquid assets	*8%*	*17%*

Additional information on retirement benefit obligations – DEFINED BENEFIT PLANS

	KBC pension fund	KBC Bank Ireland pension plan
Contributions expected in 2018 (in millions of EUR)	55	3
Regulatory framework	Pension plans are registered in collective labour agreements and incorporated into a set of regulations. Annual reporting of funding levels to supervisory authorities (FSMA/NBB). Any underfunding must be reported immediately to the supervisory authorities	Regulated by the Irish Pensions Authority.Funding level calculated every year and certified every three years. Any underfunding must be reported immediately to the Irish Pensions Authority..
Risks for KBC	Investment risk and inflation risk	Investment risk
ALM policy	The hedging portfolio hedges against interest rate risk and inflation risk using interest rate swaps. The return portfolio aims to generate an extra return.	Investments in leveraged LDI pooled funds..
Plan amendments	An employer-funded defined contribution plan was introduced on 1 January 2014. All employees joining the company from that date are signed up to this new plan, while all those who were already employed on 31 December 2013 remain signed up to the defined benefit plan unless they chose to switch to the new one.	Not applicable
Curtailments and settlements	Not applicable	Not applicable
Discounting method	Based on BVAL quotes for various time points of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. As of year 22, the curve is flat.	The Mercer method starts from a proprietary basket of corporate bonds with AAA, AA and A ratings. A spread is deducted from the bonds with an A rating in order to obtain the equivalent of an AA-rated corporate bond. After conversion to the zero coupon format using extrapolation for long maturities, the equivalent discount rate is determined.
Key actuarial assumptions		
Average discount rate	1.21%	2.30%
Expected rate of salary increase	2.70%	2.75%
Expected inflation rate	1.85%	1.75%
Expected rate of increase in pensions	–	1.75%
Weighted average duration of the obligations	13.50 years	27 jaar
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations		
Increase in the retirement benefit obligations on 31-12-2017 consequent on:		
a decrease of 1% in the discount rate	14.40%	31.96%
an increase of 1% in the expected inflation rate	12.58%	30.23%
an increase that is 1% higher than the expected real increase in salary	16.24%	6.35%
the age of retirement being 65 for all active employees	0.76%	–
an increase of one year in life expectancy	–	3.06%
The impact of the following assumptions has not been calculated:	Decreasing mortality rates. Pension benefits are paid out in capital, so longevity risk is immaterial. Staff turnover rates, since the expected rate is very low.	Not applicable.

Additional information on retirement benefit obligations – DEFINED CONTRIBUTION PLANS

	KBC pension fund
Contributions expected in 2018 (in millions of EUR)	19
Regulatory framework	Pursuant to the Belgian Supplementary Pensions Act, the employer must guarantee a minimum return of 1.75% on employee and employer contributions.
Risks for KBC	Investment risk .
Valuation	Retirement benefit obligations are measured on the basis of the accrued benefits on the reporting date, making a projection of these benefits (at the rate of interest guaranteed by law) until the expected age of retirement, and discounting the resulting benefits. KBC offers two types of defined contribution plan: one that is financed through employee contributions and one through employer contributions. The value of the employee-funded defined contribution plan takes account of the accrued interest (at the fund return rate), but not of future contributions since the plan is not deemed to be backloaded. The value of the employer-funded defined contribution plan takes account of future contributions in the projection, due to the fact that the plan is deemed to be backloaded.
Discounting method	Based on BVAL quotes for various time points of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. As of year 22, the curve is flat.
Key actuarial assumptions	
Average discount rate	0.96%
Weighted average duration of the obligations	10.64 jaar
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations	
Increase in the retirement benefit obligations on 31-12-2017 consequent on:	
a decrease of 1% in the discount rate	10.15%
the age of retirement being 65 for all active employees	0.35%

Note 5.9 : Parent shareholders’ equity and AT1 instruments

In number of shares	31-12-2017	31-12-2016
Ordinary shares	**915 228 482**	**915 228 482**
of which ordinary shares that entitle the holder to a dividend payment	*915 228 482*	*915 228 482*
of which treasury shares	*0*	*0*
Other information		
Par value per ordinary share (in EUR)	9.78	9.78
Number of shares issued but not fully paid up	0	0

- Ordinary shares: ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued.
- On 31 December 2017, 915 228 482 ordinary shares were in circulation, of which 915 228 481 shares belonged to KBC Group NV and 1 share belonged to KBC Insurance NV.
- Additional tier-1 instruments: in March 2014, KBC issued 1.4 billion euros in CRD IV-compliant additional tier-1 securities. These securities qualify as additional tier-1 capital under Basel III (as adopted in the CRR) and, therefore, have had a positive impact on KBC’s tier-1 capital. They are perpetual and may be called for redemption after five years or on each subsequent coupon date. They also have a loss absorption mechanism (i.e. a temporary write-down trigger should the common equity tier-1 ratio fall below 5.125%). Since they are classified as shares under IAS 32 (because they have fully discretionary non-cumulative coupons and are perpetual), the annualised coupon of 5.825% – which is paid every quarter – is treated as a dividend. This transaction had no impact on the number of ordinary shares.

Note 5.10: Non-current assets held for sale and discontinued operations (IFRS 5)

No principal group companies fell under the scope of IFRS 5 in 2017 and 2016.

6.0 Other notes

Note 6.1 : Commitments and guarantees granted and received

In millions of EUR	31-12-2017	31-12-2016
Loan commitments - undrawn amount		
Given	36 397	34 344
Irrevocable	23 628	21 870
Revocable	12 769	12 474
Received	35	31
Financial guarantees		
Given	9 977	9 916
Guarantees received / collateral	50 268	42 492
For impaired and past due assets	1 960	3 795
For assets that are not impaired or past due assets	48 308	38 697
Other commitments		
Given	237	238
Irrevocable	237	238
Revocable	0	0
Received	12	6
Carrying value of financial assets pledged as collateral for		
Liabilities*	35 365	35 117
Contingent liabilities	2 007	2 339

*At year-end 2017 11,0 billion euros worth of residential mortgage loans and cash collections were entered in the cover asset register for the special estate of the covered bond programme (11.2 billion euros at year-end 2016).

- Fair value of financial guarantees: based on the available market value.
- KBC Group NV irrevocably and unconditionally guarantees all amounts shown as liabilities in the statutory financial statements of the following Irish companies in respect of the financial year ending on 31 December 2017, allowing these companies to be eligible for exemption from certain disclosure requirements, pursuant to Section 357 of the Irish Companies Act 2014: KBC Fund Management Limited. Since these companies are included in the scope of consolidation, this is an intragroup transaction and the guarantee is not included in the above table.
- There is an obligation to return collateral received (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will organise the foreclosure itself or take possession of the collateral. Collateral received that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table). More details are provided in Note 4.3.

Collateral held (which may be sold or repledged in the absence of default by the owner) (in millions of EUR)	Fair value of collateral held		Fair value of collateral sold or repledged	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
Financial assets	22 664	15 086	8 651	7 859
Equity instruments	7	13	2	5
Debt instruments	22 396	14 867	8 649	7 854
Loans & advances	261	206	0	0
Cash	0	0	0	0
Non-financial assets	0	0	0	0
Property and equipment	0	0	0	0
Investment property	0	0	0	0
Other	0	0	0	0

- Collateral acquired through foreclosure came to 0.1 billion euros in 2017 (0.3 billion euros in 2016).

Note 6.2 : Leasing

In millions of EUR	31-12-2017	31-12-2016
Finance lease receivables		
Gross investment in finance leases, receivable	5 855	5 453
At not more than one year	1 360	1 323
At more than one but not more than five years	3 171	2 836
At more than five years	1 324	1 294
Unearned future finance income on finance leases	497	530
Net investment in finance leases	5 308	4 916
At not more than one year	1 258	1 212
At more than one but not more than five years	2 894	2 601
At more than five years	1 156	1 103
Of which unguaranteed residual values accruing to the benefit of the lessor	33	21
Accumulated impairment for uncollectable lease payments receivable	88	67
Contingent rents recognised in income	93	93
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable leases	496	554
Contingent rents recognised in income	1	0

- There are no significant cases in which KBC is the lessee in operating or finance leases.
- Pursuant to IFRIC 4, no operating or finance leases contained in other contracts were identified.
- Finance leases: KBC provides most finance leases through separate companies operating mainly in Belgium and Central Europe. It offers finance lease products ranging from equipment and vehicle leasing to real estate leasing. In Belgium, finance leases are typically sold through KBC group’s branch network, and that channel is becoming increasingly important in Central Europe, too.
- Operating leases: involve primarily full service car leases, which are sold through the KBC Bank and CBC Banque branch network and through an internal sales team. Full service car leasing activities are being further developed in Central Europe, too.

Note 6.3 : Related-party transactions

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

	31-12-2017						31-12-2016					
	Parent enitities with joint control	Subsi-diaries	Associated companies	Joint Ventures	Other	Total	Parent enitities with joint control	Subsi-diaries	Associa-ted com-panies	Joint Ventures	Other	Total
Assets	15	291	137	11	1 603	2 057	12	292	154	11	1 855	2 324
Loans and advances	0	144	44	2	1 486	1 676	0	104	46	1	1 608	1 759
Equity instruments	5	109	92	10	0	215	0	187	106	10	0	303
Other receivables	10	37	2	0	117	166	12	1	1	0	247	262
Liabilities	5 317	69	101	151	1 293	6 932	3 492	364	109	289	1 459	5 713
Deposits	49	68	11	151	1 242	1 521	27	364	8	289	1 339	2 027
Other financial liabilities	5 229	0	0	0	17	5 246	3 447	0	0	0	27	3 474
Other liabilities (including accrued expense)	39	1	90	0	34	165	17	0	101	0	94	212
Income statement	- 718	10	- 7	- 4	- 21	- 741	- 710	13	1	- 4	- 262	- 962
Net interest income	- 65	0	- 1	- 4	- 75	- 145	- 50	- 2	- 1	- 4	- 147	- 203
Interest income	0	0	1	0	0	2	0	1	1	0	2	4
Interest expense	- 65	- 1	- 1	- 5	- 75	- 147	- 50	- 2	- 2	- 5	- 149	- 208
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0
Technical charges, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0
Dividend income	0	2	0	0	7	9	0	0	9	0	3	13
Net fee and commission income	0	9	- 1	0	94	102	0	14	- 1	0	81	95
Fee and commission income	0	9	1	0	172	182	0	14	0	1	143	158
Fee and commission expense	0	0	- 1	0	- 78	- 80	0	0	- 1	0	- 62	- 63
Net other income	- 1	0	- 2	0	- 16	- 20	0	0	- 5	0	- 153	- 158
General administrative expenses	- 652	0	- 4	0	- 31	- 687	- 660	0	- 1	0	- 46	- 708
Undrawn portion of Loan commitments, financial guarantees and other commitments												
issued by the group	0	39	7	0	137	183	0	10	6	0	151	167
received by the group	0	0	0	0	0	0	0	0	0	0	0	0

Transactions with key management personnel (members of the Board of Directors and the Executive Committee of KBC Bank), in millions of EUR	31-12-2017	31-12-2016
Total[1]	2	2
Breakdown by type of remuneration		
Short-term employee benefits	2	1
Post-employment benefits	0	0
Defined benefit plans		0
Defined contribution plans	0	0
Other long-term employee benefits	0	0
Termination benefits	0	0
Share-based payments	0	0
Share options, in units		
At the beginning of the period	0	0
Granted	0	0
Exercised	0	0
Changes in composition of directors	0	0
At the end of the period	0	0
Advances and loans granted to the directors and partners	2	2

[1]Remuneration to directors or partners of the consolidating company on the basis of their activity in that company, its subsidiaries and associated companies, including the amount of retirement pensions granted to former directors or partners on that basis

- The 'Entities exercising joint control over the entity' heading in the first table includes transactions with KBC Group NV.
- The 'Subsidiaries' heading in the first table includes transactions with unconsolidated subsidiaries (transactions with consolidated subsidiaries have already been eliminated from the consolidated financial statements).
- The 'Other' heading in the first table includes KBC Insurance, KBC Ancora, Cera and MRBB.
- All related-party transactions occur at arm's length.
- Key management comprises the members of the Board of Directors and Executive Committee of KBC Bank NV. More detailed information on remuneration paid to key management staff is provided in the 'Corporate governance statement' section.
- There were no significant impairment charges vis-à-vis related parties.

Note 6.4 : Statutory auditor's remuneration

Statutory auditor's remuneration (PwC, in EUR)

KBC Bank NV and its subsidiaries	2017	2016
Standard audit services	6 387 050	5 751 538
Other services	1 641 416	682 279
Other certifications	1 347 584	230 269
Tax advice	266 389	39 340
Other non-audit assignments	27 443	412 670
KBC Bank NV (alone)		
Standard audit services	2 212 765	1 726 500
Other services	544 883	114 454

Note 6.5 : List of subsidiaries, joint ventures and associated companies, 31-12-2017

Company	Registered office	Company number	Share of capital held at group level (%)	Business unit (**)	Activity
KBC Bank: subsidiaries that are fully consolidated					
KBC Bank NV	Brussels - BE	0462.920.226	100	BEL/GRP	credit institution
Almafin Real Estate NV	Brussels - BE	0403.355.494	100	BEL	real estate
Almafin Real Estate Services NV	Brussels - BE	0416.030.525	100	BEL	real estate
Immo Arenberg NV	Brussels - BE	0471.901.337	100	BEL	real estate
Apitri NV	Brussels - BE	0469.889.873	100	BEL	real estate
Bel Rom Cinci-S.R.L.	Bucharest - RO	--	100	BEL	leasing
Bel Rom Sapte-S.R.L.	Bucharest - RO	--	100	BEL	leasing
CBC BANQUE SA	Brussels - BE	0403.211.380	100	BEL	credit institution
Československá Obchodná Banka a.s.	Bratislava - SK	--	100	IMA	credit institution
ČSOB Leasing a.s.	Bratislava - SK	--	100	IMA	leasing
ČSOB Leasing Poist'ovaci Maklér s.r.o.	Bratislava - SK	--	100	IMA	leasing support
ČSOB Real, s.r.o.	Bratislava - SK	--	100	IMA	acilities management and support services
ČSOB Stavebná Sporitel'na a.s.	Bratislava - SK	--	100	IMA	building savings and loans
Československá Obchodní Banka a.s.	Prague - CZ	--	100	CZR	credit institution
Bankovní Informační Technologie s.r.o.	Prague - CZ	--	100	CZR	automatic data processing
ČSOB Advisory a.s.	Prague - CZ	--	100	CZR	investment administration
ČSOB Factoring a.s.	Prague - CZ	--	100	CZR	factoring
ČSOB Leasing a.s.	Prague - CZ	--	100	CZR	leasing
ČSOB Leasing Pojist'ovaci Maklér s.r.o.	Prague - CZ	--	100	CZR	leasing support
ČSOB Penzijní společnost a.s.	Prague - CZ	--	100	CZR	pension insurance fund
Hypoteční Banka a.s.	Prague - CZ	--	100	CZR	mortgage credit institution
Patria Finance a.s.	Prague - CZ	--	100	CZR	online securities trading
Patria Finance CF a.s.	Prague - CZ	--	100	CZR	agent and consulting services
Radlice Rozvojová a.s.	Prague - CZ	--	100	CZR	real estate
CIBANK EAD	Sofia - BG	--	100	IMA	credit institution
East Golf Properties EAD	Sofia - BG	--	100	IMA	real estate
Management of Assets for Sale - 2 EOOD	Sofia - BG	--	100	IMA	real estate
Interlease EAD	Sofia - BG	--	100	IMA	leasing
Hotel Perun Bansko EOOD	Sofia - BG	--	100	IMA	hotel
Interlease Auto EAD	Sofia - BG	--	100	IMA	leasing
KBC Asset Management NV	Brussels - BE	0469.444.267	51,86	BEL	asset management
KBC Asset Management SA	Luxembourg - LU	--	46,30	BEL	asset management
KBC Fund Management Limited	Dublin - IE	--	51,86	BEL	asset management
KBC Asset Management Participations	Luxembourg - LU	--	51,86	BEL	asset management
ČSOB Asset Management, a.s., Investiční Společnost	Prague - CZ	--	71,15	CZR	asset management
KBC Autolease NV	Leuven - BE	0422.562.385	100	BEL	leasing
KBC Lease (Luxembourg) SA	Capellen - LU	--	100	BEL	leasing
KBC Bank Ireland Plc.	Dublin - IE	--	100	IMA	credit institution
Danube Holdings Limited	Dublin - IE	--	100	IMA	real estate
Glare Nominee Limited	Dublin - IE	--	100	IMA	*
IIB Finance DAC	Dublin - IE	--	100	IMA	commercial and financial services
IIB Homeloans and Finance Limited	Dublin - IE	--	100	IMA	holding company
KBC Homeloans and Finance Limited	Dublin - IE	--	100	IMA	holding company
Premier Homeloans Limited	London - GB	--	100	IMA	home loans
Irish Homeloans and Finance Limited	Dublin - IE	--	100	IMA	real estate
KBC ACS Limited	Dublin - IE	--	100	IMA	*
KBC Mortgage Finance	Dublin - IE	--	100	IMA	mortgage finance
KBC Nominees Limited	Dublin - IE	--	100	IMA	*
Fermion Limited	Dublin - IE	--	100	IMA	mortgages management
Intercontinental Finance	Dublin - IE	--	100	IMA	leasing

Linkway Developments Limited	Dublin - IE	--	100	IMA	*
Merrion Commercial Leasing Limited	London - GB	--	100	IMA	leasing
Merrion Equipment Finance Limited	London - GB	--	100	IMA	*
Merrion Leasing Assets Limited	London - GB	--	100	IMA	*
Merrion Leasing Finance Limited	London - GB	--	100	IMA	*
Merrion Leasing Industrial Limited	London - GB	--	100	IMA	*
Merrion Leasing Limited	London - GB	--	100	IMA	*
Merrion Leasing Services Limited	London - GB	--	100	IMA	leasing
Monastersky Limited	Dublin - IE	--	100	IMA	holding company
Needwood Properties Limited	Dublin - IE	--	100	IMA	real estate
Phoenix Funding 2 DAC	Dublin - IE	--	100	IMA	securitisation
Phoenix Funding 3 DAC	Dublin - IE	--	100	IMA	securitisation
Phoenix Funding 4 DAC	Dublin - IE	--	100	IMA	securitisation
Phoenix Funding 5 DAC	Dublin - IE	--	100	IMA	securitisation
Phoenix Funding 6 DAC	Dublin - IE	--	100	IMA	securitisation
Rolata Limited	Douglas - IM	--	100	IMA	investments
KBC Commercial Finance NV	Brussels - BE	0403.278.488	100	BEL	factoring
KBC Credit Investments NV	Brussels - BE	0887.849.512	100	BEL/GRP	investment firm
KBC Finance Ireland	Dublin - IE	--	100	GRP	lending
KBC Financial Services (Ireland) Limited	Dublin - IE	--	100	GRP	holding company
KBC Ifima SA	Luxembourg - LU	--	100	GRP	financing
KBC Immolease NV	Leuven - BE	0444.058.872	100	BEL	leasing
KBC Investments Limited	London - GB	--	100	GRP	stockbroker
KBC AIM Feeder Fund	George Town - KY	--	100	GRP	fund
KBC AIM Master Fund	George Town - KY	--	100	GRP	fund
KBC Financial Products (Cayman Islands) Limited "Cayman I"	George Town - KY	--	100	GRP	stockbroker
KBC Investments Cayman Islands V Limited	George Town - KY	--	100	GRP	fund
KBC Lease Belgium NV	Leuven - BE	0426.403.684	100	BEL	leasing
KBC Real Estate Luxembourg SA	Luxembourg - LU	--	100	BEL	real estate
KBC Vastgoedinvesteringen NV	Brussels - BE	0455.916.925	100	BEL	real estate
KBC Vastgoedportefeuille België NV	Brussels - BE	0438.007.854	100	BEL	real estate
Apicinq NV	Brussels - BE	0469.891.457	100	BEL	real estate
KBC Securities NV	Brussels - BE	0437.060.521	100	BEL	stockbroker
KBC Securities USA LLC	New York - US	--	100	GRP	stockbroker
K&H Bank Zrt.	Budapest - HU	--	100	IMA	credit institution
K&H Autópark Bérleti és Szolgáltató Kft	Budapest - HU	--	100	IMA	fleet management
K&H Befektetési Alapkezelő Zrt.	Budapest - HU	--	100	IMA	securities broking and fund management
K&H Csoportszolgáltató Központ Kft.	Budapest - HU	--	100	IMA	accounting and tax collection
K&H Equities Tanácsadó Zrt.	Budapest - HU	--	100	IMA	business and management advice
K&H Eszközlizing Gép-és Tehergépjármű Bérleti Kft.	Budapest - HU	--	100	IMA	leasing
K&H Faktor Pénzügyi Szolgáltató Zrt.	Budapest - HU	--	100	IMA	factoring
K&H Ingatlanlizing Zrt	Budapest - HU	--	100	IMA	leasing
K&H Jelzálogbank Zrt.	Budapest - HU	--	100	IMA	lending
Loan Invest NV "Institutionele VBS naar Belgisch recht"	Brussels - BE	0889.054.884	100	BEL	securisation
Poelaert Invest NV	Brussels - BE	0478.381.531	100	BEL	real estate
United Bulgarian Bank AD	Sofia - BG	--	99,91	IMA	credit institution
UBB Asset Management AD	Sofia - BG	--	99,92	IMA	asset management
UBB Insurance Broker AD	Sofia - BG	--	99,91	IMA	insurance agents and brokers
UBB Factoring EOOD	Sofia - BG	--	99,91	IMA	factoring
KBC Bank: subsidiaries that are not fully consolidated					
2 B Delighted NV (1)	Roeselare - BE	0891.731.886	99,58	GRP	lighting
Asia Pacific Trading & Investment Company Limited (1)	Hong Kong - HK	--	99,58	GRP	lighting
2 B Delighted Italia Srl (1)	Torino - IT	--	99,58	GRP	lighting
Wever & Ducré NV (1)	Roeselare - BE	0412.881.191	99,58	GRP	lighting
ADB Asia Pacific Limited (1)	Singapore - SG	--	100	GRP	credit institution
Almaloisir & Immobilier sas (1)	Nice - FR	--	100	BEL	real estate
Banque Diamantaire (Suisse) SA (1)	Geneva - CH	--	100	GRP	credit institution
Brussels North Distribution NV (1)	Brussels - BE	0476.212.887	100	BEL	real estate
C Plus SAS (1)	Voisins-Le-Bretonneux - FR		83,33	BEL	real estate
ČSOB Nadácia (1)	Bratislava - SK	--	100	IMA	real estate
Eurincasso s.r.o. (1)	Prague - CZ	--	100	CZR	debt collection
Francilia Immobilier SARL (1)	Voisins-Le-Bretonneux - FR		83,33	BEL	real estate

Immo-Antares NV (2)	Brussels - BE	0456.398.361	100	BEL	issuance of real estate certificates
Immo-Basilix NV (2)	Brussels - BE	0453.348.801	100	BEL	issuance of real estate certificates
Immo-Beaulieu NV (2)	Brussels - BE	0450.193.133	50	BEL	issuance of real estate certificates
Immobilière Distri-Land NV (2)	Brussels - BE	0436.440.909	87,52	BEL	issuance of real estate certificates
Immo Genk-Zuid NV (2)	Brussels - BE	0464.358.497	100	BEL	issuance of real estate certificates
Immolease-Trust NV (1)	Brussels - BE	0406.403.076	100	BEL	real estate
Immo Lux-Airport SA (2)	Luxembourg - LU	--	100	BEL	issuance of real estate certificates
Immo NamOtt NV (2)	Brussels - BE	0840.412.849	100	BEL	issuance of real estate certificates
Immo NamOtt Tréfonds NV (2)	Brussels - BE	0840.620.014	100	BEL	issuance of real estate certificates
Immo-Quinto NV (2)	Brussels - BE	0466.000.470	100	BEL	real estate
Immo-Zénobe Gramme NV (2)	Brussels - BE	0456.572.664	100	BEL	issuance of real estate certificates
IP Exit, a.s. (2)	Prague - CZ	--	71,30	CZR	*
Julienne Holdings S.à.r.l. (1)	Luxembourg - LU	--	93	BEL	holding company
Julie LH BVBA (1)	Brussels - BE	0890.935.201	93	BEL	real estate
Juliette FH BVBA (1)	Zaventem - BE	0890.935.397	93	BEL	real estate
KB-Consult NV (1)	Brussels - BE	0437.623.220	99,95	BEL	*
KBC Bail France II sas (1)	Annecy le Vieux - FR	--	100	GRP	leasing
KBC Bail Immobilier France sas (1)	Paris - FR	--	100	BEL	leasing
KBC Financial Products UK Limited (1)	London - GB	--	100	GRP	(derivative) financial products
KBC Lease (UK) Limited (1)	Uxbridge - GB	--	100	GRP	leasing
KBC Net Lease Investments LLC (1)	New York - US	--	100	GRP	leasing
KBC Start it Fund NV (1)	Brussels - BE	0647.812.124	100	BEL	investment firm
Luxembourg North Distribution SA (2)	Luxembourg - LU	--	100	BEL	issuance of real estate certificates
Immo Mechelen City Center NV (2)	Brussels - BE	0635.828.862	100	BEL	issuance of real estate certificates
Midas Life Settlements LLC (1)	New York - US	--	100	GRP	life settlement service provider
Motokov a.s. (1)	Prague - CZ	--	70,09	CZR	*
MuMaS SASU (1)	Voisins-Le-Bretonneux - FR	--	83,33	BEL	real estate
NV ACTIEF NV (1)	Brussels - BE	0824.213.750	57,14	BEL	training
Patria investiční společnost, a.s. (1)	Prague - CZ	--	100	CZR	asset management
Posselton Limited (1)	Dublin - IE	--	100	GRP	energy
Reverse Mortgage Loan Trust 2008-1 (1)	New York - US	--	100	GRP	reverse mortgages
RHVG DK NV (2)	Brussels - BE	0539.765.408	100	BEL	issuance of real estate certificates
RHVG QT NV (2)	Brussels - BE	0539.764.121	100	BEL	issuance of real estate certificates
RHVG RB NV (2)	Brussels - BE	0539.765.012	100	BEL	issuance of real estate certificates
RHVG SB NV (2)	Brussels - BE	0539.764.814	100	BEL	issuance of real estate certificates
RHVG TB NV (2)	Brussels - BE	0539.764.517	100	BEL	issuance of real estate certificates
Setanta Energy Investment Holding Corp. (1)	Delaware - US	--	100	GRP	holding company
Setanta Energy LLC (1)	Delaware - US	--	100	GRP	energy
SousedeCZ, s.r.o. (1)	Prague - CZ	--	100	CZR	real estate
SPINC SASU (1)	Voisins-Le-Bretonneux - FR	--	83,33	BEL	real estate
TBI SAS (1)	Voisins-Le-Bretonneux - FR	--	83,33	BEL	real estate
Top-Pojištění.cz s.r.o. (1)	Prague - CZ	--	100	CZR	insurance arranging
Transformation fund Stabilita (1)	Prague - CZ	--	100	CZR	pension insurance
UBRIK SASU (1)	Voisins-Le-Bretonneux - FR	--	66,67	BEL	real estate
Weyveld Vastgoedmaatschappij NV (2)	Brussels - BE	0425.517.818	100	BEL	issuance of real estate certificates
World Alliance Financial LLC (1)	New York - US	--	100	GRP	reverse mortgages
KBC Bank: joint ventures accounted for using the equity method					
Cash Service Company AD	Sofia - BG	--	19,98	IMA	cash cycle servicing
Českomoravská Stavební Spořitelna (CMSS)	Prague - CZ	--	55	CZR	building society savings
Joyn International NV	Hasselt - BE	0578.946.577	41,85	BEL	digital loyalty card
Payconiq België NV	Hasselt - BE	0675 984 882	33,33	BEL	payment services
Payconiq International S.A.	Leudelange - LU	--	46,50	BEL	payment services
Payconiq Holding B.V.	Amsterdam - NL	--	46,50	BEL	payment services
UBB-MetLife Zhivotozastrahovatelno Drujestvo AD	Sofia - BG	--	59,94	IMA	life insurance
KBC Bank: joint ventures not accounted for using the equity method (1)					
Atrium Development SA	Luxembourg - LU	--	25	BEL	real estate
Covent Garden Development NV	Brussels - BE	0892.236.187	25	BEL	real estate
Covent Garden Real Estate NV	Zaventem - BE	0872.941.897	50	BEL	real estate
Jesmond Amsterdam B.V.	Amsterdam - NL	--	50	BEL	holding company
Miedziana Sp z.o.o.	Warszawa - PL	--	40,75	BEL	real estate
Joyn Belgium NV	Brussels - BE	0846.759.718	41,85	BEL	digital loyalty card
Joyn Urban Services BVBA	Heule - BE	0810.040.070	41,85	BEL	digital loyalty card
Real Estate Participation NV	Zaventem - BE	0473.018.817	50	BEL	real estate
Xiongwei Lighting (Guangzhou) Co., Ltd.	Guangzhou - CY	--	49,79	GRP	lighting
KBC Bank: companies accounted for using the equity method					
ČSOB Pojišťovna a.s.	Pardubice - CZ	--	0,24	CZR	insurance company
HAGE Hajdúsági Agráripari Zrt.	Nádudvar - HU	--	25	IMA	agriculture

KBC Bank: companies not accounted for using the equity method (1)					
Bancontact Company NV	Brussels - BE	0884.499.250	20	BEL	credit cards
Banking Funding Company NV	Brussels - BE	0884.525.182	20,25	BEL	payment transactions
Bedrijvencentrum Regio Roeselare NV	Roeselare - BE	0428.378.724	22,22	BEL	business center
Big Bang Ventures Comm VA	Lochristi - BE	0471.766.725	20,00	GRP	wireless telecommunications activities
Brussels I3 Fund NV	Brussels - BE	0477.925.433	36,37	BEL	venture capital funds
Czech Banking Credit Bureau a.s.	Prague - CZ	--	20	CZR	ICT
ENGIE REN s.r.o.	Prague - CZ	--	42,82	CZR	rental services
Etoiles d'Europe sas	Paris - FR	--	45	BEL	hotels
Gasco Group NV	Willebroek - BE	0887.290.177	28	GRP	wholesale of industrial chemical products
Gemma Frisius-Fonds K.U. Leuven	Leuven - BE	0477.960.372	40	BEL	venture capital
Isabel NV	Brussels - BE	0455.530.509	25,33	BEL	ICT
Justinvest NV	Antwerp - BE	0476.658.097	33,33	BEL	real estate
První Certifikační Autorita a.s.	Prague - CZ	--	23,25	CZR	certification services
Rabot Invest NV	Antwerp - BE	0479.758.733	25	BEL	real estate
Rendex NV	Antwerp - BE	0461.785.227	26	GRP	*
Storesquare NV	Roeselare - BE	0554.814.066	27	BEL	web portals
Thanksys NV	Hasselt - BE	0553.877.423	29,08	BEL	IT and consultancy
Xenarjo cvba	Mechelen - BE	0899.749.531	22,39	BEL	social sector

* Not active

** BEL: Belgium Business Unit, CZR: Czech Republic Business Unit, IMA: International Markets Business Unit, GRP: Group Centre

Reason for exclusion : (1) exclusion based on limited importance

(2) real estate companies and certificates w here the Group is not exposed to variability of returns

(3) no control based on the criteria of IFRS10.

Companies qualifying for consolidation are also effectively included in the consolidated accounts if tw o of the follow ing criteria are met:

- if the Group interest in capital and reserves exceed 2,5 million euro
- if the Group interest in the result exceeds 1 million euro
- if the balance sheet total exceed 100 miliion euro. The aggregated total balance sheet of the companies excluded from consolidation may not exceed 1 % of the consolidated balance sheet total.

- All (material) entities (including structured entities (SPVs)) over which the consolidating entity exercises, directly or indirectly, exclusive control are consolidated according the method of full consolidation. To assess whether or not structured entities have to be consolidated, KBC uses the principles set out in IFRS 10, as well as thresholds for inclusion in consolidation (see previous bullet point). A number of structured entities meet only one of these criteria, which means that – as long as the combined balance sheet total of the companies excluded from consolidation is not more than 1% of the consolidated balance sheet total – these entities are not consolidated. This relates chiefly to the structured entities set up for the remaining CDO activities. Please note that these entities only exceed one threshold (balance sheet total) since their equity and net results are always very limited. However, the remaining CDO-related results are recorded under the KBC Financial Products group, which is, of course, consolidated. Consequently, excluding these structured entities from the consolidated accounts only impacts presentation of the consolidated balance sheet, and not equity, the results or solvency.

- Disclosures of interests in other entities (IFRS 12)
  - Significant judgements and assumptions
    - In general, funds managed by KBC are not included in the scope of consolidation, as they do not meet the three criteria of control (power, exposure to a variable return and ability to use such power to affect those returns).
    - Joint subsidiaries in which KBC does not hold 50% of the share capital are classified as joint subsidiaries, since it has joint control over these entities based on shareholder agreements.
  - Interests in subsidiaries
    - For the vast majority of the entities, the voting rights are materially equal to the ownership rights.
    - Certain structured entities that are included in the scope of consolidation are subject to significant restrictions. In the past, KBC Bank initiated a number of CDO and RMBS note issues, in each case through a structured entity established for the sole purpose of entering into the relevant transaction (collectively referred to as the 'vehicles' and the 'transactions'). Each of the vehicles invested the proceeds of its notes issue in order to collateralise its obligations under both the notes and a portfolio credit default swap. All shares in the vehicles are wholly owned by a trust company. Nevertheless, the vehicles are consolidated in KBC Group based on the requirements of IFRS 10. Under the agreements governing the transactions, there are significant restrictions on KBC Bank's ability to access, transfer or use the cash or other assets of the vehicles to settle liabilities of other entities within the KBC group. All the assets of the vehicles are assigned to the security trustee (for itself and as trustee for the holders of the notes) as continuous security for the payment and discharge of the obligations of the vehicles under the notes. Unless explicitly authorised by the agreements or unless the security trustee provides consent in writing beforehand, neither the vehicle nor KBC Bank as administrator can access, transfer or use the cash or other assets of the vehicles to settle liabilities of other KBC-group entities.
    - Pursuant to the joint capital decision, specific pillar-II levels have been set to ensure that certain minimum capital ratios are respected, which impose certain restrictions on the repatriation of capital and distribution of dividends.
    - With regard to Loan Invest NV, KBC is exposed to loan losses on the mortgage portfolio and, therefore, recognises impairment losses on them where necessary.
  - Interests in joint ventures and associated companies
    - For a summary of the financial information on ČMSS, see Note 5.3.

    - No summarised financial information is provided for immaterial entities on an aggregate basis, because, even on that basis, the amount is immaterial.
  - Interests in unconsolidated structured entities
    - KBC Bank NV is arranger and dealer of a number of 40-billion-euro medium term notes programmes issued by *19* unconsolidated structured entities established for that purpose. Between 2006 and 2010, these entities were established as Irish public limited companies or Irish private limited companies under the Irish Companies Act 1963 to 2012. Their primary business is to raise money by issuing notes in order to buy financial assets (such as securities, bonds and deposits) and to enter into related derivative and other contracts (like equity-linked swaps, interest-linked swaps, total return swaps and repo transactions). They provide investment opportunities for clients by providing economies of scale, a diversification of credit risk and a high level of granularity. Each structured entity has a prospectus that was approved by the Central Bank of Ireland (available at www.kbc.be/prospectus/spv). However, the structured entities are not consolidated because they fail to meet the three criteria for consolidation (power, exposure to a variable return and ability to use such power to affect those returns). At year-end 2017, the assets under management at these entities amounted to 15.1 billion euros.
    - Sponsored unconsolidated structured entities are defined as structured entities where KBC Bank or one of its subsidiaries acts as arranger of the issuance programme, but where the decision-making power of the entities does not reside with KBC Bank or one of its subsidiaries. As a result, these entities are not consolidated.
    - At year-end 2017, KBC Bank had received income from unconsolidated structured entities in the form of management fees (40 million euros), custody fees (1 million euros), administrative agent fees (1 million euros) and accounting fees (1 million euros).
    - Its liabilities towards the unconsolidated structured entities amounted to 6 billion euros and comprised mainly term deposits (5.5 billion euros).
    - KBC Asset Management provides approximately 19 million euros as a line of credit for KBC funds to cover (temporary) shortfalls arising at month-end and especially at quarter-end.

- One subsidiary is active in the extractive industry, but is not included in the scope of consolidation for reasons of materiality. Furthermore, this subsidiary did not make any payments to governments that reached the threshold of 100 000 euros. As a result, no consolidated report on such payments has been prepared (see Art. 119/1 of the Companies Code).

The following is a summary of financial information for the KBC Asset Management group (in which KBC Bank holds a 51.86% stake). The figures are basis on the share of capital held at group level (i.e. 100%):

KBC Asset Management Group In millions EUR	31-12-2017	31-12-2016
Cash and cash balances with central banks	0	0
Financial assets	512	538
Non financial assets	20	20
TOTAL ASSETS	532	558
Financial liabilities	0	0
Non financial liabilities	169	178
Total equity	363	380
TOTAL LIABILITIES AND EQUITY	532	558
Total income	566	496
Interest income	0	0
Interest expense	-2	0
Opex	-91	-89
Impairments	0	0
Income tax	-117	-83
Total profit	339	303
Other comprehensive income	1	0
Total comprehensive income	340	303

Note 6.6 : Main changes in the scope of consolidation

Company	Consolidation method	Ownership percentage at group level		Remarks
		31/12/2017	31/12/2016	
Additions				
United Bulgarian Bank AD	Full	99.91%	------	New company in 2Q17
Interlease EAD	Full	100.00%	------	New company in 2Q17
Exclusions				
KBC Towarzystwo Funduszy Inwestycyjnych a.s.	Full	------	51.68%	Sold to PKO Bank Polski Group in 4Q 2017
Method Changes				
None				
Name Changes				
None				
Changes in ownership percentage and internal mergers				
None				

- United Bulgarian Bank (UBB) and Interlease: on 13 June 2017, we concluded the deal to acquire 99.91% of the shares of United Bulgarian Bank AD and 100% of the shares of Interlease EAD in Bulgaria for a total consideration of 609 million euros, without any contingent consideration. The deal enables us to substantially strengthen our position in Bulgaria and means that we also become active in leasing, asset management and factoring there, ensuring that we can offer our clients a full range of financial services. KBC envisages substantial value creation for shareholders through income and cost synergies. UBB and Interlease belong to the Bulgaria country segment of the International Markets Business Unit (see Note 2). The deal had a limited impact of just -0.5 percentage points on KBC's common equity ratio on 30 June 2017.
- The consolidated figures in this report incorporate the impact of the acquisition of UBB and Interlease as from 30 June 2017.

  - KBC recognised goodwill of 109 million euros in its consolidated financial statements (with account being taken of specific negative fair value adjustments amounting to 83 million euros (after tax) which it had identified during the due diligence process). It should be noted that IFRS 3 (Business Combinations) allows the amount of goodwill to be adjusted during the 12-month measurement period starting from the acquisition date. Consequently, the amount of goodwill is provisional and subject to change. Goodwill is not deductible for tax purposes.
  - We have dealt with the impact of the acquisition on financial assets and liabilities by product in Note 4.1. This note includes an additional *pro forma* 'Total excluding UBB/Interlease' column, which helps provide a clear view of changes in financial assets and liabilities (excluding the acquisition of these companies).
  - The table below provides the provisional fair value of the main assets and liabilities involved in the acquisition of UBB/Interlease, as well as the impact of both these entities on the group's income statement (for the period July through December 2017).
- KBC TFI: on 12 December 2017, PKO Bank Polski Group completed the acquisition of all the shares of KBC TFI in Poland. However, the impact of the operation on KBC's results was negligible.

Impact of the acquisition of United Bulgarian Bank and Interlease (in millions of EUR)	**31-12-2017**
General information	
Percentage of shares bought or sold in the relevant year	99.91% (UBB) en 100% (Interlease)
For business unit/segment	Division International Markets
Deal date (month and year)	June2017
Incorporation of the result of the company in the result of the group as of:	July 2017
Purchase price or sale price	609
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	185
Amounts recognised for the purchased assets and liabilities	
Cash and cash balances with central banks	693
Financial assets	2 810
Held for trading	502
Available for sale	335
Loans and receivables	1 973
Tax assets	12
Investments in associated companies and joint ventures	17
Investment property	15
Property and equipment	20
Goodwill and other intangible assets	4
Other assets	20
of which: cash and cash equivalents (included in the assets above)	*801*
Financial liabilities	3 063
Measured at amortised cost	3 062
Other liabilities	20
of which: cash and cash equivalents (included in the liabilities above)	*7*
Contribution to the consolidated income statement (July through December 2017)	
Net interest income	55
Dividend income	0
Net result from financial instruments at fair value through profit or loss	10
Net realised result from available-for-sale assets	0
Net fee and commission income	23
Net other income	- 5
TOTAL INCOME	83
Operating expenses	- 40
Impairment	- 13
on loans and receivables	- 12
on available-for-sale assets	- 1
on goodwill	0
on other	0
Share in results of associated companies and joint ventures	0
RESULT BEFORE TAX	30
Income tax expense	- 3
RESULT AFTER TAX	27
Attributable to minority interest	0
Attributable to equity holders of the parent	27

Note 6.7 : Risk Management

Capital management is a key management process relating to all decisions on the level and composition of our capital. It covers all instruments that are positioned to absorb losses in going concern and/or gone concern situations. Capital management aims to achieve the best possible balance between regulatory requirements, investor expectations, rating agencies' views and management ambitions. Ultimate accountability for capital management lies with the Board of Directors.

Capital management entails a broad scope of activities covering strategic topics (such as defining policies, targets, etc.), frameworks and models (e.g., for regulatory capital, internal capital, cost of equity, measuring performance, etc.), planning and allocation (e.g., allocating capital to business, planning capital instrument issuances, forecasting capital ratios, etc.), implementation (e.g., dividends, capital transactions) and monitoring (including current solvency positions at various levels, compliance with group policies and regulatory requirements).

ICAAP (Internal Capital Adequacy Assessment Process) consists of numerous business and risk processes that together contribute to the objective of assessing and ensuring at all times that we are adequately capitalised in view of our risk profile and the quality of our risk management and control environment.

We report the solvency of the bank based on IFRS data and according to the rules imposed by the regulator. This implies that we calculate our solvency ratios based on CRR/CRD IV. KBC Bank is subject to minimum solvency ratios. The main measure is the fully loaded common equity ratio, with the minimum regulatory requirement being 10.6%. This includes the pillar 1 minimum requirement (4.5%), the pillar 2 requirement (1.75% set by the ECB following its supervisory review and evaluation process) and the buffer requirements (4.35% set by the local competent authorities in KBC's core markets). At year-end 2017, the fully loaded common equity ratio came to 14.5%, which represented a capital buffer of 3 267 million euros relative to the minimum requirement of 10.6%.

Key solvency figures for KBC Bank[1]

(in millions of EUR)	KBC Bank (consolidated) CRR/CRD IV 31-12-2017 *Fully loaded*	31-12-2016 *Fully loaded*
Total regulatory capital, after profit appropriation	15 756	16 229
Tier-1 capital	13 484	12 625
Common equity	12 077	11 219
Parent shareholders' equity	14 083	12 568
Solvency adjustments	-2 006	-1 349
Additional going concern capital	1 407	1 406
Tier-2 capital	2 273	3 604
Total weighted risk volume[2]	83 117	78 482
Common equity ratio	14.5%	14.3%

1 More detailed figures can be found in the 'Capital adequacy' section.
2 Supervision of the RWA internal models' compliance with the approval criteria as provided for in the regulatory standards does not come under the responsibility of the statutory auditor.

More detailed information is provided in the 'Capital adequacy' section.

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

Note 6.8: Post-balance-sheet events

Significant non-adjusting events between balance sheet date and the date on which the financial statements were approved for publication by the Board of Directors (15 March 2018):

- None

Note 6.9: General information on the company

Name:	KBC Bank NV
Incorporated:	17 March 1998
Country of incorporation	Belgium.
Registered office:	Havenlaan 2, 1080 Brussels, Belgium.
VAT:	BE 462.920.226.
RLP:	Brussels.
Legal form:	*naamloze vennootschap* (company with limited liability) under Belgian law, which solicits or has solicited savings from the public; the company is a credit institution that is subject to the prudential supervision of the National Bank of Belgium and the European Central Bank.
Life:	undefined.
Purpose:	In Belgium or abroad, for its own account or for account of third parties, the company has as object the execution of all banking operations in the widest sense, as well as the exercise of all other activities which banks are or shall be permitted to pursue (Article 2 of the Articles of Association).

Documents open to public inspection

The Articles of Association of the company are open to public inspection at the Registry of the Dutch-speaking division of the Brussels Commercial Court. The financial statements are filed with the National Bank of Belgium. Extracts of minutes concerning decisions on the appointment, resignation and the termination of the offices of members of the Executive Committee and the Board of Directors are published in the appendices to the *Belgian Official Gazette*. Financial reports about the company and convening notices of general meetings of shareholders are also published in the financial press and/or on www.kbc.com. Copies of the company's annual reports are available at its registered office and/or can be downloaded from www.kbc.com. They are sent annually to the holders of registered shares and to those who have requested a copy.

General Meeting of Shareholders

A General Meeting is held every year at the company's registered office or at any other place indicated in the convening notice, at 11 a.m. on the Wednesday immediately prior to the last Thursday of April, or, if this day is a statutory public holiday or bank holiday, at 11 a.m. on the business day immediately before it.

Each share gives entitlement to one vote.
Holders of bonds, warrants or certificates issued in co-operation with the company are entitled to attend the General Meeting, but they have only advisory voting capacity.

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

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

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

Statutory auditors’ report

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KBC BANK NV

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

20 March 2018

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STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING OF THE COMPANY KBC BANK NV ON THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2017

We present to you our statutory auditor's report in the context of our statutory audit of the consolidated accounts of KBC Bank NV (the "Company") and its subsidiaries (jointly "the Group"). This report includes our report on the audit of the consolidated accounts, as well as the report on other legal and regulatory requirements. These reports form part of an integrated whole and are indivisible.

We have been appointed as statutory auditor by the general shareholders' meeting of 27 April 2016, following the proposal formulated by the board of directors and following the recommendation by the audit committee and the proposal formulated by the workers' council. Our mandate will expire on the date of the general shareholders' meeting which will deliberate on the consolidated accounts for the year ended 31 December 2018. We have performed the statutory audit of the consolidated accounts of KBC Bank NV for 2 consecutive years.

Report on the audit of the consolidated accounts

Unqualified opinion

We have performed the statutory audit of the Group's consolidated accounts, which comprise the consolidated balance sheet as at 31 December 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cashflow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and which is characterised by a consolidated balance sheet total of EUR 256.322 million and a profit for the year (share of the Group) of EUR 2.003 million.

In our opinion, the consolidated accounts give a true and fair view of the Group's net equity and consolidated financial position as at 31 December 2017, and of its consolidated income and its consolidated cashflows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "*Statutory auditor's responsibilities for the audit of the consolidated accounts*" section of our report. We have fulfilled our ethical responsibilities in accordance with the ethical requirements that are relevant to our audit of the consolidated accounts in Belgium, including the requirements related to independence.

We have obtained from the board of directors and Company officials the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

PwC Bedrijfsrevisoren cvba, burgerlijke vennootschap met handelsvorm - PwC Reviseurs d'Entreprises scrl, société civile à forme commerciale - Financial Assurance Services
Maatschappelijke zetel/Siège social: Woluwe Garden, Woluwedal 18, B-1932 Sint-Stevens-Woluwe
T: +32 (0)2 710 4211, F: +32 (0)2 710 4299, www.pwc.com
BTW/TVA BE 0429.501.944 / RPR Brussel - RPM Bruxelles / ING BE43 3101 3811 9501 - BIC BBRUBEBB / BELFIUS BE92 0689 0408 8123 - BIC GKCC BEBB

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated accounts of the current period. These matters were addressed in the context of our audit of the consolidated accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimation uncertainty with respect to financial instruments measured at fair value

Key audit matter

Details regarding the financial instruments measured at fair value at year-end 31 December 2017 are included in Note 4.5 to the consolidated accounts. For information regarding the determination of fair value please refer to Note 1.2.c of the Summary of significant accounting principles on IAS 39 and Note 4.4 to the consolidated accounts.

Valuation techniques and models used for certain financial instruments are inherently subjective and involve various assumptions regarding pricing. In addition, the number of factors influencing the determination of fair value can be extensive and can vary both by type of instrument and/or within instrument types. This is particularly the case for financial instruments disclosed in level 2 and 3 in Note 4.5 to the consolidated accounts, the fair value of financial instruments in level 1 being however subject to limited judgment.

The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. An overview of the main valuation techniques used is disclosed in Notes 4.4 and 4.5 to the consolidated accounts. Furthermore, market value adjustments are recognized on certain positions that are measured at fair value with fair value changes reported in profit or loss or in equity. These adjustments are determined by the current market conditions, the evolution in credit risk parameters, the interest rate environment and cost of funding all impacting the fair value measurements of the Group's portfolio measured at fair value. The main market value adjustments applied are disclosed in Note 4.4 to the consolidated accounts. As the use of different assumptions could produce different estimates of fair value, we consider this as a key audit matter.

Our audit approach

We obtained an understanding of the internal control framework related to the valuation of financial instruments, including price testing and model validation. We assessed the appropriateness of the model validation methodology with the assistance of our valuation experts and we performed a recalculation of the fair valuation on a sample basis. This includes the assessment of market data, inputs and key assumptions as critical factors used in the fair value models, based on our experience and market practice.

Based on our procedures we found that management's outcome of the models used for the fair value of the level 2 and 3 financial instruments, in the context of the estimation uncertainty concerned, fell within a reasonable and acceptable range of outcomes.

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Finally, we assessed the completeness and accuracy of the disclosures relating to the fair values of these financial instruments to assess compliance with disclosure requirements included in the International Financial Reporting Standards as adopted by the European Union.

Estimation uncertainty with respect to impairment allowances for loans and receivables

Key audit matter

The appropriateness of the impairment allowances for loans and receivables requires significant judgment of management. Measuring financial assets requires an assessment of the risk that a counterparty will not respect all of its contractual obligations. At year-end 31 December 2017 information regarding impairment allowances for loans and receivables is included in Note 4.2 to the consolidated accounts, in application of the policies as described in Note 1.2.c of the Summary of significant accounting principles on IAS 39. At year-end 31 December 2017 the gross loan and advances amount to EUR 170.985 million, the total impairment at that date amounts to EUR 4.058 million of which EUR 3.843 million are specific impairments and the remainder portfolio-based impairments.

The identification of impairment and the determination of the recoverable amount are part of the estimation process at the Group including, amongst others, the Probability of Default, the assessment of objective evidence for impairment, the financial condition of the counterparty, the expected future cashflows and the value of collateral. The use of different modelling techniques and assumptions could lead to different estimates of impairment charges on loans and receivables. Furthermore, associated risk management disclosures are complex and dependent on high quality data. As the loans and receivables represent the majority of the Group's balance sheet and given the related estimation uncertainty on impairment charges, we consider this as a key audit matter.

Our audit approach

Our audit procedures included an assessment of the overall governance of the credit and impairment process of the Group. We have assessed and tested the design and operating effectiveness of the controls within the loan origination process, risk management process and the estimation process for determining impairment allowances. For loan impairment allowances determined on an individual basis we have performed, for a sample of corporate credit files, a detailed review of loans granted by the Group. We challenged the assumptions underlying the Probability of Default, the impairment identification and quantification including forecasts of future cashflows, valuation of underlying collateral and estimates of recovery on default. We found no material exceptions in these tests. For the loan impairment allowances calculated on a collective basis, we tested the underlying models including the Group's model approval and validation process. We also tested the appropriateness and accuracy of the inputs to those models such as the emergence period, recovery and cure rates, and where available, compared data and assumptions made to external benchmarks.

Finally, we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the International Financial Reporting Standards as adopted by the European Union.

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In our view the recognised impairments of management were within a reasonable range of outcomes in the context of the overall loans and advances and the related uncertainties and sensitivities as disclosed in the consolidated accounts.

Responsibilities of the board of directors for the consolidated accounts

The board of directors is responsible for the preparation of consolidated accounts that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated accounts, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Statutory auditor's responsibilities for the audit of the consolidated accounts

Our objectives are to obtain reasonable assurance about whether the consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

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- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our statutory auditor's report to the related disclosures in the consolidated accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated accounts, including the disclosures, and whether the consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated accounts.

Statutory auditor's responsibilities

In the context of our mandate and in accordance with the Belgian standard (Revised) which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, the directors' report on the consolidated accounts and to report on these matters.

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Aspects related to the directors' report on the consolidated accounts

In our opinion, after having performed specific procedures in relation to the directors' report on the consolidated accounts, this report is consistent with the consolidated accounts for the year under audit, and it is prepared in accordance with article 119 of the Companies' Code.

In the context of our audit of the consolidated accounts, we are also responsible for considering, in particular based on the knowledge acquired resulting from the audit, whether the directors' report on the consolidated accounts, is materially misstated or contains information which is inadequately disclosed or otherwise misleading. In light of the procedures we have performed, there are no material misstatements we have to report to you. We do not express any form of assurance conclusion on this directors' report.

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

Statement related to independence

- We did not provide services which are incompatible with the statutory audit of the consolidated accounts and we remained independent of the Company in the course of our mandate.
- The fees for additional services which are compatible with the statutory audit of the consolidated accounts referred to in article 134 of the Companies' Code are correctly disclosed and itemized in the notes to the consolidated accounts.

Other statements

- This report is consistent with the additional report to the audit committee referred to in article 11 of the Regulation (EU) N° 537/2014.

Sint-Stevens-Woluwe, 20 March 2018

The statutory auditor
PwC Bedrijfsrevisoren bcvba
represented by

Roland Jeanquart
Accredited auditor

Gregory Joos
Accredited auditor

Company annual accounts

10				9	EUR	
NAT.	Date Filed	N°	P.	E.	D.	C-inst 1.1

ANNUAL ACCOUNTS IN EUR (2 decimals)

NAME: KBC BANK

Legal Form: NV
Address: Havenlaan N°.: 2 Box:
Postal Code: 1080 Municipality: BRUSSELS
Country: België
Register of Legal Persons (RLP) - Chamber of Commerce: Brussels
Internet address*: http://www.kbc.be

Company Number: 0462.920.226

Date 07/05/2015 of the deposition of the partnership deed OR of the most recent document mentioning the date of publication of the partnership deed and the act changing the articles of association.

ANNUAL ACCOUNT approved by the General Meeting of 25/04/2018

concerning the financial year covering the period from 01/01/2017 till 31/12/2017

Previous period from 01/01/2016 till 31/12/2016

The amounts of the previous financial year are / ~~are not~~ ** identical to those which have been previously published.

COMPLETE LIST WITH name, first name, profession, residence-address (address, number, postal code, municipality) and position with the enterprise, OF DIRECTORS, MANAGERS and AUDITORS

	Period on the Board in 2017	End of current term of office
CHAIRMAN OF THE BOARD OF DIRECTORS:		
Mr. Thomas LEYSEN, Rosier 21, 2000 Antwerpen	entire year	2019
CHAIRMAN OF THE EXECUTIVE COMMITTEE		
Mr. Johan THIJS, Moorsemsestraat 260, 3130 Betekom	entire year	2021

Members: see next page

Enclosed to these annual accounts:
- the report of the statutory auditor
- the annual report of the Board of Directors to the ordinary General Meeting of shareholders

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Total number of pages deposited:
Number of the pages of the standard form not deposited for not being of service: -

Signature (name and position)	Signature (name and position)
J. THIJS	T. LEYSEN
Chairman of the Executive Committee	Chairman of the Board of Directors

* Optional Statement
** Delete where appropriate

LIST OF DIRECTORS, MANAGERS AND AUDITORS (continuation from previous page)

Members:

Dhr. Nabil ARISS, 16 Chiddingstone Street, UK London SW6 3TG	entire year	2018
Mevr. Katelijn CALLEWAERT, Beekboshoek 102, 2550 Waarloos	entire year	2021
Mevr. Sonja DE BECKER, Meerbeekstraat 20, 3071 Erps-Kwerps	entire year	2020
Dhr. Franky DEPICKERE, Izegemstraat 203, 8770 Ingelmunster	entire year	2019
Dhr. Daniel FALQUE, Bovenbosstraat 78, 3053 Haasrode	entire year	2020
Dhr. Lucien GIJSENS, Oudenaardsesteenweg 44, 9000 Gent	resignation as of 05/05/2017	
Dhr. John HOLLOWS, V Ulickach 882 164 00, Praha - Nebusice, Tsjechië	entire year	2021
Dhr. Erik LUTS, Kruisstraat 84, 3290 Diest	in since 05/05/2017 (cooptation)	2021
Dhr. Bo MAGNUSSON, Toptogatan 6, Stockholm 115 26, Sweden	entire year	2020
Dhr. Walter NONNEMAN, Molenstraat 245, 9150 Kruibeke	entire year	2021
Dhr. Luc POPELIER, Voosdonk 21, 2801 Heffen	entire year	2021
Dhr. Hendrik SCHEERLINCK, Gemslaan 44, 3090 Overijse	in since 05/05/2017 (cooptation)	2021
Mevr. Christine VAN RIJSSEGHEM, Avenue du Manoir 59, 1410 Waterloo	entire year	2018
Dhr. Matthieu VANHOVE, Lindelaan 7, 3001 Heverlee	entire year	2021
Dhr. Marc WITTEMANS, Beatrijslaan 91, 3110 Rotselaar	entire year	2018

AUDITOR:

PwC Auditors BCVBA 0429.501.944
Woluwedal 18, 1932 Sint-Stevens-Woluwe, Belgium
Function: Commissioner, Member Number: B00009
Mandate : appointed 27/04/2016

Represented by: Jeanquart Roland (Membership IBR A01313) Auditor Woluwedal 18 , 1932 Sint-Stevens-Woluwe, België Gregory Joos (Membership IBR A02025) Auditor Woluwedal 18 , 1932 Sint-Stevens-Woluwe, België	2019

DECLARATION ABOUT SUPPLEMENTARY AUDITING OR ADJUSTMENT MISSION

The managing board declares that the assignment neither regarding auditing nor adjusting has been given to a person who was not authorised by law pursuant to art. 34 and 37 of the Law of 22nd April 1999 concerning the auditing and tax professions.

The annual accounts ~~have~~ / have not* been audited or adjusted by an external accountant or auditor who is not a statutory auditor.

If YES, mention here after: name, first names, profession, residence-address of each external accountant or auditor, the number of membership with the professional Institute ad hoc and the nature of this engagement:

A. Bookkeeping of the undertaking**,
B. Preparing the annual accounts**,
C. Auditing the annual accounts and/or
D. Adjusting the annual accounts.

If the assignment mentioned either under A or B is performed by authorised accountants or authorised accountants-tax consultants, information will be given on: name, first names, profession and residence-address of each authorised accountant or accountant-tax consultant, his number of membership with the Professional Institute of Accountants and Tax consultants and the nature of this engagement.

Name, first name, profession, residence-address	Number of membership	Nature of the engagement (A, B, C and/or D)

* Delete where appropriate.
** Optional disclosure.

BALANCE SHEET AFTER APPROPRIATION

ASSETS	Notes	Code	Current period	Previous period
I. Cash in hand, balances with central banks and post office banks		10100	25.248.374.702,11	16.893.847.201,85
II. Treasury bills eligible for refinancing at central banks		10200	504.034.304,78	255.137.912,17
III. Loans and advances to credit institutions	5.1	10300	14.197.186.488,79	16.286.132.198,20
A. Repayable on demand		10310	359.532.389,49	235.048.087,82
B. Other loans and adv. (with agreed maturity dates)		10320	13.837.654.099,30	16.051.084.110,38
IV. Loans and advances to customers	5.2	10400	90.680.555.250,01	92.953.874.004,77
V. Debt securities and other fixed-income securities	5.3	10500	33.348.028.703,78	27.439.028.104,12
A. Issued by public bodies		10510	12.928.036.826,87	14.776.568.785,31
B. Issued by other borrowers		10520	20.419.991.876,91	12.662.459.318,81
VI. Shares and other variable-yield securities	5.4	10600	502.201.498,02	137.312.994,03
VII. Financial fixed assets	5.5/ 5.6.1	10700	14.252.049.963,32	14.039.679.077,41
A. Participating interests in affiliated enterprises		10710	13.111.616.353,91	12.996.713.812,73
B. Participating interests in other enterprises linked by participating interests		10720	92.861.791,33	94.011.238,61
C. Other shares held as financial fixed assets		10730	8.141.138,01	25.192.858,38
D. Subordinated loans to affiliated enterprises and to other enterprises linked by participating interests		10740	1.039.430.680,07	923.761.167,69
VIII. Formation expenses and intangible fixed assets	5.7	10800	58.645.101,65	401.649,44
IX. Tangible fixed assets	5.8	10900	1.286.098.423,34	780.917.623,47
X. Own shares		11000	0,00	0,00
XI. Other assets	5.9	11100	1.046.281.933,61	1.671.157.272,55
XII. Accrued income	5.10	11200	6.790.616.351,34	9.537.134.420,83
TOTAL ASSETS		19900	187.914.072.720,75	179.994.622.458,84

	Notes	Code	Current Period	Previous Period
LIABILITIES				
THIRDPARTY FUNDS		201/208	176.392.293.860,85	169.859.027.229,76
I. Amounts owed to credit institutions	5.11	20100	31.941.472.722,61	30.740.870.128,75
A. Repayable on demand		20110	9.220.906.230,02	3.597.161.359,21
B. Amounts owed as a result of the rediscounting of trade bills		20120	0,00	0,00
C. Other debts with agreed maturity dates or periods of notice		20130	22.720.566.492,59	27.143.708.769,54
II. Amounts owed to customers	5.12	20200	99.132.697.174,42	99.648.166.739,42
A. Savings deposits		20210	35.253.896.997,52	32.916.466.417,19
B. Other debts		20220	63.878.800.176,90	66.731.700.322,23
1. repayable on demand		20221	43.765.392.630,87	39.556.982.654,33
2. with agreed maturity dates or periods of notice		20222	20.113.407.546,03	27.174.717.667,90
3. as a result of the rediscounting of trade bills		20223	0,00	0,00
III. Debts evidenced by certificates	5.13	20300	29.939.792.547,00	24.663.307.165,83
A. Debt securities and other fixed-income securities in circulation		20310	8.093.690.479,54	9.085.794.012,44
B. Other		20320	21.846.102.067,46	15.577.513.153,39
IV. Other liabilities	5.14	20400	1.953.008.623,94	1.424.265.280,27
V. Accrued charges and deferred income	5.15	20500	5.314.985.669,31	6.742.137.229,91
VI. Provisions and deferred taxes		20600	257.589.074,24	244.327.497,12
A. Provisions for liabilities and charges		20610	257.589.074,24	219.847.523,76
1. Pensions and similar obligations		20611	32.100.874,03	38.743.693,65
2. Taxation		20612	0,00	0,00
3. Other liabilities and charges	5.16	20613	225.488.200,21	181.103.830,11
B. Deferred taxes		20620	0,00	24.479.973,36
VII. Fund for general banking risks		20700	0,00	0,00
VIII. Subordinated liabilities	5.17	20800	7.852.748.049,33	6.395.953.188,46
OWN FUNDS		209/213	11.521.778.859,90	10.135.595.229,08
IX. CAPITAL	5.18	20900	8.948.439.652,39	8.948.439.652,39
A. Subscribed capital		20910	8.948.439.652,39	8.948.439.652,39
B. Uncalled capital (-)		20920	0,00	0,00
X. Share premium account		21000	895.449.646,51	895.449.646,51
XI. Revaluation surpluses		21100	0,00	0,00
XII. Reserves		21200	421.651.398,45	291.377.700,17
A. Legal reserve		21210	408.678.150,22	278.404.451,94
B. Reserves not available for distribution		21220	0,00	0,00
1. In respect of own shares held		21221	0,00	0,00
2. Other		21222	0,00	0,00
C. Untaxed reserves		21230	12.973.248,23	12.973.248,23
D. Reserves available for distribution		21240	0,00	0,00
XIII. Profits (losses (-)) brought forward (+)/(-)		21300	1.256.238.162,55	328.230,01
TOTAL LIABILITIES		29900	187.914.072.720,75	179.994.622.458,84

OFF BALANCE SHEET CAPTIONS	Notes	Code	Current period	Previous period
I. Contingent liabilities	5.22	30100	14.048.412.532,10	14.369.256.337,08
A. Non-negotiated acceptances		30110	77.939.599,96	96.011.170,39
B. Guarantees serving as direct credit substitutes		30120	3.038.934.941,58	3.111.122.940,88
C. Other guarantees		30130	9.338.260.887,98	9.411.421.621,88
D. Documentary credits		30140	1.593.277.102,58	1.750.700.603,93
E. Assets charged as collateral security on behalf of third parties		30150	0,00	0,00
II. Commitments which could give rise to a risk	5.22	30200	30.340.641.730,83	27.220.414.056,67
A. Firm credit commitments		30210	3.780.867.465,82	420.079.918,89
B. Commitments as a result of spot purchases of transferable or other securities		30220	65.523.750,25	332.041.335,22
C. Undrawn margin on confirmed credit lines		30230	26.494.250.514,76	26.468.292.802,56
D. Underwriting and placing commitments		30240	0,00	0,00
E. Commitments as a result of open-ended sale and repurchase agreements		30250	0,00	0,00
III. Assets lodged with the credit institution		30300	224.987.782.972,72	206.661.656.944,97
A. Assets held by the credit institution for fiduciary purposes		30310	4.997.563.464,24	4.576.453.974,88
B. Safe custody and equivalent items		30320	219.990.219.508,48	202.085.202.970,09
IV. Uncalled amounts of share capital		30400	16.201.567,73	16.511.567,73

INCOME STATEMENT (presentation in vertical form)

		Notes	Code	Current Period	Previous period
I. Interest receivable and similar income		5.23	40100	2.859.481.847,16	2.929.994.113,85
A. Of which: from fixed-income securities			40110	661.716.754,59	636.486.763,88
II. Interest payable and similar charges			40200	1.642.719.484,93	1.498.162.634,77
III. Income from variable-yield securities		5.23	40300	1.113.647.548,76	851.354.729,85
A. From shares and other variable-yield securities			40310	4.924.659,22	3.175.528,63
B. From participating interests in affiliated enterprises			40320	1.100.174.610,25	834.229.569,49
C. From participating interests in other enterprises linked by participating interests			40330	7.211.324,42	11.362.420,71
D. From other shares held as financial fixed assets			40340	1.336.954,87	2.587.211,02
IV. Commissions receivable		5.23	40400	1.306.455.363,15	889.934.187,81
A. Brokerage and related commissions			40410	666.167.945,43	512.732.474,09
B. Management, consultancy and conservation commissions			40420	36.152.761,85	34.885.826,92
C. Other commissions received			40430	604.134.655,87	342.315.886,80
V. Commissions payable			40500	378.740.308,67	162.006.644,70
VI. Profit (loss) on financial transactions	(+)/(-)	5.23	40600	256.707.718,54	-451.900,22
A. On trading of securities and other financial instruments			40610	236.915.524,86	-3.834.030,30
B. On disposal of investment securities			40620	19.792.193,68	3.382.130,08
VII. General administrative expenses			40700	1.873.379.945,82	1.785.505.856,64
A. Remuneration, social security costs and pensions			40710	820.921.094,57	801.005.404,82
B. Other administrative expenses			40720	1.052.458.851,25	984.500.451,82
VIII. Depreciation/amortization of and other write-downs on formation expenses, intangible and tangible fixed assets			40800	75.967.421,28	48.582.748,36
IX. Decrease in write downs on receivables and in provisions for off balance sheet captions 'I. Contingent liabilities' and 'II. Commitments which could give rise to a risk'	(+)/(-)		40900	-110.475.105,07	-141.188.517,35
X. Decrease in write-downs on the investment portfolio of debt securities, shares and other fixed-income or variable-yield securities	(+)/(-)		41000	2.209.265,44	-5.940.041,26
XI. Utilization and write-backs of provisions for liabilities and charges other than those included in the off balance sheet captions	(+)/(-)		41100	39.322.390,15	27.502.575,12
XII. Provisions for liabilities and charges other than those included in the off balance sheet captions			41200	28.174.725,46	31.615.407,93
XIII. Transfer from (Transfer to) the fund for general banking risks	(+)/(-)		41300	0,00	0,00
XIV. Other operating income		5.23	41400	247.614.840,77	204.753.204,02
XV. Other operating charges		5.23	41500	40.669.451,34	99.116.779,83
XVI. Profits (losses) on ordinary activities before taxes	(+)/(-)		41600	1.675.312.531,40	1.130.968.279,59

		Notes	Code	Current period	Previous period
XVII. Extraordinary income			41700	1.552.744.755,19	385.079.292,03
A. Adjustments to depreciation/amortization of and to other write-downs on intangible and and tangible fixed assets			41710	0,00	0,00
B. Adjustments to write-downs on financial fixed assets			41720	1.442.189.253,28	351.860.326,25
C. Adjustments to provisions for extraordinary liabilities and charges			41730	0,00	0,00
D. Gain on disposal of fixed assets			41740	110.022.550,87	33.136.497,11
E. Other extraordinary income		5.25	41750	532.951,04	82.468,67
XVIII. Extraordinary charges			41800	365.041.282,75	312.734.798,54
A. Extraordinary depreciation/amortization of and extraordinary write-downs on formation expenses and intangible and tangible fixed assets			41810	16.520.916,79	482.500,00
B. Write-downs on financial fixed assets			41820	4.626.978,39	104.456.418,58
C. Provisions for extraordinary liabilities and charges	(+/-)		41830	1.462.942,64	0,00
D. Loss on disposal of fixed assets			41840	342.424.827,17	207.795.261,23
E. Other extraordinary charges		5.25	41850	5.617,76	618,73
XIX. Profits (Losses) for the period before taxes	(+/-)		41910	2.863.016.003,84	1.203.312.773,08
XIXbis. A. Transfer to deferred taxes			41921	256.884.512,61	7.973.697,16
B. Transfer from deferred taxes			41922	26.822.590,08	26.468.747,35
XX. Income taxes	(+/-)	5.26	42000	27.480.115,73	13.763.819,85
A. Income taxes			42010	29.138.227,74	18.859.883,07
B. Adjustement of income taxes and write-back of tax provisions			42020	1.658.112,01	5.096.063,22
XXI. Profits (Losses) for the period	(+/-)		42100	2.605.473.965,58	1.208.044.003,42
XXII. Transfer to untaxed reserves	(+/-)		42200	0,00	0,00
XXIII. Profit (Losses) for the period available for appropriation	(+/-)		42300	2.605.473.965,58	1.208.044.003,42

APPROPRIATION ACCOUNT

		Code	Current period	Previous period
A. Profit (loss) to be appropriated	(+)/(-)	49100	2.605.802.195,59	1.213.120.517,46
1. Profit (loss) for the period available for appropriation	(+)/(-)	(42300)	2.605.473.965,58	1.208.044.003,42
2. Profit (loss) to be carried forward	(+)/(-)	(21300P)	328.230,01	5.076.514,04
B. Transfers from capital and reserves		49200	0,00	0,00
1. From capital and share premium account		49210	0,00	0,00
2. From reserves		49220	0,00	0,00
C. Transfers to capital and reserves		49300	130.273.698,28	60.402.200,17
1. To capital and share premium account		49310	0,00	0,00
2. To the legal reserve		49320	130.273.698,28	60.402.200,17
3. To other reserves		49330	0,00	0,00
D. Profit (loss) to be carried forward	(+)/(-)	49400	1.256.238.162,55	328.230,01
E. Shareholders' contribution in respect of losses		49500	0,00	0,00
F. Profit to be distributed		49600	1.219.290.334,76	1.152.390.087,28
1. Dividends		49610	1.198.949.311,42	1.134.883.317,68
2. Director's or manager's entitlements		49620	0,00	0,00
3. Other allocations		49630	20.341.023,34	17.506.769,60

NOTES

I. STATEMENT OF LOANS AND ADVANCES TO CREDIT INSTITUTIONS (Assets caption III)

	Code	Current period	Previous period
A. FOR THE CAPTION AS A WHOLE	(10300)	14.197.186.488,79	16.286.132.198,20
1. Loans and advances to affiliated enterprises	50101	8.755.591.126,20	8.681.133.565,07
2. Loans and advances to other enterprises linked by participating interests	50102	0,00	0,00
3. Subordinated loans and advances	50103	0,00	0,00
B. OTHER LOANS AND ADVANCES TO CREDIT INSTITUTIONS (with agreed maturity dates or periods of notice)	(10320)	13.837.654.099,30	16.051.084.110,38
1. Trade bills eligible for refinancing with the central bank of the country(ies) of establishment of the credit	50104	0,00	
2. Breakdown according to the remaining maturity			
a. Up to 3 months	50105	7.995.109.426,27	
b. Over 3 months up to 1 year	50106	1.827.677.941,08	
c. Over 1 year up to 5 years	50107	3.915.703.326,28	
d. Over 5 years	50108	49.621.684,50	
e. Undated	50109	49.541.721,17	

II. STATEMENT OF LOANS AND ADVANCES TO CUSTOMERS (Assets caption IV)

	Code	Current Period	Previous Period
1. Loans to affiliated enterprises	50201	19.267.119.659,38	21.610.455.031,48
2. Loans to other enterprises linked by participating interests	50202	44.440.709,88	46.618.562,67
3. Subordinated loans	50203	1.582.066.624,86	64.941.571,95
4. Trade bills eligible for refinancing with the central bank of the country or countries where the credit institution is established	50204	0,00	0,00
5. Breakdown according to the remaining maturity :			
a. Up to 3 months	50205	26.477.029.338,55	
b. Over 3 months up to 1 year	50206	4.114.683.181,51	
c. Over 1 year up to 5 years	50207	13.246.996.555,33	
d. Over 5 years	50208	46.451.929.170,69	
e. Undated	50209	389.917.003,93	
6. Breakdown of customer loans based on the type of debtor			
a. Claims on government	50210	4.122.604.457,55	4.108.676.438,83
b. Retail exposures	50211	30.666.430.531,71	30.156.599.718,11
c. Claims on enterprises	50212	55.891.520.260,75	58.688.597.847,83
7. Breakdown by type :			
a. Trade bills (including own acceptance)	50213	100.062.081,15	
b. Loans and advances as a result of leasing and similar agreements	50214	1.981.538.949,58	
c. Fixed-rate loans	50215	1.265.858.208,67	
d. Mortgage loans	50216	26.467.208.066,26	
e. Other term loans with a maturity over 1 year	50217	33.819.028.030,71	
f. Other loans and advances	50218	27.046.859.913,64	
8. Geographical breakdown			
a. Belgian origin	50219	81.268.766.668,90	
b. Foreign	50220	9.411.788.581,11	
9. Details of mortgage loans with reconstitution of capital or linked to life insurance and capitalization contracts			
a. Principal sums initially lent	50221	0,00	
b. Reconstitution fund and mathematical reserves relating to these loans	50222	0,00	
c. Net amount outstanding (a-b)	50223	0,00	

III. STATEMENT OF DEBT SECURITIES AND OTHER FIXED-INCOME SECURITIES (Assets caption V)

	Code	Current period	Previous period
A. GENERAL	(10500)	33.348.028.703,78	27.439.028.104,12
1. Securities issued by affiliated enterprises	50301	19.259.050.809,02	11.165.541.109,06
2. Securities issued by enterprises linked by participating interests	50302	0,00	0,00
3. Securities representing subordinated loans	50303	70.142.936,33	80.561.928,82
4. Country analysis of the securities issued			
a. By public bodies	50304	9.134.816.061,49	
b. By other borrowers	50305	3.793.220.765,38	
c. Belgian issuers other than public bodies	50306	6.057.785.551,96	
d. Foreign issuers other than public bodies	50307	14.362.206.324,95	
5. Listing			
a. Book value of listed securities	50308	32.490.252.729,96	
b. Market value of listed securities	50309	33.952.351.845,23	
c. Book value of unlisted securities	50310	857.775.973,82	
6. Maturities			
a. Remaining maturity of up to one year	50311	14.661.157.279,00	
b. Remaining maturity of over one year	50312	18.686.871.424,78	
7. Analysis by portfolio			
a. Trading portfolio	50313	216.931.561,39	
b. Investment portfolio	50314	33.131.097.142,39	
8. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50315	5.088.426,01	
b. Difference between market value (if higher) and carrying value (for securities valued in accordance with Art. 35ter §2 para. 2)	50316	0,00	
9. Investment portfolio			
a. Difference between redemption value (if higher) and carrying value	50317	43.533.402,10	
b. Difference between redemption value (if lower) and carrying value	50318	653.501.325,74	

		Codes	Current period	Previous period
B. ANALYSIS OF THE CARRYING VALUE OF INVESTMENT SECURITIES				
1. As at end of the preceding period		50323P	xxxxxxxxxxxxxxx	27.166.407.920,69
2. Movements during the the period		50319	5.974.711.156,79	
a . Acquisitions		50320	75.581.167.500,12	
b . Sales		50321	-69.468.498.802,23	
c . Adjustments by application of Article 35ter §4 and 5	(+/-)	50322	-137.957.541,10	
3. Acquisition cost as at end of the period		50323	33.141.119.077,48	
4. Transfers between portfolios				
a . Transfers from the investment portfolio to the trading portfolio		50324		
b . Transfers from the trading portfolio to the investment portfolio		50325		
c . Impact on result		50326		
5. Write-Downs as at end of the period		50332P	xxxxxxxxxxxxxxx	27.770.706,86
6. Movements during the the period		50327	-17.748.771,77	
a . Recorded		50328	180.481,20	
b . Excess written back		50329	-17.224,72	
c . Cancellations		50330	-16.625.956,00	
d . Transfers from one caption to another	(+/-)	50331	-1.286.072,25	
7. Write-downs as at end of the period		50332	10.021.935,09	
8. Carrying value as at end of the period		(50314)	33.131.097.142,39	

	Codes	Boekjaar	Vorig boekjaar
IIIBIS THEMATIC CITIZENS LENDING			
1. Total amount drawn	50340	357.934.637	359.605.887
a. Bonds	50341	357.934.637	359.605.887
b. Allowed interbank loans	50342	0	0
2. Use of assets	50350	1.515.022.958	1.673.243.402
a. Citizens Lending	50351	1.515.022.958	1.673.243.402
b. Investment pursuant to art. 11	50352	0	0
c. Interbank loans drawn	50353	0	0
3. Income from realized investments pursuant to art. 11	50360	0	0

IV. STATEMENT OF SHARES AND OTHER VARIABLE-YIELD SECURITIES (Assets caption VI)

	Code	Current Period	Previous Period
A. GENERAL REPORT	(10600)	502.201.498,02	137.312.994,03
1. Country analysis of the issuers of securities			
a. Belgian issuers	50401	225.053.165,10	3.097.345,64
b. Foreign issuers	50402	277.148.332,92	134.215.648,39
2. Listing			
a. Carrying value	50403	495.475.270,61	
b. Market value	50404	564.053.146,84	
c. Carrying value of unlisted securities	50405	6.726.227,41	
3. Analysis by portfolio			
a. Trading portfolio	50406	485.686.499,08	
b. Investment portfolio	50407	16.514.998,94	
4. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50408	19.592.261,68	
b. Difference between market value (if higher) and carrying value (for securities valued in accordance with Article 35ter §2 paragraph 2)	50409	0,00	

B. ANALYSIS OF THE CARRYING VALUE OF INVESTMENT SECURITIES		Code	Current period	Previous period
1. Acquisition cost as at the end of the period		50414P	xxxxxxxxxxxxxxx	45.435.110,75
2. Movements during the the period		50410	-15.943.809,79	
a. Acquisitions		50411	1.451.399,06	
b. Sales		50412	-17.391.700,34	
c. Other adjustments	(+/-)	50413	-3.508,51	
3. Acquisition cost as at end of the period		50414	29.491.300,96	
4. Transfers between portfolios				
a. Transfers from the investment portfolio to the trading portfolio		50415		
b. Transfers from the trading portfolio to the investment portfolio		50416	0,00	
c. Impact on result		50417		
5. Write-downs as per end of the period		50423P	xxxxxxxxxxxxxxx	22.574.537,40
6. Movements during the period		50418	-9.598.235,38	
a. Recorded		50419	3.559,80	
b. Excess written back		50420	-7.757.621,96	
c. Cancellations		50421	-1.189.003,95	
d. Transfers from one caption to another	(+)/(-)	50422	-655.169,27	
7. Write-downs as at end of the period		50423	12.976.302,02	
8. Carrying value as at end of the period		(50407)	16.514.998,94	

V. STATEMENT OF FINANCIAL FIXED ASSETS (Assets caption VII)

	Codes	Current period	Previous period
A. GENERAL			
1. Breakdown of financial fixed assets by economic sector			
a. Participating interests in enterprises that are credit institutions	50501	7.593.083.928,10	6.974.578.094,30
b. Participating interests in enterprises that are not credit institutions	50502	5.518.532.425,82	6.022.135.718,45
c. Participating interests in enterprises linked by participating interests that are credit institutions	50503	6.508.558,37	3.728.447,10
d. Participating interests in enterprises linked by participating interests that are not credit institutions	50504	86.353.232,96	90.282.791,51
e. Other shares held as financial fixed assets in enterprises that are credit institutions	50505	0,00	0,00
f. Other shares held as financial fixed assets in enterprises that are not credit institutions	50506	8.141.138,01	25.192.858,38
g. Subordinated loans in linked enterprises that are credit institutions	50507	214.500.000,00	90.000.000,00
h. Subordinated loans in linked enterprises that are not credit institutions	50508	792.430.680,07	798.061.167,69
i. Subordinated loans in enterprises with participation interests that are credit institutions	50509	0,00	0,00
j. Subordinated loans in enterprises with participation interests that are not credit institutions	50510	32.500.000,00	35.700.000,00
2. Listings			
a. Participating interests in affiliated listed enterprises	50511	0,00	
b. Participating interests in affiliated not listed enterprises	50512	13.111.616.353,92	
c. Participating interests in other enterprises linked by participating interests that are listed	50513	0,00	
d. Participating interests in other enterprises linked by participating interests that are not listed	50514	92.861.791,33	
e. Other shares held as financial fixed assets in enterprises that are listed	50515	1.090.469,83	
f. Other shares held as financial fixed assets in enterprises that are not listed	50516	7.050.668,18	
g. Amount of subordinated loans represented by listed securities	50517	0,00	

	Codes	Current period	Previous period
B. ANALYSIS OF THE CARRYING VALUE OF FINANCIAL FIXED ASSETS IN AFFILIATED ENTERPRISES			
1. Acquisition cost at the end of the period	50522P	xxxxxxxxxxxxxxx	16.279.490.946,79
2. Movements during the period	50518	-1.303.144.082,21	
a. Acquisitions	50519	692.325.238,43	
b. Sales and disposals	50520	-1.995.469.320,64	
c. Transfers from one caption to another (+/-)	50521	0,00	
3. Acquisition cost as at the end of the period	50522	14.976.346.864,58	
4. Revaluation surpluses	50528P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	50523	0,00	
a. Recorded	50524	0,00	
b. Acquisitions from third parties	50525	0,00	
c. Cancellations	50526	0,00	
d. Transfers from one caption to another (+/-)	50527	0,00	
6. Revaluation surpluses as at the end of the period	50528	0,00	
7. Write-downs as at the end of the period	50535P	xxxxxxxxxxxxxxx	3.282.777.134,98
8. Movements during the period	50529	-1.418.046.624,31	
a. Recorded	50530	2.015.055,74	
b. Excess written back	50531	-9.000.000,00	
c. Acquisitions from third parties	50532	0,00	
d. Cancellations	50533	-1.411.061.680,05	
e. Transfers from one caption to another (+/-)	50534	0,00	
9. Write-downs as at end of the period	50535	1.864.730.510,67	
10. Net carrying value as at the end of the period	10710	13.111.616.353,91	

		Codes	Current period	Previous period
C. ANALYSIS OF THE CARRYING VALUE OF FIXED FINANCIAL ASSETS IN ENTERPRISES LINKED BY PARTICIPATING INTERESTS				
1. Acquisition cost as at end of the period		50540P	xxxxxxxxxxxxxxx	136.610.984,56
2. Movements during the period		50536	-20.605.060,27	
a. Acquisitions		50537	25.458.597,82	
b. Sales and disposals		50538	-46.063.658,09	
c. Transfers from one caption to another	(+/-)	50539	0,00	
3. Acquisition cost as at end of the period		50540	116.005.924,29	
4. Revaluation surpluses at the end of the period		50546P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period		50541	0,00	
a. Recorded		50542	0,00	
b. Acquisitions from third parties		50543	0,00	
c. Cancellations		50544	0,00	
d. Transfers from one caption to another	(+/-)	50545	0,00	
6. Revaluation surpluses at the end of the period		50546	0,00	
7. Write-downs as at the end of the period		50553P	xxxxxxxxxxxxxxx	42.599.745,95
8. Movements during the period		50547	-19.455.612,99	
a. Recorded		50548	0,00	
b. Excess written back		50549	0,00	
c. Acquisitions from third parties		50550	0,00	
d. Cancellations		50551	-19.455.612,99	
e. Transfers from one caption to another	(+/-)	50552	0,00	
9. Write-downs as at the end of the period		50553	23.144.132,96	
10. Net carrying value as at end of the period		10720	92.861.791,33	

		Codes	Current period	Previous period
D. ANALYSIS OF THE CARRYING VALUE OF OTHER SHARES HELD AS FINANCIAL FIXED ASSETS				
1. Acquisition cost as at the end of the period		50558P	xxxxxxxxxxxxxxx	26.296.339,10
2. Movements during the period		50554	-17.108.115,75	
a. Acquisitions		50555	33.406,78	
b. Sales and disposals		50556	-17.141.522,53	
c. Transfers from one caption to another	(+/-)	50557	0,00	
3. Acquisition cost as at the end of the period		50558	9.188.223,35	
4. Revaluation surpluses at the end of the period		50564P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period		50559	0,00	
a. Recorded		50560	0,00	
b. Acquisitions from third parties		50561	0,00	
c. Cancellations		50562	0,00	
d. Transfers from one caption to another	(+/-)	50563	0,00	
6. Revaluation surpluses as at end of the period		50564	0,00	
7. Write-downs as at the end of the period		50571P	xxxxxxxxxxxxxxx	1.103.480,72
8. Movements during the period		50565	-58.254,14	
a. Recorded		50566	96.096,07	
b. Excess written back		50567	-154.350,21	
c. Acquisitions from third parties		50568	0,00	
d. Cancellations		50569	0,00	
e. Transfers from one caption to another	(+/-)	50570	0,00	
9. Write-downs as at the end of the period		50571	1.045.226,58	
10. Net carrying value as at the end of the period		10730	8.142.996,77	

		Codes	Current period	Previous period
E. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS TO AFFILIATED ENTERPRISES				
1. Net carrying value as at end of the period		50579P	xxxxxxxxxxxxxxx	888.061.167,69
2. Movements during the period		50572	118.869.512,38	
a. Additions		50573	119.509.512,38	
b. Reimbursements		50574	-640.000,00	
c. Write-downs		50575	0,00	
d. Amounts written back		50576	0,00	
e. Realized exchange gains/losses	(+)/(-)	50577	0,00	
f. Other	(+)/(-)	50578	0,00	
3. Net carrying value as at the end of the period		50579	1.006.930.680,07	
4. Accumulated write-downs as at the end of the period		50580	0,00	

		Codes	Current period	Previous period
F. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS TO ENTERPRISES LINKED BY PARTICIPATING INTERESTS				
1. Net carrying value as at the end of the period		50588P	xxxxxxxxxxxxxxx	35.700.000,00
2. Movements during the period		50581	-3.200.000,00	
a. Additions		50582	0,00	
b. Reimbursements		50583	-3.200.000,00	
c. Write-downs		50584	0,00	
d. Amounts written back		50585	0,00	
e. Realized exchange gains/losses	(+)/(-)	50586	0,00	
f. Other	(+)/(-)	50587	0,00	
3. Net carrying value as at the end of the period		50588	32.500.000,00	
4. Accumulated write-downs as at the end of the period		50589	0,00	

VI LIST OF ENTERPRISES IN WHICH THE INSTITUTION HOLDS A PARTICIPATING INTEREST

A. SHARE IN THE CAPITAL AND OTHER RIGHTS IN OTHER COMPANIES

List enterprises in which the enterprise holds a participating interest within the meaning of the Royal Decree of September 23 rd 1992 and other enterprises in which the institution holds rights in the amount of at least 10% of the capital issued.

NAME, full address of the REGISTERED OFFICE and for the enterprise governed by Belgian law, the COMPANY NUMBER	Shares held				Information from the most recent period for which annual accounts are available			
	directly			by subsidiaries	Annual accounts dated	Currency	Own funds	Net result
	Type	Number	%	%			(+) or (-) (in thousands units)	
1. Affiliated enterprises								
ADB Asia Pacific Limited Singapore SI	Ordinary	33.000.000	100,00	0,00	24-okt-16	USD	27.263	116
BEL ROM CINCI S.R.L. Bucharest RO RO18574766	Ordinary	10.000.000	100,00	0,00	31-dec-16	RON	119.773	12.639
CBC BANQUE SA Brussels BE 0403.211.380	Ordinary	2.989.624	99,99	0,01	31-dec-16	EUR	592.046	67.158
Ceskoslovenska Obchodná Banka a.s. Bratislava SK	Ordinary	8.886	100,00	0,00	31-dec-16	EUR	666.214	78.488
Ceskoslovenska Obchodni Banka a.s. Prague CZ	Ordinary	292.750.002	100,00	0,00	31-dec-16	CZK	81.347.000	15.544.000
CIBANK AD Sofia, BG	Ordinary	22.793.251	100,00	0,00	31-dec-16	BGN	332.450	32.892
K & H Bank Zrt. Budapest HU	Ordinary	140.978.164.412	100,00	0,00	31-dec-16	HUF	217.008.000	47.133.000
KB Consult NV Brussels BE 0437.623.220	Ordinary	364.543	99,95	0,05	31-dec-16	EUR	836	-16
KBC Asset Management NV Brussels BE 0469.444.267	Ordinary	2.730.644	47,35	52,65	31-dec-16	EUR	124.575	307.131
KBC Autolease NV Leuven BE 0422.562.385	Ordinary	184.987	99,99	0,01	31-dec-16	EUR	7.875	17.442
KBC Bail Immobilier France sas Lille FR	Ordinary	750.000	100,00	0,00	31-dec-16	EUR	6.565	397
KBC Lease Belgium NV Leuven BE 0426.403.684	Ordinary	267.179	99,99	0,01	31-dec-16	EUR	48.639	15.724
KBC Immolease NV Leuven BE 0444.058.872	Ordinary	1.000.328	99,99	0,01	31-dec-16	EUR	26.091	7.998
KBC Bank Ireland Plc Dublin IE IE8F86824G	Ordinary	827.892.018	99,99	0,00	31-dec-16	EUR	1.349.523	226.920
KBC Commercial Finance NV Brussels BE 0403.278.488	Ordinary	119.999	99,99	0,01	31-dec-16	EUR	9.459	3.934
KBC Credit Investments NV Brussels BE 0887.849.512	Ordinary	4.999.999	99,99	0,01	31-dec-16	EUR	5.273.126	182.763
KBC Ifima SA Luxemburg LU	Ordinary	22.679	100,00	0,00	31-dec-16	EUR	20.650	1.108
KBC Investments Limited London UK	Ordinary	105.000.100	100,00	0,00	31-dec-15	USD	1.497.353	160.445
KBC Financial Products UK Limited London UK	Ordinary	350.100.000	100,00	0,00	31-dec-16	USD	382.513	8.730
KBC Lease UK Limited Guildford UK	Ordinary	10.560.746	49,00	51,00				
KBC Finance Ireland Dublin IE IE8F86824G	cat C&D-SHS EUR	376.345.510	99,99	0,00	31-dec-15	EUR	-126.253	-49.162
KBC Real Estate Luxembourg SA Luxemburg LU	Ordinary	3.098	99,94	0,06	31-dec-16	EUR	10.045	2.050
KBC Securities NV Brussels BE 0437.060.521	Ordinary	1.898.517	99,95	0,05	31-dec-16	EUR	96.645	2.150
NV ACTIEF NV Brussels BE 0824.213.750	Cat "A"	600	57,14	0,00	31-dec-16	EUR	100	-2
Almafin Real Estate NV Brussels BE 0403 355 494	Ordinary	61.999	99,99	0,00	31-dec-16	EUR	20.113	395
Julienne Holdings SARL Luxemburg LU	Ordinary	4.500	90,00	0,00	31-dec-16	EUR	-27.616	-1.103
C PLUS SAS France FR	Ordinary	50.000	83,33	0,00	31-dec-15	EUR	-15.992	-16.057
KBC Vastgoedinvesteringen NV Brussels BE 0455 916 925	Ordinary	57.909	99,90	0,10	31-dec-16	EUR	-4.037	53
KBC Vastgoedportefeuille België Brussels BE 0438 007 854	Ordinary	57.763	99,99	0,01	31-dec-16	EUR	25.766	-331

Poelaert Invest NV Brussels BE 0478 381 531	Ordinary		9.950	99,50	0,50	31-dec-16	EUR	12.207	1.044
Almaloisir & Immobilier SAS Nice FR 3542 862 0439	Ordinary		328	100,00	0,00	31-dec-16	EUR	90	-10
Apitri NV Brussels BE 0469 889 873	Ordinary		98	98,00	2,00	31-dec-16	EUR	5.509	530
Immo Antares NV Brussels BE 0456398361	Ordinary		2.375	95,00	5,00	10-nov-16	EUR	-1.963	-96
Immo Basilix NV BrusselsBE 0453348801	Ordinary		2.375	95,00	5,00	12-sep-16	EUR	83	0
Immo Lux - Airport SA Luxemburg LU	Ordinary		1.456	99,93	0,07	31-dec-16	EUR	1.047	2.549
Immo Namott NV Brussels BE 0840.412.849	Ordinary		99	99,00	1,00	31-dec-16	EUR	62	0
Immo Zenobe Gramme Brussels BE 0456572664	Ordinary		99	99,00	1,00	31-dec-16	EUR	77	0
Immobilière Distri-Land NV Brussels BE 0436440909	Ordinary		1.093	87,44	0,08	31-dec-16	EUR	356	24
Luxembourg North Distribution SA Luxemburg LU 1945 3469	Ordinary		11	11,00	89,00	31-dec-16	EUR	97	63
Brussels North Distribution NV Brussels BE 0476212887	Ordinary		5	5,00	95,00	31-dec-16	EUR	69	24
Immo Quinto NV Brussels BE 0466000470	Ordinary		141.935	99,30	0,70	31-dec-16	EUR	5.257	257
Thanksys NV Hasselt BE 0553877423	Cat 'B'		695.220	29,08	0,00	31-dec-16	EUR	2.827	-2.769
MIDAS Life Settlements Delaware US	Ordinary		100	100,00	0,00	31-dec-15	USD	39	39
KBC Bail France II SAS Lyon FR	Ordinary		4.303.000	100,00	0,00	31-dec-16	EUR	3.054	238
Banque Diamantaire Suisse SA Geneve CH	Ordinary		4.000	100,00	0,00	15-dec-16	CHF	16.081	-196
KBC Securities USA Inc New York US	Ordinary		100	100,00	0,00	31-dec-16	USD	3.094	-313
World Alliance Financial LLC New York US	Ordinary		1	100,00	0,00	31-dec-16	USD	-516	-516
KBC Net Lease Investments LLC New York US	Ordinary		1	100,00	0,00	31-dec-16	USD	1.646	1.646
BEL ROM SAPTE S.R.L. Romania RO RO18908106	Ordinary		16.428.357	99,99	0,01	31-dec-15	RON	-65.315	1.363
Immo Mechelen City Center NV Brussels BE 0403552563	Ordinary		99	99,00	1,00	31-mrt-17	EUR	53	-8
KBC START IT FUND NV Leuven BE 0403552563	Ordinary		99.999	99,99	0,01				
United Bulgarian Bank AD Sofia BG	Ordinary		75.893.450	99,91	0,00	31-dec-16	BGN	1.082.343	111.261
Interlease EAD Sofia BG	Ordinary		3.474.648	100,00	0,00	31-dec-16	BGN	62.118	24.941
UBB Asset Management AD Sofia BG	Ordinary		64	9,14	90,86				
KBC VERZEKERINGEN NV Leuven, BE, 0403552563	Ordinary		1	0,01	99,99	31-dec-16	EUR	2.095.060	306.049
Almafin Real Estate Services NV Brussel, BE, 0416.030.525	Ordinary		1	0,01	99,99	31-dec-16	EUR	20.113	395
2. Enterprises linked by participating interests >=20% en <= 50%									
Bedrijvencentrum Regio Roeselare NV Roeselare BE 0428.378.724	Ordinary		500	22,22	0,00	31-dec-16	EUR	577	22
Bancontact-Mistercash NV Brussels BE 0884.499.250	Ordinary		5.123	20,00	0,00	31-dec-16	EUR	5.489	-575
Isabel NV BrusselsBE 0455.530.509	Ordinary		253.322	25,33	0,00	31-dec-16	EUR	16.317	1.784
Xenarjo cvba Mechelen BE 0899.749.531	Ordinary		1.009	22,39	0,00	31-dec-16	EUR	-764	44
Etoiles d'Europe SAS Paris FR	Ordinary		2.250	45,00	0,00	30-jun-16	EUR	150	-21
Immo Beaulieu NV Brussels BE 0450193133	Ordinary		1.000	50,00	0,00	16-jun-16	EUR	68	114

Justinvest Antwerpen NV Wilrijk BE 0476658097	Ordinary	50	33,33	0,00	31-dec-16	EUR	502	44
Rabot Invest NV Wilrijk BE 0479758733	Ordinary	60	25,00	0,00	31-dec-16	EUR	652	36
Brussels I3 Fund NV Brussels BE 0477925433	Cat "D"	2.182	36,37	0,00	31-dec-16	EUR	8.808	7.924
Real Estate Participation NV Zaventem BE 0473.018.817	Ordinary	500	50,00	0,00	31-dec-16	EUR	8.950	6
Covent Garden Real Estate NV Zaventem BE 0872.941.897	Ordinary	750	50,00	0,00	31-dec-16	EUR	1.470	-8
Gemma Frisius-Fonds K.U. Leuven NV Leuven BE 0477.960.372	Cat "B"	4.000	40,00	0,00	31-dec-16	EUR	15.666	-198
Banking Funding Company NV Brussels BE 0884.525.182	Ordinary	12.437	20,25	0,00	31-dec-16	EUR	616	326
Rendex NV Antwerp BE 0461.785.227	Ordinary	33.114	26,05	0,00	31-mrt-17	EUR	408	1.101
PharmaNeuroBoost NV Alken BE 0885238529	Ordinary	17.888	22,93	0,00				
Big Bang Ventures Comm VA Lochristi BE 0471766725	Ordinary	200.000	20,00	0,00	31-dec-16	EUR	6	465
Gasco Group NV Willebroek BE 887290177	Ordinary	2.531.250	28,13	0,00	31-dec-16	EUR	-19.542	-688
Storesquare NV Roeselare BE 554814066	Ordinary	790.958	27,37	0,00	31-dec-16	EUR	939	-2.668
Payconiq België NV Hasselt BE 675984882	Cat. B en D	3.700.000	33,33	0,00				
Payconiq International SA Luxembourg LU 131239768	Ordinary	484.608	46,50	0,00	31-dec-16	EUR	510	-125
Joyn International NV Hasselt BE 578946577	Cat. B	9.042.583	41,85	0,00	31-dec-16	EUR	16.643	1.576
3. Enterprises linked by participating interests >=10% en <= 20%								
QBIC Feeder Fund Brussels BE 846493561	Ordinary	4.000	14,71	0,00	31-dec-16	EUR	11.372	-1.032
Antwerps Innovatiecentrum NV Antwerpen BE 472386634	Ordinary	3.575	16,25	0,00	30-sep-16	EUR	135	5
OEM EQUITY PARTICIPATIONS B.V. Utrecht NL	Ordinary	720.200	12,25	0,00	31-dec-16	EUR	230	0
BRS MICROFINANCE COOP CVBA Leuven BE 0508.996.711	Cat. C	2.160	15,66	0,00	31-dec-16	EUR	13.804	15
Bedrijvencentrum Zaventem NV Zaventem BE 0426.496.726	Ordinary	350	11,27	8,04	31-dec-16	EUR	570	0
Designcenter De Winkelhaak Antwerp BE 0470.201.857	Cat. A/B	189	29,67	0,00	31-dec-16	EUR	963	-4
Europay Belgium SCRL Brussels BE 0434.197.536	Ordinary	4.932	14,49	0,95	31-dec-16	EUR	1.072	102
Impulse Microfinancieringsfonds Wilrijk BE 0870.792.160	Ordinary	2.000	17,57	0,00	31-dec-16	EUR	3.700	914
Visa-Belgium CVBA Brussels BE 0435.551.972	Ordinary	23	12,92	0,56	30-sep-16	EUR	40.242	113.984
Baekeland II NV Gent BE 0876.424.296	Ordinary	2.000.000	18,02	0,00	31-dec-16	EUR	3.351	-101
Vives NV Louvain-La-Neuve BE 0862.398.591	Ordinary	2.500	14,70	0,00	31-dec-16	EUR	3.631	1.223
Bedrijvencentra Limburg NV Hasselt BE 0425.902.353	Ordinary	1.800	12,50	0,00	31-dec-16	EUR	4.011	-36
Bedrijvencentrum Leuven Heverlee BE 0428.014.676	Ordinary	40	9,52	4,76	31-dec-16	EUR	1.984	11
Bedrijvencentrum Vilvoorde Vilvoorde BE 0434.222.577	Ordinary	338	9,31	8,26	31-dec-16	EUR	1.276	-78

B. ENTERPRISES FOR WHICH THE CREDIT INSTITUTION HAS UNLIMITED LIABILITY IN ITS CAPACITY OF FULLY LIABLE PARTNER OR MEMBER

The annual accounts of any enterprise to which the enterprise is unlimited liable will be added to the present accounts and published jointly.
Departure from that requirement will be mentioned in the second column referring to the appropiate code (A or B), explained hereafter.

The annual accounts of the enterprise:

A. are published by filing with the National Bank of Belgium;

B. are effectively published in another Member State of the EEC as laid down in Article 3 of the Directive 2009/101/EEC;

C. are fully consolidated or proportionally consolidated in the reporting institution's accounts which have been prepared audited and published in accordance with the Royal Decree of September 23 rd 1992 on the consolidated accounts of institutions.

Name and full address of registered office and, for enterprises governed by Belgian law, VAT number or national identification number	Code, if any

VII. STATEMENT OF FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

	Codes	Current period	Previous period
A. Formation expenses			
1. Net carrying value as at the end of the period	50705P	xxxxxxxxxxxxxxx	0,00
2. Movements during the period	50701	0,00	
a. New expenses incurred	50702	0,00	
b. Amortization	50703	0,00	
c. Other (+)/(-)	50704	0,00	
3. Net carrying value as at the end of the period	50705	0,00	
4. Of which			
a. Expenses of formation or capital increase, loan issue expenses and other formation expenses	50706	0,00	
b. Reorganization costs	50707	0,00	

		Codes	Current period	Previous period
B. GOODWILL				
1. Acquisition cost as at the end of the period		50712P	xxxxxxxxxxxxxxx	1.250.874,68
2. Movements during the period		50708	0,00	
a. Acquisitions, including own construction		50709	0,00	
b. Sales and disposals		50710	0,00	
c. Transfers from one caption to another	(+)/(-)	50711	0,00	
3. Acquisition cost as at the end of the period		50712	1.250.874,68	
4. Amortizations and write-downs as at the end of the period		50719P	xxxxxxxxxxxxxxx	1.250.874,68
5. Movements during the period		50713	0,00	
a. Recorded		50714	0,00	
b. Excess written back		50715	0,00	
c. Acquisitions from third parties		50716	0,00	
d. Cancellations		50717	0,00	
e. Transfers from one caption to another	(+/-)	50718	0,00	
6. Amortizations and write-downs as at the end of the period		50719	1.250.874,68	
7. Net carrying value as at the end of the period		50720	0,00	

		Codes	Current period	Previous period
C. COMMISSIONS FOR ATTRACTING NEW BUSINESS WITH CUSTOMERS				
1. Acquisition cost as at the end of the period		50725P	xxxxxxxxxxxxxxx	0,00
2. Movements during the period		50721	0,00	
a. Acquisitions, including own construction		50722	0,00	
b. Sales and disposals		50723	0,00	
c. Transfers from one caption to another	(+)/(-)	50724	0,00	
3. Acquisition cost as at the end of the period		50725	0,00	
4. Amortizations and write-downs as at the end of the period		50732P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period		50726	0,00	
a. Recorded		50727	0,00	
b. Excess written back		50728	0,00	
c. Acquisitions from third parties		50729	0,00	
d. Cancellations		50730	0,00	
e. Transfers from one caption to another	(+)/(-)	50731	0,00	
6. Amortizations and write-downs as at the end of the period		50732	0,00	
7. Net carrying value as at end of the period		50733	0,00	

		Codes	Current period	Previous period
D. OTHER INTANGIBLE FIXED ASSETS				
1. Acquisition cost as at end of the period		50738P	xxxxxxxxxxxxxxx	1.379.896,75
2. Movements during the period		50734	72.786.454,02	
a. Acquisitions, including own construction		50735	72.786.454,02	
b. Sales and disposals		50736	0,00	
c. Transfers from one caption to another	(+)/(-)	50737	0,00	
3. Acquisition cost as at end of the period		50738	74.166.350,77	
4. Amortizations and write-downs as at end of the period		50745P	xxxxxxxxxxxxxxx	978.247,31
5. Movements during the period		50739	14.543.001,82	
a. Recorded		50740	14.685.798,50	
b. Excess written back		50741	0,00	
c. Acquisitions from third parties		50742	0,00	
d. Cancellations		50743	-142.796,68	
e. Transfers from one caption to another	(+)/(-)	50744	0,00	
6. Amortizations and write-downs as at the end of the period		50745	15.521.249,13	
7. Net carrying value as at the end of the period		50746	58.645.101,64	

VIII. TANGIBLE FIXED ASSETS (Assets caption IX)

		Codes	Current period	Previous period
A. LAND AND BUILDINGS				
1. Acquisition cost as at the end of the period		50805P	xxxxxxxxxxxxxxx	1.281.354.699,75
2. Movements during the period	(+)/(-)	50801	2.565.527,14	
a. Acquisition, including own construction		50802	23.976.880,28	
b. Sales and disposals		50803	-21.446.072,31	
c. Transfers from one caption to another	(+)/(-)	50804	34.719,17	
3. Acquisition cost as at the end of the period		50805	1.283.920.226,89	
4. Revaluation surpluses as at the end of the period		50811P	xxxxxxxxxxxxxxx	58.957.289,86
5. Movements during the period	(+)/(-)	50806	-239.650,62	
a. Recorded		50807	0,00	
b. Acquisitions from third parties		50808	0,00	
c. Cancellations		50809	-239.650,62	
d. Transfers from one caption to another	(+)/(-)	50810	0,00	
6. Revaluation surpluses as at the end of the period		50811	58.717.639,24	
7. Amortizations and write-downs as at the end of the period		50818P	xxxxxxxxxxxxxxx	773.432.285,74
8. Movements during the period	(+)/(-)	50812	31.627.293,68	
a. Recorded		50813	48.106.217,60	
b. Excess written back		50814	0,00	
c. Acquisitions from third parties		50815	0,00	
d. Cancellations		50816	-16.480.498,12	
e. Transfers from one caption to another	(+)/(-)	50817	1.574,20	
9. Amortizations and write-downs as at the end of the period		50818	805.059.579,42	
10. Net carrying value as at the end of the period		50819	537.578.286,71	

		Codes	Current period	Previous period
B. PLANT, MACHINERY AND EQUIPMENT				
1. Acquisition cost as at the end of the period		50824P	xxxxxxxxxxxxxxx	12.036.259,88
2. Movements during the period	**(+)/(-)**	50820	-2.735.277,64	
a. Acquisition, including own construction		50821	0,00	
b. Sales and disposals		50822	-2.735.277,64	
c. Transfers from one caption to another	(+)/(-)	50823	0,00	
3. Acquisition cost as at the end of the period		50824	9.300.982,24	
4. Revaluation surpluses as at the end of the period		50830P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	**(+)/(-)**	50825	0,00	
a. Recorded		50826	0,00	
b. Acquisitions from third parties		50827	0,00	
c. Cancellations		50828	0,00	
d. Transfers from one caption to another	(+)/(-)	50829	0,00	
6. Revaluation surpluses as at the end of the period		50830	0,00	
7. Amortization and write-downs as at the end of the period		50837P	xxxxxxxxxxxxxxx	11.375.174,14
8. Movements during the period	**(+)/(-)**	50831	-2.442.285,69	
a. Recorded		50832	397.529,97	
b. Excess written back		50833	0,00	
c. Acquisitions from third parties		50834	0,00	
d. Cancellations		50835	-2.839.815,66	
e. Transfers from one caption to another	(+)/(-)	50836	0,00	
9. Amortizations and write-downs as at the end of the period		50837	8.932.888,45	
10. Net carrying value as at the end of the period		50838	368.093,79	

		Codes	Current period	Previous period
C. FURNITURE AND VEHICLES				
1. Acquisition cost as at the end of the period		50843P	xxxxxxxxxxxxxxx	33.984.534,10
2. Movements during the period	**(+)/(-)**	50839	-1.138.168,50	
a. Acquisition, including own construction		50840	189.000,00	
b. Sales and disposals		50841	-1.327.168,50	
c. Transfers from one caption to another	(+)/(-)	50842	0,00	
3. Acquisition cost as at the end of the period		50843	32.846.365,60	
4. Revaluation surpluses as at the end of the period		50849P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	**(+)/(-)**	50844	0,00	
a. Recorded		50845	0,00	
b. Acquisitions from third parties		50846	0,00	
c. Cancellations		50847	0,00	
d. Transfers from one caption to another	(+)/(-)	50848	0,00	
6. Revaluation surpluses as at the end of the period		50849	0,00	
7. Amortizations and write-downs as at the end of the period		50856P	xxxxxxxxxxxxxxx	18.050.254,74
8. Movements during the period	**(+)/(-)**	50850	-1.004.833,03	
a. Recorded		50851	161.956,00	
b. Excess written back		50852	0,00	
c. Acquisitions from third parties		50853	0,00	
d. Cancellations		50854	-1.166.789,03	
e. Transfers from one caption to another	(+)/(-)	50855	0,00	
9. Amortizations and write-downs as at the end of the period		50856	17.045.421,71	
10. Net carrying value as at the end of the period		50857	15.800.943,89	

		Codes	Current period	Previous period
D. LEASING AND OTHER SIMILAR RIGHTS				
1. Acquisition cost as at the end of the period		50862P	xxxxxxxxxxxxxxx	125.663.560,42
2. Movements during the period	(+)/(-)	50858	0,00	
a. Acquisition, including own construction		50859	0,00	
b. Sales and disposals		50860	0,00	
c. Transfers from one caption to another	(+)/(-)	50861	0,00	
3. Acquisition cost as at the end of the period		50862	125.663.560,42	
4. Revaluation surpluses as at the end of the period		50868P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+)/(-)	50863	0,00	
a. Recorded		50864	0,00	
b. Acquisitions from third parties		50865	0,00	
c. Cancellations		50866	0,00	
d. Transfers from one caption to another	(+)/(-)	50867	0,00	
6. Revaluation surpluses as at the end of the period		50868	0,00	
7. Amortizations and write-downs as at the end of the period		50875P	xxxxxxxxxxxxxxx	20.827.659,72
8. Movements during the period	(+)/(-)	50869	5.742.644,56	
a. Recorded		50870	5.742.644,56	
b. Excess written back		50871	0,00	
c. Acquisitions from third parties		50872	0,00	
d. Cancellations		50873	0,00	
e. Transfers from one caption to another	(+)/(-)	50874	0,00	
9. Amortizations and write-downs as at the end of the period		50875	26.570.304,28	
10. Net carrying value as at the end of the period		50876	99.093.256,14	
11. Of which				
a. Land and buildings		50877	99.093.256,14	
b. Plant, machinery and equipment		50878	0,00	
c. Furniture and vehicles		50879	0,00	

		Codes	Current period	Previous period
E. OTHER TANGIBLE FIXED ASSETS				
1. Acquisition cost as at the end of the period		50884P	xxxxxxxxxxxxxxx	246.907.228,70
2. Movements during the period	(+)/(-)	50880	522.290.128,26	
a. Acquisition, including own construction		50881	600.905.149,08	
b. Sales and disposals		50882	-78.580.301,65	
c. Transfers from one caption to another	(+)/(-)	50883	-34.719,17	
3. Acquisition cost as at the end of the period		50884	769.197.356,96	
4. Revaluation surpluses as at the end of the period		50890P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+)/(-)	50885	0,00	
a. Recorded		50886	0,00	
b. Acquisitions from third parties		50887	0,00	
c. Cancellations		50888	0,00	
d. Transfers from one caption to another	(+)/(-)	50889	0,00	
6. Revaluation surpluses as at the end of the period		50890	0,00	
7. Amortizations and write-downs as at the end of the period		50897P	xxxxxxxxxxxxxxx	154.300.574,91
8. Movements during the period	(+)/(-)	50891	-18.361.060,77	
a. Recorded		50892	10.009.814,25	
b. Excess written back		50893	0,00	
c. Acquisitions from third parties		50894	0,00	
d. Cancellations		50895	-28.369.300,82	
e. Transfers from one caption to another	(+)/(-)	50896	-1.574,20	
9. Amortizations and write-downs as at the end of the period		50897	135.939.514,14	
10. Net carrying value as at the end of the period		50898	633.257.842,82	

		Codes	Current period	Previous period
F. ASSETS UNDER CONSTRUCTION AND ADVANCE PAYMENTS				
1. Acquisition cost as at the end of the period		50903P	xxxxxxxxxxxxxxx	0,00
2. Movements during the period	(+)/(-)	50899	0,00	
a. Acquisition, including own construction		50900	0,00	
b. Sales and disposals		50901	0,00	
c. Transfers from one caption to another	(+)/(-)	50902	0,00	
3. Acquisition cost as at the end of the period		50903	0,00	
4. Revaluation surpluses as at the end of the period		50909P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+)/(-)	50904	0,00	
a. Recorded		50905	0,00	
b. Acquisitions from third parties		50906	0,00	
c. Cancellations		50907	0,00	
d. Transfers from one caption to another	(+)/(-)	50908	0,00	
6. Revaluation surpluses as at the end of the period		50909	0,00	
7. Amortization and write-downs as at the end of the period		50916P	xxxxxxxxxxxxxxx	0,00
8. Movements during the period	(+)/(-)	50910	0,00	
a. Recorded		50911	0,00	
b. Excess written back		50912	0,00	
c. Acquisitions from third parties		50913	0,00	
d. Cancellations		50914	0,00	
e. Transfers from one caption to another	(+)/(-)	50915	0,00	
9. Amortizations and write-downs as at the end of the period		50916	0,00	
10. Net carrying value as at the end of the period		50917	0,00	

IX. OTHER ASSETS (Assets caption XI)

	Current period
Breakdown (if the amount in this caption is significant)	
Options	780.643.115,40
Other	265.638.818,21

X. DEFERRED CHARGES AND ACCRUED INCOME (Assets caption XII)

	Code	Current period
1. Deferred charges	51001	33.747.796,36
2. Accrued income	51002	6.756.868.554,98

X.bis REINVESTMENT OF SEGREGATED CUSTOMER FUNDS

	Code	Current period
Total	51003	0,00

XI. STATEMENT OF AMOUNTS OWED TO CREDIT INSTITUTIONS (Liabilities caption I)

	Code	Current period	Previous period
1. Amounts due to affiliated enterprises	51101	4.045.891.728,83	2.844.132.071,42
2. Amounts due to other enterprises linked by participating interests	51102	0,00	0,00
3. Breakdown of debts other than on sight according to their remaining maturity			
a. Up to 3 months	51103	12.867.531.775,72	
b. Over 3 months up to 1 year	51104	1.253.270.412,50	
c. Over 1 year up to 5 years	51105	6.788.681.073,53	
d. Over 5 years	51106	956.312,46	
e. Undated	51107	1.810.126.918,38	

XII. STATEMENT OF AMOUNTS OWED TO CUSTOMERS (Liabilities caption II)

	Code	Current period	Previous period
1. Affiliated enterprises	51201	5.435.640.687,96	10.092.044.147,05
2. Other enterprises linked by participating interests	51202	100.728.206,25	105.044.486,68
3. Breakdown according to the remaining maturity			
a. Repayable on demand	51203	43.765.392.630,87	
b. Up to 3 months	51204	9.710.178.452,20	
c. Over 3 months up to 1 year	51205	2.476.774.485,94	
d. Over 1 year up to 5 years	51206	6.555.321.709,45	
e. Over 5 years	51207	1.048.701.796,56	
f. Undated	51208	35.576.328.099,40	
4. Breakdown of debt owed to customers depending on the nature of the debtors			
a. Debt owed to government	51209	1.971.771.382,75	1.891.136.499,03
b. Debt owed to private persons	51210	50.933.844.057,45	48.922.387.539,15
c. Debt owed to enterprises	51211	46.227.081.734,22	48.834.642.701,24
5. Geographical breakdown of debt owed to customers			
a. Of Belgian origin	51212	81.106.230.389,24	
b. Of foreign origin	51213	18.026.466.785,18	

XIII. STATEMENT OF DEBTS EVIDENCED BY CERTIFICATES (liabilities caption III)

	Codes	Current period	Previous period
1. Debts represented by a certificate that, to the knowledge of the institution, are debts owed to affiliated companies.	51301	173.407.268,15	0,00
2. Debts represented by a certificate that, to the knowledge of the institution, are debts owed to companies linked by participating interests.	51302	0,00	0,00
3. Breakdown of debt represented by certificates in accordance to their remaining maturity.			
a. Up to 3 months	51303	21.439.604.513,14	
b. Over 3 months up to 1 year	51304	741.207.352,33	
c. Over 1 year up to 5 years	51305	6.267.852.774,96	
d. Over 5 years	51306	1.491.127.906,57	
e. Undated	51307	0,00	

XIV. OTHER LIABILITIES (liabilities caption IV)

	Codes	Current period
1. Taxes, remuneration and social security charges due to the tax authorities	51401	0,00
a. Overdue debts	51402	0,00
b. Unmatured debts	51403	0,00
2. Taxes, remuneration and social security charges due to the National Social Security Office	51404	0,00
a. Overdue debts	51405	0,00
b. Unmatured debts	51406	0,00
3. Taxes		
a. Taxes payable	51407	32.870.701,28
b. Estimated tax liabilities	51408	-505.031,29
4. Other liabilities		
Breakdown if the amount in this caption is significant		
Other amounts payable relating to remuneration and social security		168.689.621,52
Option contracts		455.685.469,44
Dividends still to be paid		1.198.949.311,42
Other		97.318.551,57

XV. ACCRUED CHARGES AND DEFERRED INCOME (liabilities caption V)

	Codes	Current period
1. Accrued charges	51501	5.148.640.605,32
2. Deferred income	51502	166.345.063,99

XVI. PROVISIONS FOR OTHER LIABILITIES AND CHARGES (liabilities VI.A.3)

	Current period
Breakdown of liabilities (VI.A.3) if the amounts in this caption are significant	
Credit commitments	137.016.573,73
Litigation and operational disputes	64.712.226,71
Provision for other risks and future expenses	965.270,71
Provision for disability payments	3.914.747,70
Other	18.414.451,18

XVII. STATEMENT OF SUBORDINATED LIABILITIES (liabilities caption VIII)

	Codes	Current period	Previous period
1. Subordinated debts due to affiliated enterprises	51701	6.856.206.121,09	5.237.077.267,36
2. Subordinated debts due to other enterprises linked by participating interests	51702	0,00	0,00

	Codes	Current period
3. Charges as a result of subordinated liabilities	51703	235.725.507,09

4. For each subordinated loan, the following information: reference number, the ISO code of the currency, the amount of the loan in the currency of the loan, the remuneration arrangements, the due date and, if no due date is determined, the terms of duration, where appropriate the circumstances in which the institution is required to repay in advance, the conditions for the subordination and if appropriate, the conditions for the conversion into capital or into some other form of liability.

Detail of each subordinated loan :

Reference nummer	Currency	Amount	Maturity date or conditions governing the maturity	a) Circumstances in which the entreprise is required to repay this loan. b) Conditions for the suborditaion c) Conditions for conversion into capital
1	EUR	1.400.000.000	19/03/2014 - 19/03/2019 Deposits originated by KBC Group - AT1	a) Unconditional
2	EUR	749.627.660	25/11/2014 - 25/11/2024 Deposits originated by KBC Group - T2	a) Unconditional
3	EUR	9.868.612	06/03/2015 - 06/03/2025 Deposits originated by KBC Group - T2	a) Unconditional
4	EUR	747.667.457	11/03/2015 - 11/03/2027 Deposits originated by KBC Group - T2	a) Unconditional
5	EUR	174.417.105	24/07/2014 - 24/07/2029 Deposits originated by KBC Group - T2	a) Unconditional
6	EUR	746.969.491	26/04/2016 - 26/04/2021 Deposits originated by KBC Group - T3	a) Unconditional
7	EUR	749.532.161	18/10/2016 - 18/10/2023 Deposits originated by KBC Group - T3	a) Unconditional
8	EUR	1.249.843.411	01/03/2017 - 01/02/2022 Deposits originated by KBC Group - T3	a) Onvoorwaardelijk
9	EUR	750.000.000	24/05/2017 - 24/11/2022 Deposits originated by KBC Group - T3	a) Onvoorwaardelijk
10	EUR	24.973.123	04/10/2017 - 04/10/2027 Deposits originated by KBC Group - T3	a) Onvoorwaardelijk
11	EUR	93.267.932	Subordinated certificates Issued by KBC Bank	a) Unconditional
12	EUR	20.064.967	Subordinated Time Deposits Issued by KBC Bank	a) Unconditional
13	GBP	43.819.669	19/12/2003 - perpetual Issued by KBC Bank	a) Fiscal requalification Repayment possible from 19/12/2019 c) Mandat. conv. Into KBC Bank in case of Superv. Event
14	USD	158.329.833	Deposits originated by KBC IFIMA	a) Fiscal requalification
15	EUR	121.288.562	Deposits originated by KBC IFIMA	a) Fiscal requalification
16	USD	1.000.000.000	25/01/2013 – 25/01//2023 USD Contingent Capital Notes	

XVIII. STATEMENT OF CAPITAL

	Codes	Current period	Previous period
A. CAPITAL			
1. Subscribed capital			
a. Subscribed capital as at the end of the preceding period	20910P	xxxxxxxxxxxxxx	8.948.439.652,39
b. Subscribed capital as at the end of the period	(20910)	8.948.439.652,39	

	Codes	Amounts	Number of shares
c. Changes during the period			
d. Structure of the capital			
e. Categories of shares			
Ordinary shares entitled to dividend		8.948.439.652,39	915.228.482
f. Registered shares	51801	xxxxxxxxxxxxxx	915.228.482
g. Bearer and or dematerialized shares	51802	xxxxxxxxxxxxxx	0

	Codes	Uncalled capital	Called but unpaid capital
2. CAPITAL NOT PAID UP			
a. Uncalled capital	(20920)	0,00	xxxxxxxxxxxxxx
b. Called but unpaid capital	51803	xxxxxxxxxxxxxx	0,00
c. Shareholders still owing capital payment			

	Codes	Current period
3. OWN SHARES		
a. Held by the reporting institution itself		
* Amount of capital held	51804	0,00
* Corresponding number of shares	51805	0,00
b. Held by its subsidiaries		
* Amount of capital held	51806	0,00
* Corresponding number of shares	51807	0,00
4. SHARE ISSUANCE COMMITMENTS		
a. Following the exercise of conversion rights		
* Amount of convertible loans outstanding	51808	0,00
* Amount of capital to be subscribed	51809	0,00
* Maximum corresponding number of shares to be issued	51810	0,00
b. Following the exercise of subscription rights		
* Number of subscription rights outstanding	51811	0,00
* Amount of capital to be subscribed	51812	0,00
* Maximum corresponding number of shares to be issued	51813	0,00
5. AUTHORIZED CAPITAL NOT ISSUED	51814	4.000.000.000,00

	Codes	Current period
6. SHARES NOT REPRESENTING CAPITAL		
a. Repartition		
* Number of parts	51815	0,00
* Number of votes	51816	0,00
b. Breakdown by shareholder		
* Number of parts held by the reporting institution itself	51817	0,00
* Number of parts held by its subsidiaries	51818	0,00

B. SHAREHOLDER STRUCTURE OF THE INSTITUTION AT YEAR END, ACCORDING TO THE NOTIFICATIONS RECEIVED BY THE INSTITUTION

KBC Groep NV	Number of shares:	915.228.481
KBC Verzekeringen NV	Number of shares:	1

XIX. BREAKDOWN OF BALANCE SHEET, IF MORE THAN 15 MILLION EUROS, IN EUROS AND IN FOREIGN CURRENCY

	Codes	Current period
1. Total Assets		
a. In Euro	51901	163.036.634.608,84
b. In foreign currency (equivalent in EUR)	51902	24.877.438.111,91
2. Total liabilities		
a. In Euro	51903	152.534.751.405,65
b. In foreign currency (equivalent in EUR)	51904	35.379.321.315,10

XX. FIDUCIARY TRANSACTIONS ACCORDING TO ARTICLE 27TER §1 PARAGRAPH 3

	Current period
Concerned assets and liabilities items	0,00
	0,00
	0,00
	0,00
	0,00

XXI. STATEMENT OF GUARANTEED DEBTS AND OBLIGATIONS

	Current period
A. MORTGAGES (amount of enrollment or carrying amount of the collateralized buildings, if this is less)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	

	Current period
B. PLEDGE OF THE TRADING FUND (total enrollment)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of third parties	

	Period
C. PLEDGE OF OTHER ASSETS (book value of pledged assets)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
Discounting, repurchase agreements and secured advances	17.617.834.423,96
Asset Pledge requirement KBC New York	182.811.139,83
Asset Pledge National Bank of Belgium	8.285.490.890,47
Covered bonds	10.873.289.449,96
b. Off-balance sheet	
Options and futures	4.596.930.101,18
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	

	Current period
D. COLLATERAL ON FUTURE ASSETS (total assets in question)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off-balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of third parties	

XXII. STATEMENT OF CONTINGENT LIABILITIES AND COMMITMENTS WITH POTENTIAL CREDIT RISK (off balance sheet I and II)

	Codes	Current period	Previous period
1. Total contingent liabilities on behalf of affiliated companies	52201	6.692.918.951,74	6.930.263.783,05
2. Total contingent liabilities on behalf of companies linked by participating interests	52202	5.658.172,63	5.625.762,46
3. Total commitments with a potential credit risk to affiliated companies	52203	0,00	0,00
4. Total commitments with a potential risk with regard to companies linked by participating interests	52204	0,00	0,00

XXIII. OPERATING RESULTS (items I to XV of the income statement)

	Codes	Period	Previous period
1. Breakdown of operating income according to origin			
a. Interest and similar income	(40100)	2.859.481.847,16	2.929.994.113,85
* Belgian sites	52301	2.492.259.700,03	2.674.945.182,27
* Foreign offices	52302	367.222.147,13	255.048.931,59
b. Income from fixed-income securities: shares and other variable-yield securities	(40310)	4.924.659,22	3.175.528,63
* Belgian sites	52303	1.590.455,32	3.174.730,14
* Foreign offices	52304	3.334.203,90	798,49
c. Income from fixed-income securities: investments in affiliated companies	(40320)	1.100.174.610,25	834.229.569,49
* Belgian sites	52305	1.100.174.610,25	834.229.569,49
* Foreign offices	52306	0,00	0,00
d. Income from fixed-income securities: shares in companies linked by participating interests	(40330)	7.211.324,42	11.362.420,71
* Belgian sites	52307	7.211.324,42	11.362.420,71
* Foreign offices	52308	0,00	0,00
e. Income from fixed-income securities: other shares held as fixed financial assets	(40340)	1.336.954,87	2.587.211,02
* Belgian sites	52309	1.336.954,87	2.587.211,02
* Foreign offices	52310	0,00	0,00
f. Commissions received	(40400)	1.306.455.363,15	889.934.187,81
* Belgian sites	52311	1.277.028.045,35	859.723.333,36
* Foreign offices	52312	29.427.317,80	30.210.854,46
g. Profit on financial transactions	(40600)	256.707.718,54	-451.900,22
* Belgian sites	52313	185.072.588,29	-14.294.484,14
* Foreign offices	52314	71.635.130,25	13.842.583,92
h. Other operating income	(41400)	247.614.840,77	204.753.204,02
* Belgian sites	52315	236.737.453,61	193.368.759,28
* Foreign offices	52316	10.877.387,17	11.384.444,75
2. Employees on the personnel register			
a. Total number at the closing date	52317	9.859	9.841
b. Average number of employees in full-time equivalents	52318	8.995	8.915
* Management Personnel	52319	87	87
* Employees	52320	8.908	8.828
* Workers	52321	0	0
* Other	52322	0	0
c. Number of actual worked hours	52323	12.667.058	12.633.346
3. Personnel			
a. Remuneration and direct social benefits	52324	585.140.446,59	564.533.138,84
b. Employers' social security	52325	150.696.500,65	146.786.794,82
c. Employers' premiums for extra statutory insurance	52326	50.257.937,12	45.033.066,32
d. Other personnel	52327	30.218.162,13	29.547.426,58
e. Retirement and survivors' pensions	52328	4.608.048,08	15.104.978,26
4. Provisions for pensions and similar obligations			
a. Increase (+)	52329	21.960.833,84	27.778.553,29
b. Decrease (-)	52330	28.587.356,62	12.922.623,83

	Codes	Period	Previous period
5. Breakdown of other operating income if this represents a significant amount			
a. Rent other Group entities			61.967.214,64
b. Payment Fees			12.865.226,25
c. Leasing activities		53.263.763,65	18.723.176,07
d. recalculations to / recuperations of group companies (including Rent other group entities in 2017)		117.422.382,83	
e. Other		76.928.694,29	111.197.587,06
6. Other operating expenses			
a. Corporate taxes	52331	36.429.487,29	97.592.525,99
b. Other	52332	4.239.964,05	1.524.253,84
c. Analysis of other operating expenses if this represents a significant amount			
7. Operating revenue from affiliated companies	52333	2.384.139.079,52	2.333.331.739,44
8. Operating costs relating to affiliated companies	52334	1.569.438.329,81	1.667.446.321,10

XXIV. STATEMENT OF OFF BALANCE SHEET OPERATIONS ON SECURITIES, CURRENCIES AND OTHER FINANCIAL INSTRUMENTS WHICH BRING NO OBLIGATION WITH A POTENTIAL CREDIT RISK ACCORDING TO HEADING II OF THE OFF BALANCE SHEET ITEMS

	Codes	Current period
A. TYPES OF OPERATIONS (amounts on the closing date of the accounts)		
1. Securities transactions		
a. Forward purchases and sales of securities and marketable securities	52401	0,00
* of which: not intended for hedging purposes	52402	0,00
2. Exchange transactions (amounts to be provided)		
a. Forward exchange contracts	52403	91.174.959.292,10
* of which: not intended for hedging purposes	52404	91.174.959.292,10
b. Currency and interest rate swaps	52405	28.956.728.096,09
* of which: not intended for hedging purposes	52406	24.228.325.095,87
c. Currency futures	52407	0,00
* of which: not intended for hedging purposes	52408	0,00
d. Options on currencies	52409	10.392.559.440,32
* of which: not intended for hedging purposes	52410	10.392.559.440,32
e. Forward exchange contracts	52411	0,00
* of which: not intended for hedging purposes	52412	0,00
3. Transactions in other financial instruments		
Forward transactions in interest rate (nominal / notional reference)		
a. Interest rate swap agreements	52413	292.384.954.959,34
* of which: not intended for hedging purposes	52414	243.202.001.031,78
b. Interest futures transactions	52415	8.288.804.073,42
* of which: not intended for hedging purposes	52416	8.288.804.073,42
c. Future Interest rate Agreements	52417	2.439.845.310,38
* of which: not intended for hedging purposes	52418	2.439.845.310,38
d. Interest rate options	52419	44.548.442.418,87
* of which: not intended for hedging purposes	52420	42.636.246.569,87
Other purchase and sales (sale / purchase price agreed between parties)		
e. Other option transactions	52421	3.855.003.200,97
* of which: not intended for hedging purposes	52422	3.855.003.200,97
f. Other futures transactions	52423	100.452.709,66
* of which: not intended for hedging purposes	52424	100.452.709,66
g. Other forward purchases and sales	52425	0,00
* of which: not intended for hedging purposes	52426	0,00

B. QUANTIFICATION OF THE IMPACT ON THE RESULTS OF THE DEROGATION OF VALUATION RULE UNDER article 36bis, § 2 RELATING TO THE FORWARD TRANSACTIONS IN INTEREST RATE

		Codes	Current period
1. Forward transactions in interest rate regarding treasury management			
a. Nominal / notional reference amount on the closing date of accounts		52427	0,00
b. Difference between market value and book value	(+)/(-)	52428	0,00
2. Forward transactions in interest rate regarding ALM (*)			
a. Nominal / notional reference amount on the closing date of accounts		52429	39.803.081.017,88
b. Difference between market value and book value	(+)/(-)	52430	-1.858.108.110,30
3. Forward transactions in interest rate without the effect of risk reduction (LOCOM)			
a. Nominal / notional reference amount on the closing date of accounts		52431	87.208.567,02
b. Difference between market value and book value	(+)/(-)	52432	-1.791.636,59

(*) Including forward transactions regarding securitizations of loans (nominal value 6.514.115.259 EUR). The MtM Value of the deals amount to (-298.730.076 EUR)

XXV. EXTRAORDINARY RESULTS

	Codes	Current period
1. Realised gains on transfer of fixed assets to affiliated companies	52501	0,00
2. Incurred losses on transfer of fixed assets to affiliated companies	52502	0,00
3. Breakdown of the other exceptional income if it comprises significant amounts		0,00
4. Breakdown of the other extraordinary costs if they comprise significant amounts		0,00
0		

XXVI. INCOME TAXES

	Codes	Current period
1. Income taxes for the year	52601	-28.439.169,81
a. Taxes and withholding taxes due or paid	52602	-21.209.805,93
b. Excess of income tax prepayments and of withholding taxes	52603	167.761,94
c. Estimated additional charges for income taxes	52604	-7.397.125,82
2. Income taxes for previous years	52605	-699.057,89
a. Additional income taxes due or paid	52606	-699.057,89
b. Additional charges for income taxes, estimated (included in liabilities)	52607	0,00
3. Main sources of differences between the profit before tax, as stated in the financial statements, and the estimated taxable income		
Movements in taxable reserves and provisions		-93.144.478,61
The specific tax system applicable to gains and losses on shares		-1.426.917.191,69
The application of the foreign tax credit scheme on dividends received		-1.052.259.480,58
Disallowed expenses (other than write-downs, losses on shares, revenue participation and corporation tax)		26.715.426,92

4. Impact of extraordinary results on the amount of income taxes for the year

Realised gains and incurred losses on shares under financial fixed assets (gains not taxable and losses not deductible)		-10.639.739,03
Write-downs (not deductible) and write-backs (not taxable) on shares under financial fixed assets		1.437.560.490,51

	Codes	Current period
5. Sources of deferred taxes		
a. Deferred tax assets	52608	2.121.679.328,87
* Accumulated tax losses deductible from future taxable profits	52609	2.121.679.328,87
* Other deferred tax assets		
Taxable impairments		0,00
Taxable supplies		0,00
Other taxable reserves		0,00
Deferred taxes on the taxable amortization, provisions and other tax reserves were booked into BGAAP.		
b. Passive deferrals	52610	0,00
* Breakdown of the passive deferrals		

XXVII. VALUE ADDED TAX AND TAXES BORNE BY THIRD PARTIES

	Codes	Current period	Previous period
1. Charged value added tax			
a. To the reporting institution (deductible)	52701	151.871.835,84	12.370.596,65
b. By the reporting institution	52702	132.449.779,03	30.930.473,37
2. Amounts withheld on behalf of third parties as			
a. Payroll tax	52703	160.841.576,06	144.305.859,69
b. Withholding tax	52704	97.494.327,50	104.905.581,32

XXVIII. OFF-BALANCE SHEET RIGHTS AND COMMITMENTS AND TRANSACTIONS WITH RELATED PARTIES

A. OFF BALANCE SHEET RIGHTS AND COMMITMENTS

	Codes	Current period
1. Substantial commitments to acquire fixed assets		
2. Substantial commitments to dispose of fixed assets		

3. Significant litigation and other significant commitments

Significant disputes pending:

Information relating to the main legal disputes pending: claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. 'probable outflow', 'possible outflow' or 'remotely probable outflow'). Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies'). No provisions are constituted for 'possible outflow' cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 50 million euros). All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.

Probable outflow:
- From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult were involved in the transfer of cash companies. Cash companies are characterised by the fact that the asset side of their balance sheets comprises primarily amounts receivable and cash, in addition to other liquid assets. On several occasions between 1995 and 1997, KB Consult acted as the intermediary between the sellers and buyers of such companies. There were various ways in which the bank could be involved, but in most cases they concerned payments or lending. KBC Bank and/or KB Consult were joined to proceedings in a number of cases. In addition, KB Consult was placed under suspicion by an investigating judge in 2004, and together with KBC Bank and KBC Group NV, was summoned to appear in the proceedings before a judge in chambers in Bruges. On 9 November 2011, the judge referred KB Consult and KBC Bank to Bruges Criminal Court on charges of uttering, but dismissed the charges against KBC Group NV. The Belgian state appealed the decision of no case to answer against KBC Group NV. On 27 October 2015, the indictments division ruled that proceedings were time-barred and upheld the original decision of no case to answer. The case as referred will now be heard before Bruges Criminal Court in the course of 2017. A suitable provision has been constituted to deal with the potential impact of claims for damages in this respect. The transfer of a cash company is in principle completely legitimate. However, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties. Referral to the criminal court does not in any way imply that any KBC entity has been convicted of an offence. KBC is fully defending its position in these cases, based, among other things, on the fact that, during the period in which the events took place, the legal entity was not liable to prosecution and, in particular, KBC was utterly lacking in criminal intent.

- In March 2000, Rebeo and Trustimmo, two subsidiaries of Almafin (a subsidiary of KBC Bank), together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned by the Ministry of Finance to appear before the civil court in Brussels regarding non-payment of 16.7 million euros in taxes owed by Broeckdal. However, Broeckdal contested this claim and in December 2002 initiated court proceedings against the Ministry of Finance before the civil court in Antwerp. The civil case pending before the Brussels court has been suspended until final judgment has been passed in the tax-related proceedings pending before the Antwerp court. Broeckdal was wound up by court order on 2 November 2010 and was declared properly wound up and dissolved on 13 September 2011. The Belgian State reactivated the tax procedure, after which the court in Antwerp referred to a judgment by default on 9 May 2014 and from the closure of the liquidation distracted an implicit distance of proceedings. On 17 February 2017 the Belgian State reactivated the civil procedure in Brussels. A judgment is expected in the last quarter of 2018. A suitable provision has been set aside to cover potential damages.

Possible outflow:

- On 6 October 2011, Irving H. Picard, trustee for the substantively consolidated SIPA (Securities Investor Protection Corporation Act) liquidation of Bernard L. Madoff Investments Securities LLC and Bernard L. Madoff, sued KBC Investments before the bankruptcy court in New York to recover approximately 110 million US dollars' worth of transfers made to KBC entities. The basis for this claim was the subsequent transfers that KBC received from Harley International, a Madoff feeder fund established under the laws of the Cayman Islands. This claim is one of a whole set made by the trustee against several banks, hedge funds, feeder funds and investors. In addition to the issues addressed by the district court, briefings were held on the applicability of the Bankruptcy Code's 'safe harbor' and 'good defenses' rules to subsequent transferees (as is the case for KBC). KBC, together with numerous other defendants, filed motions for dismissal. District court Judge Jed Rakoff has made several intermediate rulings in this matter, the most important of which are the rulings on extraterritoriality and good faith defences. On 27 April 2014, Judge Rakoff issued an opinion and order regarding the 'good faith' standard and pleading burden to be applied in the Picard/SIPA proceeding based on sections 548(b) and 559(b) of the Bankruptcy Code. As such, the burden of proof that KBC should have been aware of the fraud perpetrated by Madoff in this matter is for Picard/SIPA. On 7 July 2014, Judge Rakoff ruled that Picard/SIPA's reliance on section 550(a) did not allow for the recovery of subsequent transfers received abroad by a foreign transferee from a foreign transferor (as is the case for KBC Investments Ltd). Therefore, the trustee's recovery claims were dismissed to the extent that they seek to recover purely foreign transfers. In June 2015, the trustee filed a petition against KBC to overturn the ruling that the claim fails on extraterritoriality grounds. In this petition, the trustee also amended the original claim including the sum sought, which was increased to 196 million US dollars. On 22 November 2016, Judge Bernstein handed down an intermediate ruling dismissing the claims of the trustee in respect of those foreign transfers under the rules of international comity. The final judgment on this matter is expected in the first quarter of 2017. The trustee appealed in December 2017 against the dismissal verdict issued in 2017 and the case will take six to eighteen months before a ruling will follow.

- In the spring of 2008, KBC issued two bonds, KBC IFIMA 5-5-5 and KBC Group 5-5-5 (totalling 0.66 billion euros – also see Note 8 in the 2011 and 2012 annual reports). These structured bonds had a term of five years, a gross coupon of 5%, and were linked until their maturity to the public debt of five countries (Belgium, France, Spain, Italy and Greece). They allowed for early redemption of the residual value as soon as a credit event occurred with respect to one of these countries. When the 5-5-5 bonds were launched, the sovereign risks were generally regarded as very low. However, the unexpected, far-reaching changes in market conditions early in 2010 (the Greek crisis) changed the original risk profile of these bonds. At the start of 2011, KBC proactively decided to offer additional security to holders of 5-5-5 bonds and informed them of this in writing: if a credit event occurred, investors would still get back the amount they had invested, less the coupons already received and less taxes and charges. On 9 March 2012, a credit event actually occurred in Greece, and KBC honoured the promise it made. On 8 October 2012, a number of parties who had subscribed to the 5-5-5 bonds issued by KBC Group NV and by KBC IFIMA raised proceedings before Brussels Court of First Instance, as they were not satisfied with the proposed settlement. In the case involving the KBC Group NV issue, the court handed down a judgment on 20 January 2016, which found in favour of one of the plaintiffs. KBC Bank and KBC Group NV have appealed the case, with the final submissions being filed on 16 March 2017. No date has been set yet for the court hearing.

Other significant liabilities.

The bank irrevocably guarantees all the sums, indebtedness, obligations and liabilities outstanding on 31 December 2016 of the following companies, which are consequently exempt from publication on a consolidated basis.

KBC Asset Management NV
KBC Securities NV

4. Where appropriate, a brief description of the system of supplementary retirement or survivor benefit of the personnel or the executives, stating the measures taken to cover the resulting charges

All members of staff are covered by a supplementary pension scheme that includes an additional death benefit, orphan's annuity and invalidity benefits. The amount covered under these schemes (which are defined benefit schemes) depends on the average final salary, number of years of service and age at the time of retirement.

These pension schemes are financed entirely by the employer through annual contributions that are recognised in the income statement. These contributions, calculated on an actuarial basis using the aggregate cost method, are transferred to the Pensioenfonds KBC OFP (KBC pension fund for employees) and the Pensioenfonds Senior Management KBC OFP (KBC pension fund for senior management), whose specific task is to manage the accrued reserves, to pay out the supplementary pension benefit and to carry out the necessary administration.

With effect from 2014, a defined contribution plan was introduced that is mandatory for all new employees and optional for employees signed up to the aforementioned defined benefit plan. Since 2015, the defined benefit plan is therefore a closed plan (i.e. no new members can sign up to it). The new defined contribution plan is funded entirely by the employer. A statutory minimum return is guaranteed for contribution plans (3.25% in 2015 when the plan is funded by the employer, and 1.75% from 2016 on). The management of the reserves built up in this way, the payout of those reserves and the administration of the plan is also entrusted to the OFP Pensioenfonds KBC and the OFP Pensioenfonds Senior Management KBC.

In addition, staff may contribute to a supplementary pension scheme (defined contribution plan). It is based solely on members' personal contributions which are deducted directly from their salaries. The statutory guaranteed return in 2015 was 3.75% for employee contributions, and will be 1.75 % from 2016 on. Management of the reserves accrued in this way, their payment and associated administration is the responsibility of the Pensioenfonds KBC OFP and Pensioenfonds Senior Management KBC OFP.

5. Pensions that are borne by the institution itself: the estimated amount of obligations arising from past services

Bases and methods of estimation

	Code	Current period
	52801	

6. Nature and business purpose of off balance sheet arrangements

Provided that the risks or benefits of such arrangements are material and to the extent that disclosure of the risks or benefits is necessary for assessing the financial situation of the institution; where appropriate, the financial consequences of these operations for the facility must also be mentioned:

KBC Bank NV is a member of a VAT grouping.

KBC Bank has set up a company for investments in debt securities, called Loan Invest NV, which has acquired loans of KBC Bank, using funds received from the issuance of securities.
KBC Bank carries an important part of these securities on its balance sheet. The interest risk carried by Loan Invest NV is covered by interest rate swaps concluded between Home Loan Invest and KBC Bank, so that this operation has a limited effect on the ALM management of the bank and on the income statement. The balance sheet shows a decrease of loans for an amount of 8.173 million euros and an increase of investment securities for an amount of 5.610 million euros. KBC Bank NV has a subordinated claim on Loan Invest NV, worth 2.272 million euros.
The main reason for setting up this operation is to make part of the loans of KBC Bank more liquid, as the securities issued by Loan Invest NV and held by KBC Bank are eligible for refinancing with the ECB. As a consequence the main purpose of this operation is improving the liquidity risk of the bank.

Note that Loan Invest NV is listed as a “Special Purpose Entity”, included in the consolidated reporting of KBC Bank.

The annual accounts of Loan Invest NV are available at the Central Balance Sheet Office.

7. Other off balance sheet rights and commitments

	Period

B. TRANSACTIONS WITH RELATED PARTIES OUTSIDE NORMAL MARKET CONDITIONS

Indication of such transactions if they are significant, including the amount of these transactions, the nature of the relationship with the related party and any other information on transactions that would be required to obtain a better understanding of the financial situation of the institution:

Transactions with affiliated companies were all concluded in line with the prevailing market conditions.

C. Nature and financial impact of the significant events after the balance sheet date which are not taken into account in the income statement or the balance sheet

XXIX. FINANCIAL RELATIONS WITH

	Codes	Current period
A. DIRECTORS AND MANAGERS, INDIVIDUALS OR CORPORATE BODIES WHO CONTROL THE INSTITUTION DIRECTLY OR INDIRECTLY WITHOUT BEING RELATED TO IT OR OTHER COMPANIES CONTROLLED DIRECTLY OR INDIRECTLY BY THESE PEOPLE		
1. Amounts receivable from these persons	52901	334.510.852,24
a. Conditions on amounts receivable		
b. Possibly refunded amount or amount which is waived		
All related party transactions occur at arm's length.		
2. Guarantees granted on their behalf	52902	0,00
a. Principal terms of the guarantees granted		
3. Other significant commitments undertaken in their favour	52903	0,00
a. Main conditions of these obligations		
4. Direct and indirect remuneration and pensions, included in P&L, provided that such disclosure does not concern exclusively or mainly the situation of a single identifiable person		
a. To directors and managers	52904	472.500,00
b. To former directors and former managers	52905	0,00

	Codes	Current period
B. THE AUDITOR(S) AND THE PEOPLE HE (SHE) IS (ARE) RELATED TO		
1. Remuneration of the auditor(s)	52906	2.212.765,00
2. Fees for exceptional services or special services provided to the company by the auditor(s)		
a. Other audit services	52907	216.452,00
b. Tax advisory services	52908	0,00
c. Other non-audit services	52909	7.044,00
3. Fees for exceptional services or special services provided to the company by persons with whom the auditor(s) is(are) related		
a. Other audit services	52910	76.448,00
b. Tax advisory services	52911	244.939,00
c. Other non-audit services	52912	0,00

4. Statements in accordance with Article 133, § 6 of the Company Code

XXX. POSITIONS IN FINANCIAL INSTRUMENTS

	Codes	Current period
1. Financial instruments to be received by the institution on behalf of clients	53001	1.638.702.359,88
2. Financial instruments to be delivered by the institution to clients	53002	177.161.569,18
3. Financial instruments of clients held in custody by the institution	53003	212.252.681.602,07
4. Financial Instruments from clients given in custody by the institution	53004	131.331.799.009,72
5. Financial Instruments from clients held as collateral by the institution	53005	1.972.554.171,32
6. Financial Instruments from clients given as collateral by the institution	53006	0,00

XXXII. DERIVATIVES NOT ESTIMATED AT FAIR VALUE

FOR EACH CATEGORY OF DERIVATIVE FINANCIAL INSTRUMENTS NOT BE VALUED ON THE BASIS OF FAIR VALUE

				Period		Previous Period	
Category of financial derivatives	Hedge risk	Speculation/ hedging	Volume	Book value	Fair value	Book Value	Fair value
Interest rate swaps	Interest rate risk	Hedging	48.826.474.306	-132.354.219	-1.875.718.400	-144.858.023	-2.222.724.690
Cross currency interest rate swaps	Interest- and currency risk	Hedging	584.285.649	3.792.171	-21.435.428	6.091.477	-12.375.012
Credit Default Swap	Credit Risk	Hedging	-	-	-	-34.330.479	-7.927.975

FINANCIAL FIXED ASSETS CARRIED AT AN AMOUNT IN EXCESS OF FAIR VALUE

	Book value	Fair value
Amount of individual assets or appropriate groupings of those assets		
Reasons for not reducing the book value		
Informations that suggest than the book value will be recovered		

XXXII. DECLARATION ON CONSOLIDATED ACCOUNTS

A. TO BE COMPLETED BY ALL CREDIT INSTITUTIONS

The institution has drawn up and has published consolidated annual accounts and a consolidated annual report*

~~**The institution does not draw up consolidated annual accounts nor a consolidated annual report because she is exempted due to following reason(s)***~~

The institution does not, solely nor jointly, control one or more subsidiaries governed by Belgian or foreign law*

The institution is a subsidiary of a parent company that draws up and publishes consolidated accounts, in which the annual accounts are included through consolidation*

Justification of compliance with the conditions set out in Article 4 of the Royal Decree of September 23rd 1992:

Name and full address of the registered office and, for institutions governed by Belgian law, the company number of the parent company publishing the consolidated accounts by virtue of which the exemption is granted

B. TO BE COMPLETED BY INSTITUTIONS WHICH ARE SOLELY OR JOINTLY-HELD SUBSIDIARIES

Name and full address of the registered office and, for companies governed by Belgian law, the company number of the parent company or companies preparing and publishing the consolidated accounts in which the accounts of the reporting institution are consolidated **:

KBC GROEP NV
HAVENLAAN 2, 1080 BRUSSEL
0403.227.515
The parent company draws up consolidated annual accounts and publishes these consolidated annual accounts.

If the parent company or companies are governed by foreign law, state the place where the above-mentioned consolidated accounts may be obtained **:

* Delete where appropriate
** If the accounts are consolidated at several levels, give details of the largest and smallest aggregate to which the reporting institution belongs as a subsidiary and for which consolidated accounts are prepared and published

C. FINANCIAL RELATIONSHIPS OF THE GROUP LED BY THE COMPANY IN BELGIUM WITH THE AUDITOR(S) OR PEOPLE HE (THEY) IS (ARE) RELATED TO: Statement in accordance with article 133, paragraph 6 of the Company Law

	Codes	Current period
D. FINANCIAL RELATIONSHIPS OF THE GROUP LED BY THE COMPANY IN BELGIUM WITH THE AUDITOR(S) OR PEOPLE HE (THEY) IS (ARE) RELATED TO: Statement in accordance with article 134, paragraphs 4 and 5 of the Company Law		
1. Auditor's fees for carrying out an auditor's mandate on the level of the group led by the company that publishes the information	53201	
2. Fees for exceptional services or special services rendered in this group by the auditor(s)		
a. Other audit services	53202	
b. Tax consultancy services	53203	
c. Other non-audit services	53204	
3. Fees for the people who are related to the auditor(s) for carrying out an auditor's mandate on the level of the group led by the company that publishes the information	53205	
4. Fees for exceptional services or special services rendered in this group by the people who are related to the auditor(s)		
a. Other audit services	53206	
b. Tax consultancy services	53207	
c. Other non-audit services	53208	

XXXIII. Relationships with associates (*) :

	Codes	Afgesloten boekjaar
1. Amount of financial assets	**8.18.60.**	**13.626.789,80**
- Holdings	8.18.60.1	13.626.789,80
- Subordinated loans	8.18.60.2	0,00
- Other claims	8.18.60.3	0,00
2. Receivables form associated companies	**8.18.61.**	**124.137.164,95**
- On more than one year	8.18.61.1	124.137.164,95
- within one year	8.18.61.2	0,00
3. Debts to associates	**8.18.62**	**89.848.744,94**
- On more than one year	8.18.62.1	89.827.384,36
- within one year	8.18.62.2	21.360,58
4. Personal and real guarantees :	**8.18.63**	**206.906.382,99**
- made by the company or irrevocably promised as security for debts or liabilities of associates	8.18.63.1	201.253.826,82
- Held by associates or irrevocably promised as security for the debts or obligations of the company	8.18.63.2	5.652.556,17
5. Other significant financial commitments :	**8.18.64**	**0,00**

(*) Associates within the meaning of Article 12 of the companies code.

Valuation rules KBC Bank

1. General

The accounting principles and valuation rules are conform to Belgian accounting legislation and the provisions of the Royal Decree of 23 September 1992 on the annual accounts of credit institutions.

The annual accounts are made up as at 31 December after profit appropriation.

In conformity with Article 3 of the above-mentioned Royal Decree, the annual accounts are drawn up according to the principle of a true and fair view. A transparent, clear and consistent financial reporting is important for KBC Bank as a financial institution. As such, KBC aims to align as much as possible, within the possibilities of the Belgian accounting law and the systems, with the international accounting standards IFRS, as applied for the consolidated annual accounts.

2. Valuation rules

CURRENCY TRANSLATION

All monetary items denominated in foreign currency are translated into their equivalent in euros at the spot rate at balance sheet date. Negative and positive valuation differences, except for those relating to the financing of shares and investments in foreign currency and to dotation capital for foreign branches, are recorded in the profit and loss account.

Non-monetary items are valued on the basis of the historical rate at acquisition or, where appropriate, on the basis of the exchange rate at which the currency used to pay the price was purchased.

For transactions that entailed funding (lending), the rate of the day is used if there is no exchange rate.

Income and charges denominated in foreign currency are stated in the profit and loss account at the rate prevailing when they were recognised. Foreign-currency income and expenditure which is hedged in advance is recorded in euros on the basis of the fixed rate.

Translation of the financial statements of foreign branches outside the euro zone:

balance sheet items are translated at the closing exchange rate prevailing at year-end, profit and loss account items are translated based on average rates. For this purpose, each month’s profit or loss is translated into euros at the rate prevailing at the end of that month.

The translation difference at balance sheet date, resulting from translating the profit and loss account on the basis of average rates, is taken to the profit and loss account as profit on financial transactions.

AMOUNTS RECEIVABLE

Interest collected in advance and similar income (including such additional compensation as fees for foreign loans) for the entire loan period cannot be taken to the profit and loss account immediately, and is therefore posted to an accruals and deferrals heading. At month-end, the amount earned is written to the profit and loss account.

Origination and processing fees charged are taken to profit and loss immediately on the inception of the loans and advances concerned, credit insurance premiums are taken to the profit and loss account annually when paid.

Commissions due (payable in advance) for bank guarantees given are recorded in the profit and loss account immediately. The commissions received by KBC Bank for credit broking are charged to the profit and loss account when the credit is disbursed.

Amounts receivable arising from advances and cash deposits are recorded in the balance sheet for the amount made available. The difference between the amount made available and the nominal value (discount) is recognised on an accruals basis according to the straight- line method as interest receivable via the accruals and deferrals accounts.

Dated commercial credit, consumer credit, home loans and receivables arising from leasing contracts are recorded in the balance sheet in the outstanding principal amount, plus the interest past due and sundry costs to be paid by customers. Interest received but not yet due (interest collected in advance) is recorded in the profit and loss account on an accruals basis via the accruals and deferrals headings.

The other amounts receivable are recognised in the balance sheet at nominal value.

Loans and advances that are transferred through securitisation operations where the transfer qualifies as a sale under NBB/BNB guidelines no longer constitute bank assets and consequently may not appear on the balance sheet of KBC Bank, although the amount is required to be recorded in the contingent accounts. Until the securitisation operation comes to an end, the entry in the contingent accounts is required to be adjusted at the end of each month to reflect customers’ loan repayments. Any gains realised on the sale of securitised assets are taken to the profit and loss account immediately at the time of the sale.

If the sales price is made up entirely or in part of a variable element dependent on the buyer’s operating profit, this element will only be taken to the profit and loss account when the operating profit is known and this element is therefore fixed.

In synthetic securitisation operations, the (credit) risk in respect of the underlying (loan) portfolio is all that is transferred to a third party, and this by means of a credit default swap, for example, and not through the effective transfer/sale of the (loan) receivables. In other words, the loans remain on the balance sheet. Transactions used to hedge the company's own loan receivables are recognised as guarantees given or received. Transactions relating to the trading portfolio are recorded as interest rate swaps. Both types of transaction are marked to market and taken to profit and loss, unless carried out on an illiquid market (in this case, positive valuation differences are posted to an accruals and deferrals heading, and negative valuation differences to the profit and loss account).

For loans with an uncertain outcome, general provisions are set aside and specific write-downs are charged. All interest and various other receivables which have remained unpaid for three months after having become payable will not be recognised in the profit and loss account.

Non-specific write-downs are calculated for domestic loans with an uncertain outcome on the basis of the principal amount whose repayment is uncertain, the percentage susceptible to reclassification (that portion of the 'uncertain outcome' portfolio that might become 'doubtful') and the loss percentage.

IBNR losses are recognised to take account of incurred but not yet reported losses on normal loans.

For loans classified as irrecoverable and doubtful, specific write-downs are posted on a case-by-case basis and charged to the assets heading in the annual accounts in which the risks appear, in order to cover the losses which are considered certain or likely to ensue on the outstanding loans. Interest due and charges are written to reserves.

Loans are classified as irrecoverable and doubtful if the loan balance is payable and if debt-recovery procedures have been initiated in or out of court.

The amount of any security is equal to the principal amount registered. Personal security is recorded in the accounts in the amount that can be obtained if execution is levied.

SECURITIES

Securities are recognised at acquisition cost at the time of purchase, excluding costs and less subscription fees. The ancillary costs attendant on acquisition are charged directly to the result.

- *Investment portfolio*

Fixed-income investment securities are recorded at acquisition cost, less or plus the matured portion of the premium or discount. The difference between the acquisition cost and the redemption value is reflected as an interest item in the profit and loss account on an accruals basis over the remaining term to maturity of the securities. It is included in the profit and loss account on a discounted basis, based on the internal rate of return at the time of purchase.

Perpetual debt is valued at the lower of acquisition cost and market value.

If redemption of a security is uncertain or doubtful, an impairment is recorded according to the principles that apply for the valuation of amounts receivable.

If securities are sold, their carrying value is determined on a case-by-case basis. Gains or losses are posted directly to the profit and loss account.

Listed shares and other variable-yield securities are valued each month at the lower of acquisition cost and market value at balance sheet date. Other securities are valued at least once a year, based on the annual accounts for the previous year. File administrators are responsible for ensuring that any significant negative developments during the course of the year are also dealt with.

No value impairments are posted for shares hedged against a decline in price by means of an option.

- *Trading portfolio*

Securities belonging to the trading portfolio are marked to market. The resulting valuation differences are recorded in the profit and loss account under heading VI: 'Profit (Loss) on financial transactions'.

FINANCIAL FIXED ASSETS

Included in KBC Bank's holdings or participating interests are the rights (shares) held in other companies with a view to creating specific, lasting ties with them.

If there are no lasting ties and the shares are acquired for resale, then this investment will not be considered a financial fixed asset, but rather as part of the investment portfolio, regardless of the size of the shareholding and the influence that could be exerted on the management of the company in question through this shareholding.

Participating interests and shares that are considered financial fixed assets are recognised at acquisition cost.

Write-downs are applied only in the event of a lasting impairment in or loss of value, established on the basis of the financial position, the profitability and the prospects of the company concerned.

Participating interests, shares and share certificates classified as financial fixed assets may be revalued if, in light of their usefulness to the company, they exhibit an incontestable and lasting increase in value.

Regardless of whether they are represented by securities, subordinated loans and advances to associated companies and companies linked by participating interests are valued according to the same principles as non-subordinated loans and advances.

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

All formation expenses referred to in the Royal Decree on the annual accounts of credit institutions are charged directly to the profit and loss account for the financial year as administrative expenses.

Capitalised goodwill is depreciated according to the straight-line method over a period of five years, unless the Board of Directors decides otherwise.

The following rules apply to software that has been developed in-house: all charges relating to continuity projects, as well as any research expenses for investments, are taken directly to the profit and loss account. However, development expenses (both internal and external) for investments are capitalised as an intangible fixed asset and written off over a period of five years. Investments are large-scale projects that introduce or replace an important business objective or model. Systems software is depreciated at the same rate as hardware, being written off according to the straight-line method over a period of three years.. Software other than systems software is depreciated over five years. Core systems with a longer useful life are depreciated straight line over an eight-year period. Core systems are types of standard software, including back-end data applications, for processing operations during the day and updates of the general ledger balances on the mainframe.

At KBC Bank, intangible fixed assets recorded are capitalised at acquisition cost including ancillary costs, and are written off on an accruals basis during the first year of investment.

TANGIBLE FIXED ASSETS

All tangible fixed assets are recognised at acquisition cost, less accumulated depreciation. They are recorded at acquisition cost, including ancillary, directly allocable costs (acquisition costs, non-deductible VAT, etc.).

The rates of depreciation are determined on the basis of the anticipated useful economic life of the item and are applied according to the straight-line method. All tangible fixed assets are depreciated on an accruals basis from the time they are available for use. The ancillary costs are written off over the life of the asset. A write-down is charged for ancillary costs on the acquisition of land.

When tangible fixed assets are sold, realised gains or losses are taken immediately to the profit and loss account. If these assets are destroyed, the remaining amount to be written off is charged directly to the result.

Tangible fixed assets that exhibit an incontestable and lasting appreciation in value compared to their carrying value may be revalued. This surplus is written off over the average residual useful life of the assets in question.

CREDITORS

Amounts owed as a result of advances or cash deposits received are recorded in the balance sheet in the amount made available, plus or minus any difference between this amount and the redemption price of the portion that has already accrued. The difference between the amount made available and the nominal value is reflected as interest on an accruals basis in the profit and loss account.

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SECURITIES

Securities are recognised at acquisition cost at the time of purchase, excluding costs and less subscription fees. The ancillary costs attendant on acquisition are charged directly to the result.

- *Investment portfolio*

Fixed-income investment securities are recorded at acquisition cost, less or plus the matured portion of the premium or discount. The difference between the acquisition cost and the redemption value is reflected as an interest item in the profit and loss account on an accruals basis over the remaining term to maturity of the securities. It is included in the profit and loss account on a discounted basis, based on the internal rate of return at the time of purchase.

Perpetual debt is valued at the lower of acquisition cost and market value.

If redemption of a security is uncertain or doubtful, an impairment is recorded according to the principles that apply for the valuation of amounts receivable.

If securities are sold, their carrying value is determined on a case-by-case basis. Gains or losses are posted directly to the profit and loss account.

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Amounts owed as a result of advances or cash deposits received are recorded in the balance sheet in the amount made available, plus or minus any difference between this amount and the redemption price of the portion that has already accrued. The difference between the amount made available and the nominal value is reflected as interest on an accruals basis in the profit and loss.

PROVISIONS FOR LIABILITIES & CHARGES

Provisions for liabilities and charges are intended to cover losses or charges, the nature of which is clearly defined and which at balance sheet date are either likely or certain to be incurred, but the amount of which is uncertain.

- *Pensions*

Concerned here are commitments with regard to retirement and survivor’s pensions, benefits paid out on early retirement and other similar pensions or allowances (related mainly to employees’ leaving employment early and end-of-career schemes).

- *Taxation*

This provision covers the commitments that may arise from a change in the tax base or in the calculation of tax. It is set aside in anticipation of additional tax charges (not yet assessed) for past financial years, for the amount that is disputed.

- *Other liabilities and charges*

This is a residual heading in respect of the provisions referred to above and includes provisions for legal disputes, commitment credit and indirect taxes.

FINANCIAL INSTRUMENTS

- *Valuation rules for trading and non-trading activities*

Where trading activities are concerned, the unrealised profit or loss on revaluation is recognised at least at the end of every month. This revaluation takes into account any interest flows that have already been recognised on an accruals basis. In the event of a sale, liquidation or expiration, the profit/loss on the position is recognised immediately. Where illiquid currencies or securities are concerned, no profit on revaluation is recognised.

The existing strategic positions the dealing room takes for its own account via derivatives with a view to generating a profit on the long term by way of capital gains or interest spreads are valued according to the same principles used for illiquid interest rate positions.

For non-trading activities, where interest rate instruments are concerned, the gains or losses realised are only recognised on an accruals basis over the corresponding term. The valuation of non-interest-rate instruments (e.g., share option premiums) matches the valuation of the hedged position. In addition, non-trading activities carried out for the purpose of general, long-term management of interest rate products denominated in a foreign currency (macro-hedging) are also valued according to the ‘lower of cost and market’ principle, along with the associated on-balance-sheet products. Profit or loss on similar transactions carried out for general EUR ALM interest rate management purposes is recognised solely on an accruals basis.

Option premiums that are paid in advance are only taken to the profit and loss account on the due date or on liquidation, with the exception of option premiums for caps, floors and collars that have been concluded for hedging purposes (accruals-basis recognition). In the meantime, they are posted under the ‘Other assets’ or ‘Other liabilities’ items. Option premiums relating to trading activities are revalued at least at the end of every month.

- *Valuation of derivatives*

All derivatives are always recorded under specific off-balance-sheet headings on the transaction date. Amounts are released from the off-balance-sheet headings once the outcome of the transaction is definitive, even if the underlying term only starts at that time for certain interest rate products (e.g., FRAs).

Trading transactions are marked to market, and the mark-to-market (dirty price) value is recognised in the trading results. Non-trading transactions are included in interest income on an accruals basis, which is the case for interest payable and interest receivable relating to interest rate swaps and foreign currency interest rate swaps. The swap difference arising on FX swaps (and FX outrights) is also released to the results on an accruals basis. The results from interest rate futures and FRAs are included in the profit and loss account spread over the term of the underlying hedged item. Equity swaps are treated in the same way as interest rate swaps. In practice, equity swaps (just like options) are only recorded in the trading book and consequently marked to market. KBC Bank makes use of the derogation allowed by the NBB/BNB to Article 36*bis* of the Royal Decree on the annual accounts of credit institutions. This derogation makes it possible to take interest rate derivatives that do not meet the hedging criteria to the profit and loss account on an accruals basis (interest rate derivatives classified as ALM or treasury management instruments).

- Hedging criteria for forward interest rate transactions:

The general criteria are set out in Article 36*bis* of the Royal Decree on the annual accounts of credit institutions of 23 September 1992:

- the hedged item or the combination of comparable hedged items must expose the credit institution to a risk of interest rate fluctuation;
- the transaction must be recorded in the books as a hedge from its inception;
- there must be a close correlation between fluctuations in the value of the hedged item and fluctuations in the value of the hedge; in the case of hedging options, there must be a correlation between fluctuations in the value of the hedged item and fluctuations in the value of the underlying financial instrument.

In addition, specific company criteria apply. All these criteria must be met: if one criterion is no longer satisfied, the hedge will be considered a trading transaction and be subject to the appropriate accounting treatment.

Hedging combinations that involve derivatives and are terminated before maturity will be considered trading transactions once the underlying position to be hedged no longer exists.

Future interest rate positions can be hedged if it is reasonably certain that the position will actually materialise. Moreover, the amount, term and interest rate conditions must be sufficiently certain.

- Calculation of unrealised profit/loss on revaluation

Derivatives are always valued on a contract basis; positive and negative valuation differences are not netted in the accounting records. Only for calculating capital adequacy requirements relative to market risks is the market risk calculated on a net basis per counterparty.

For forward interest rate and similar products (namely forward foreign exchange products), valuation occurs on the basis of the net present value of future, determinable cash flows using a single yield curve per currency, which is used throughout the bank. Any adjustments for operational and liquidity risks are deducted from the initial revaluation. Options are valued according to the usual valuation models. For interest rate products, calculations are always based on the assumption of a liquid market, provided the underlying currencies are liquid.

If a credit granted to a counterparty is classified as ‘doubtful’ or ‘irrecoverable’, the receivables and commitments stemming from off-balance- sheet products involving the same counterparty will be given the same classification. For loans and advances, write-downs may be recorded; for commitments, provisions will be set aside.

3.Changes in valuation rules

The Board of Directors has decided that no deferred tax, for all temporary taxable differences between the fiscal and accounting value, will be booked as from the 2017 financial year. The reason is the changed treatment in the prudential equity calculation (COREP). The deferred tax assets recognized on the balance sheet can no longer be taken into account and, for reasons of consistency and transparency, it has been decided to change this also in the valuation rules in Bgaap.

This change reduces the result of the company by 160 million euros.

10				9	EUR	
NAT.	Date Filed	N°	P.	E.	D.	**C-inst 1.1**

Social Balance Sheet

NAME: KBC BANK

Legal Form: NV
Address: Havenlaan N°.: 2 Box:
Postal Code: 1080 Municipality: BRUSSELS
Country: België
Register of Legal Persons (RLP) - Chamber of Commerce: Brussels
Internet address*: http://www.kbc.be

Company Number 0462.920.226

concerning the financial year covering the period from 01/01/2017 till 31/12/2017

Previous period from 01/01/2016 till 31/12/2016
The amounts of the previous financial year are / ~~are not~~ ** identical to those which have been previously published.

SOCIAL REPORT (in euro)

Numbers of joint industrial committees which are competent for the enterprise:	310				

STATEMENT OF THE PERSONS EMPLOYED

EMPLOYEES RECORDED IN THE STAFF REGISTER

During the current period	Codes	Total	1. Male	2. Female
Average number of employees				
Full-time	1001	6.013	3.643	2.370
Part-time	1002	3.454	769	2.685
Total of full-time equivalents (VTE)	1003	8.580	4.205	4.375
Number of hours actually worked				
Full-time	1011	8.433.625	5.233.535	3.200.090
Part-time	1012	3.515.260	799.275	2.715.986
Total	1013	11.948.885	6.032.809	5.916.076
Personnel costs				
Full-time	1021	547.598.047,77	365.471.617,33	182.126.430,44
Part-time	1022	205.775.611,78	50.726.011,15	155.049.600,63
Total	1023	753.373.659,55	416.197.628,48	337.176.031,07
Advantages in addition to wages	1033	16.199.218,65	8.936.011,39	7.263.207,26

During the previous period	Codes	P. Total	1P. Male	2P. Female
Average number of employees	1003	8.485	4.184	4.301
Number of hours actually worked	1013	11.886.676	6.034.274	5.852.402
Personnel costs	1023	722.642.917,00	403.813.818,00	318.829.099,00
Advantages in addition to wages	1033	16.223.541,00	9.052.662,00	7.170.879,00

	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
At the closing date of the current period				
Number of employees recorded in the personnel register	105	5.987	3.455	8.532,8
By nature of the employment contract				
Contract for an indefinite period	110	5.733	3.451	8.275,4
Contract for a definite period	111	254	4	257,4
Contract for the execution of a specifically assigned work	112	0	0	0
Replacement contract	113	0	0	0
According to the gender and by level of education				
Male	120	3.609	771	4.159,5
primary education	1200	0	0	0
secondary education	1201	342	167	455,4
higher education (non-university)	1202	2.145	493	2.501,5
university education	1203	1.122	111	1.202,6
Female	121	2.378	2.684	4.373,3
primary education	1210	0	0	0
secondary education	1211	245	449	559,3
higher education (non-university)	1212	1.406	1.713	2.680,4
university education	1213	727	522	1.133,6
By professional category				
Management staff	130	61	0	61,0
Employees	134	5.926	3.455	8.472
Workers	132	0	0	0
Other	133	0	0	0

HIRED TEMPORARY STAFF AND PERSONNEL PUT AT THE ENTERPRISE'S DISPOSAL

During the current period	Codes	1. Temporary personnel	2. Persons put at the disposal of the enterprise
Average number of employees	150	49	0
Number of hours actually worked	151	95.789	0
Charges of the enterprise	152	3.733.379,00	0

TABLE OF PERSONNEL CHANGES DURING THE CURRENT PERIOD

ENTRIES	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
Number of employees recorded on the personnel register during the financial year	205	590	105	674
By nature of the employment contract				
Contract for an indefinite period	210	374	99	453
Contract for a definite period	211	216	6	221
Contract for the execution of a specifically assigned work	212	0	0	0
Replacement contract	213	0	0	0

DEPARTURES	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
The number of employees with a in the staff register listed date of termination of the contract during the period	305	386	283	566
By nature of the employment contract				
Contract for an indefinite period	310	370	282	549
Contract for a definite period	311	16	1	17
Contract for the execution of a specifically assigned work	312	0	0	0
Replacement contract	313	0	0	0
According to the reason for termination of the employment contract				
Retirement	340	60	172	153
Unemployment with company bonus	341	0	0	0
Dismissal	342	35	11	43
Other reason	343	291	100	370
Of which: the number of persons who continue to render services to the enterprise at least half-time on a self-employed basis	350	0	0	0

INFORMATION WITH REGARD TO TRAINING RECEIVED BY EMPLOYEES DURING THE CURRENT PERIOD

	Codes	Male	Codes	Female
Total number of official advanced professional training projects at company expense				
Number of participating employees	5801	3.725	5811	4.348
Number of training hours	5802	59.958	5812	77.829
Costs for the company	5803	6.950.739,00	5813	8.113.238,00
of which gross costs directly linked to the training	58031	6.772.462,00	58131	7.905.145,00
of which paid contributions and deposits in collective funds	58032	178.277,00	58132	208.094,00
of which received subsidies (to be deducted)	58033	0,00	58133	0,00
Total number of less official and unofficial advance professional training projects at company expense				
Number of participating employees	5821	4.077	5831	4.732
Number of training hours	5822	25.923	5832	31.012
Costs for the company	5823	1.839.190,00	5833	2.134.670,00
Total number of initial professional training projects at company expense				
Number of participating employees	5841	0	5851	0
Number of training hours	5842	0	5852	0
Costs for the company	5843	0,00	5853	0,00

KBC Bank NV
Statutory Annual Report accounting year 2017

In accordance with article 119 of the Belgian Companies Code, KBC Bank NV combines the annual report on the statutory annual accounts with the annual report on the consolidated annual accounts. You can find this "combined" report in the "Report of the Board of Directors" section of the KBC Bank Annual Report.

The accounting information provided in the "Report of the Board of Directors" is based on the consolidated IFRS valuation rules. In order to give the reader of the statutory annual accounts, based on the Belgian valuation rules (BGAAP) a correct view of the company, an additional brief explanation is given. In addition, other information to be published that is not included in the "Report of the Board of Directors" is also included here.

Table of contents

• Notes to the statutory annual accounts

The annual accounts have been prepared according to Belgian accounting standards (B-GAAP).

Balance sheet

KBC Bank NV (x1000 EUR)	31/12/2017	31/12/2016	Change
Assets	**187 914 073**	**179 994 622**	**7 919 450**
Cash and cash balances with central banks	25 752 409	17 148 985	8 603 424
Amounts receivable from credit institutions	14 197 186	16 286 132	-2 088 946
Amounts receivable from clients	90 680 555	92 953 874	-2 273 319
Bonds and other fixed-income securities	33 348 029	27 439 028	5 909 001
Shares and other variable-yield securities	502 201	137 313	364 889
Financial fixed assets	14 252 050	14 039 679	212 371
Formation expenses, tangible and intangible fixed assets	1 344 744	781 319	563 424
Other assets	1 046 282	1 671 157	-624 875
Deferred charges and accrued income	6 790 616	9 537 134	-2 746 518
Liabilities	**187 914 073**	**179 994 622**	**7 919 450**
Amounts payable to credit institutions	31 941 473	30 740 870	1 200 603
Amounts payable to clients	99 132 697	99 648 167	-515 470
Debts represented by securities	29 939 793	24 663 307	5 276 485
Other amounts payable	1 953 009	1 424 265	528 743
Accrued charges and deferred income	5 314 986	6 742 137	-1 427 152
Provisions for liabilities and charges and deferred taxes	257 589	244 327	13 262
Subordinated loans	7 852 748	6 395 953	1 456 795
Equity	11 521 779	10 135 595	1 386 184

Balance sheet total

Total assets went up by 7.9 billion euros to 187.9 billion euros, driven mainly by an increase in placements with central banks. Foreign branches held 3.9% of the bank's total assets (4.8% at year-end 2016).

Netting on the balance sheet

The criteria for offsetting are met if KBC currently has a legally enforceable right to set off the recognised financial assets and financial liabilities and intends either to settle the transactions on a net basis, or to realise the financial asset and settle the financial liability simultaneously. Financial assets and financial liabilities that are set off relate to financial instruments that were traded on (central) clearing houses

Netting disclosure	Gross Amounts		Netting	Net Amounts	
	Assets	Liabilities		Assets	Liabilities
repos - reverse repos	22 640 437 190	17 404 299 666	11 284 847 538	11 355 589 652	6 119 452 128
Derivatives	9 226 760 126	8 133 993 514	3 373 688 840	5 853 071 286	4 760 304 674

Cash and cash balances with central banks
Amounts receivable from credit institutions

Depending on conditions on the interbank market, excess cash is deposited at central banks or placed on the interbank market. In 2017, interest rates applying to cash deposited at central banks were favourable, as a result of which the outstanding volume deposited there increased sharply.

Amounts receivable from clients

Amounts receivable from clients fell by 2.3 billion euros to 90.7 billion euros due to various movements, the most important of which being:

- Movements related to the securitisation of loans via Home Loan Invest: -3.7 billion euros (including a new securitisation of 5.4 billion euros' worth of loans for SMEs).
- A decline in funding of subsidiaries owing to their activities being sold to KBC Bank NV (KBC Lease Belgium NV: -2.1 billion euros (sale of the portfolio of movable goods leases); KBC Investments Ltd: -1.3 billion euros (sold to the London branch)).
- An increase in business retail and corporate banking: 3.5 billion euros.
- Acquisition from KBC Lease Belgium of the portfolio of financial leases for movable goods and the new production of financial leases: +1.6 billion euros.

Bonds and other fixed-income securities

The portfolio of bonds and other fixed-income securities grew by 5.9 billion euros, bringing it to 33.3 billion euros. Securities issued by public authorities represented 39% of the portfolio.

The increase was accounted for by the following:

- Net impact of Home Loan Invest repurchasing issued certificates and certificate redemptions: +2.3 billion euros
- Short-term certificates of deposit: +5.2 billion euros
- Net reduction of government bonds: -1.8 billion euros

Financial fixed assets

Financial fixed assets went up by 0.2 billion euros to 14.3 billion euros due to a number of movements, the most important being the purchase of the stake in United Bulgarian Bank AD.

Formation expenses, tangible and intangible fixed assets

The increase from 0.6 billion euros to 1.3 billion euros was mainly attributable to the acquisition of the portfolio of movable goods leases from KBC Lease Belgium NV.

Other asset items

'Deferred charges and accrued income' was mostly made up of accrued interest and the revaluation of derivatives (such as IRS). This item fell by 2.7 billion euros on account of the mark-to-market valuation of the derivatives and the greater impact of derivatives clearing.

Amounts payable to credit institutions

The amounts payable to credit institutions grew by 1.2 billion euros to 31.9 billion euros, due primarily to the net impact of a reversal of repos with credit institutions (-4.8 billion euros) and an increase in demand deposits (5.6 billion euros).

Amounts payable to clients and debts represented by securities

Customer deposits rose by 4.8 billion euros to 129.1 billion euros, which was primarily the net effect of:

- a decline in time deposits (-7.0 billion euros) owing to placements being scaled back by a number of subsidiaries (-3.7 billion euros) and a shift to savings deposits and demand deposits following a change in investor appetite for interest-bearing products
- an increase in savings deposits and demand deposits (6.5 billion euros)
- an increase in short-term certificates of deposit (6.3 billion euros)
- a net fall in issued covered bonds (-0.8 billion euros)

Other liabilities

Other liabilities grew by 0.6 billion euros mainly on account of a higher final dividend payable (0.6 billion euros)

Accrued charges and deferred income

'Accrued charges and deferred income' was made up primarily of interest payable and the revaluation of derivatives. The decrease was attributable in part to the greater impact of clearing derivatives.

Subordinated loans

Subordinated loans increased by 1.5 billion euros, which was the net effect of:

- New tier-3 instruments being issued by KBC Group NV (+2.0 billion euros)
- Maturing, subordinated deposits and repayment of a perpetual loan (-0.3 billion)

Equity

Equity grew by 1.4 billion euros to 11.5 billion euros.

Profit and loss account

KBC Bank NV (x1000 EUR)	**31/12/2017**	**31/12/2016**	**Change**
Gross income from ordinary activities	3 762 448	3 215 415	547 032
Operating charges	-1 990 017	-1 933 205	-56 811
Write-downs and provisions	-97 118	-151 241	54 123
Profit on ordinary activities	1 675 313	1 130 968	544 344
Extraordinary result	1 187 703	72 344	1 115 359
Taxes	-257 542	4 731	-262 273
Result for the period to be appropriated	**2 605 474**	**1 208 044**	**1 397 430**

Notes to the profit and loss account

(x1000 EUR)	**31/12/2017**	**31/12/2016**	**Change**
Net interest income	1 216 762	1 431 831	-215 069
Income from variable-yield securities	1 113 648	851 355	262 293
Net fee and commission income	927 715	727 928	199 788
Results from financial transactions	256 708	-452	257 160
Other operating income	247 615	204 753	42 862
Gross income from ordinary activities	**3 762 448**	**3 215 415**	**547 032**

‘Gross income from ordinary activities' came to 3.7 billion euros, up 0.5 billion euros on its 2016 level.

Details of this increase are given in the table above.

- Net interest income fell by 215 million euros due primarily to continuing pressure on interest margins and a lower transformation result caused by lower reinvestment yields.
- Income from variable-yield securities went up by 262 million euros, owing mainly to higher dividends paid by subsidiaries.
- Net fee and commission income increased by 200 million euros, rising mainly because of the higher revenues from the provision of investment services and the sale of investment funds and unit-linked life insurance products.
- Results from financial transactions rose by 257 million euros primarily on account of the performance turned in by the dealing room.
- Other operating income grew by 43 million euros, an increase mainly attributable to the income generated by leasing activities (re. the portfolio of movable goods leases acquired from KBC Lease Belgium).

(x1000 EUR)	31/12/2017	31/12/2016	Change
General administrative charges	-1 873 380	-1 785 506	-87 874
Depreciation of and amounts written off tangible and intangible fixed assets	-75 967	-48 583	-27 385
Other operating charges	-40 669	-99 117	58 447
Operating charges	**-1 990 017**	**-1 933 205**	**-56 811**

Operating charges (including 'Depreciation of and amounts written off tangible and intangible fixed assets' and 'Other operating charges') edged up in 2017, reaching -2 billion euros and driven primarily by higher staff expenses and ICT costs. The increase in the depreciation of tangible fixed assets was attributable to the acquisition of the portfolio of movable goods leases from KBC Lease Belgium NV.

The bank tax (including the amount contributed to the deposit protection scheme) amounted to 227 million euros, down slightly on its 2016 level.
Certain bank tax components were recorded under ‘Other operating charges’ up to and including 2016, but have been included under ‘General administrative charges’ since 2017. This is the main factor behind the change in ‘Other operating charges’ between 2016 and 2017.

(x1000 EUR)	31/12/2017	31/12/2016	Change
Write-downs on loans	-110 475	-141 189	30 713
Write-downs on investment portfolio	2 209	-5 940	8 149
Provisions	11 148	-4 113	15 260
Write-downs and provisions	**-97 118**	**-151 241**	**54 123**

Write-downs on loans fell by 31 million euros to -110 million euros, remaining at a low level in 2017.

The **exceptional result** amounts to a net profit of EUR 1.188 million and is composed of a gross exceptional profit of EUR 1.553 million and a gross exceptional loss of EUR 365 million.

The main driver of this exceptional result is the reversal of the impairment on KBC Investments Ltd for EUR 1.095 million. In the Belgian GAAP Annual Accounts of KBC Bank the participation in KBC Investments Limited had been fully impaired after the financial crisis 2008-2009 and this impairment had conservatively not been reversed in the meanwhile. Management has initiated a capital upstream of some EUR 967 million from KBC Investments Ltd to KBC Bank. This operation is linked to the recent transfer of the activities of KBC Investments Limited to KBC Bank London Branch in the course of May 2017, whereby it is now expected that KBC Bank will fully recuperate the net asset value of KBC Investments and hence management assessed that the impairment could be reversed.

The remaining gross exceptional gains and losses are for some EUR 300 million the consequence of off-setting entries in the exceptional profit and loss accounts related to the liquidation of IIB Finance Ireland and RSL Leasing, whereby the impairment is reversed through the exceptional gains and immediately compensated by an entry in the exceptional losses (loss on disposal of fixed assets) when closing the liquidation. Due to a change in accounting policy, **deferred taxes** have ceased to be recorded on taxable write-downs, provisions and other taxable reserves since 2017.

Income tax was limited as a result of outstanding tax losses carried forward, the specific tax system for dividends received from subsidiaries and impairment on shares.

Additional information

Foreign branches

KBC Bank has 11 branches abroad, more specifically in New York, London, Paris, Rotterdam, Singapore, Hong Kong, Shanghai, Dublin, Düsseldorf, Poland and Italy.

Public disclosures of notional amounts covered by the collateral exemption under EMIR (see Article 11(14)(d)) of EMIR(Regulation 648/212)

When counterparties apply an intragroup exemption under EMIR, they should publicly disclose information in order to ensure transparency in respect of market participants and potential creditors. This is particularly important for the potential creditors of the counterparties in terms of assessing risks. The disclosure aims at preventing misperception that OTC derivative contracts are centrally cleared or subject to risk mitigation techniques when it is not the case.

Article 20 of Delegated Regulation 149/2013 provides more details with regard to the disclosure obligation:

The information on an intragroup exemption to be disclosed publicly shall include:

(a) the legal counterparties to the transactions including their identifiers in accordance with Article 3 of Implementing Regulation (EU) No 1247/2012 (Article 3 contains counterparty data which is included in the EMIR reporting obligation):

- KBC Bank NV, LEI-code: 6B2PBRV1FCJDMR45RZ53
- CBC Banque SA, LEI-code: DVCTKZJG5QM5XGM4TR05

(b) the relationship between the counterparties: CBC Banque SA is a 100% subsidiairy of KBC Bank NV

(c) whether the exemption is a full exemption or a partial exemption: full exemption

(d) the notional aggregate amount of the OTC derivative contracts for which the intragroup exemption applies in countevalues EUR).

- Currency and interest rate swaps	134.101.807,30
- Options on currencies	18.875.655,43
- Interest rate swap agreements	1.122.273.250,00
- Interest rate options	130.295.468,00

Report of the Board of Directors

The legal information required in accordance with Article 96 of the Belgian Companies Code that has not been provided above appears in the 'Report of the Board of Directors' section of Annual Report.

To avoid repetition of information, the "Report of the Board of Directors" is not added for discussion on the Board of Directors or on the General Shareholders Meeting. Reference is made to the Annual Report containing this information.
For the depositing of the statutory annual accounts at the National Bank of Belgium, it will be added.

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KBC BANK NV

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

20 March 2018

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STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING OF THE COMPANY KBC BANK NV ON THE ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2017

We present to you our statutory auditor's report in the context of our statutory audit of the annual accounts of KBC Bank NV (the "Company"). This report includes our report on the audit of the annual accounts, as well as the report on other legal and regulatory requirements. These reports form part of an integrated whole and are indivisible.

We have been appointed as statutory auditor by the general shareholders' meeting of 27 April 2016, following the proposal formulated by the board of directors and following the recommendation by the audit committee and the proposal formulated by the workers' council. Our mandate will expire on the date of the general meeting which will deliberate on the annual accounts for the year ended 31 December 2018. We have performed the statutory audit of the annual accounts of KBC Bank NV for 2 consecutive years.

Report on the audit of the annual accounts

Unqualified opinion

We have performed the statutory audit of the Company's annual accounts, which comprise the balance sheet as at 31 December 2017, and the profit and loss account for the year then ended, and the notes to the annual accounts, characterised by a balance sheet total of EUR 187.914 million and a profit and loss account showing a profit for the year of EUR 2.605 million.

In our opinion, the annual accounts give a true and fair view of the Company's net equity and financial position as at 31 December 2017, and of its results for the year then ended, in accordance with the financial-reporting framework applicable in Belgium.

Basis for unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "*Statutory auditor's responsibilities for the audit of the annual accounts*" section of our report. We have fulfilled our ethical responsibilities in accordance with the ethical requirements that are relevant to our audit of the annual accounts in Belgium, including the requirements related to independence.

We have obtained from the board of directors and Company officials the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<u>Estimation uncertainty with respect to financial instruments measured at fair value</u>

Key audit matter

Details regarding the measurement of financial instruments at year-end 31 December 2017 are included in Notes to the annual accounts III (bonds), IV (equity securities), on the face of the balance sheet for the derivatives contracts and Note IX Other assets for the option contracts. The applicable valuation rules are described in Note 7 to the annual accounts (chapters “Securities” and “Financial instruments”).

For certain financial instruments a quoted price is not readily available to determine fair value. Valuation techniques and models used to determine fair value in these cases are inherently subjective and involve various assumptions regarding pricing. In addition, the number of factors influencing the determination of fair value can be extensive and can vary both by type of instrument and/or within instrument types. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. As the use of different assumptions could produce different estimates of fair value, we consider this as a key audit matter.

Our audit approach

We obtained an understanding of the internal control framework related to the valuation of financial instruments, including price testing and model validation. We assessed the appropriateness of the model validation methodology with the assistance of our valuation experts and we performed a recalculation of the fair valuation on a sample basis. This includes the assessment of market data, inputs and key assumptions as critical factors used in the fair value models, based on our experience and market practice. Based on our procedures we found that management’s outcome of the models used for the fair value of certain financial instruments for which a quoted price is not readily available, in the context of the estimation uncertainty concerned, fell within a reasonable and acceptable range of outcomes.

<u>Estimation uncertainty with respect to impairment allowances for receivables on clients</u>

Key audit matter

The appropriateness of the impairment allowances for receivables on clients requires significant judgment of management. Measuring financial assets requires an assessment of the risk that a counterparty will not respect all of its contractual obligations. At year-end 31 December 2017 information regarding impairment allowances for receivables on clients is included in line 40900 of the profit and loss account, in application of the valuation rules as described in Note 7 to the annual accounts (chapter “Receivables”). At year-end 31 December 2017 the receivables on clients amount to EUR 90.681 million.

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The identification of impairment and the determination of the recoverable amount are part of the estimation process at the Company including, amongst others, the probability of default, the assessment of objective evidence for impairment, the financial condition of the counterparty, the expected future cashflows and the value of collateral. The use of different modelling techniques and assumptions could lead to different estimates of impairment charges on receivables on clients. As the receivables on clients represent the majority of the Company's balance sheet and given the related estimation uncertainty on impairment charges, we consider this as a key audit matter.

Our audit approach

Our audit procedures included an assessment of the overall governance of the Company's credit and impairment process. We have assessed and tested the design and operating effectiveness of the controls within the loan origination process, risk management process and the estimation process for determining impairment allowances. For loan impairment allowances determined on an individual basis we have performed, for a sample of corporate credit files, a detailed review of loans granted by the Company. We challenged the assumptions underlying the probability of default, the impairment identification and quantification including forecasts of future cashflows, valuation of underlying collateral and estimates of recovery on default. We found no material exceptions in these tests. For the loan impairment allowances calculated on a collective basis, we tested the underlying models including the Company's model approval and validation process. We also tested the appropriateness and accuracy of the inputs to those models such as the emergence period, recovery and cure rates, and where available, compared data and assumptions made to external benchmarks.

In our view the recognised impairments of management were within a reasonable range of outcomes in the context of the overall receivables on clients and the related uncertainties and sensitivities.

Responsibilities of the board of directors for the annual accounts

The board of directors is responsible for the preparation of annual accounts that give a true and fair view in accordance with the financial-reporting framework applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the board of directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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Statutory auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our statutory auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report, as well as for the compliance with the legal and regulatory requirements regarding bookkeeping, with the Companies' Code and with the Company's articles of association.

Statutory auditor's responsibilities

In the context of our mandate and in accordance with the Belgian standard (Revised) which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, the directors' report, as well as compliance with the articles of association and certain requirements of the Companies' Code and to report on these matters.

Aspects related to the directors' report

In our opinion, after having performed specific procedures in relation to the directors' report, this report is consistent with the annual accounts for the year under audit, and it is prepared in accordance with the articles 95 and 96 of the Companies' Code.

In the context of our audit of the annual accounts, we are also responsible for considering, in particular based on the knowledge acquired resulting from the audit, whether the directors' report is materially misstated or contains information which is inadequately disclosed or otherwise misleading. In light of the procedures we have performed, there are no material misstatements we have to report to you. We do not express any form of assurance conclusion on the directors' report.

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

Statement related to the social balance sheet

The social balance sheet, to be deposited in accordance with article 100, § 1, 6°/2 of the Companies' Code, includes, both in terms of form and content, the information required by virtue of the Companies' Code and does not present any material inconsistencies with the information we have at our disposition in our audit file.

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Statement related to independence

- We did not provide services which are incompatible with the statutory audit of the annual accounts and we remained independent of the Company in the course of our mandate.
- The fees for additional services which are compatible with the statutory audit of the annual accounts referred to in article 134 of the Companies' Code are correctly disclosed and itemized in the notes to the annual accounts.

Other statements

- Without prejudice to formal aspects of minor importance, the accounting records were maintained in accordance with the legal and regulatory requirements applicable in Belgium.
- The appropriation of results proposed to the general meeting complies with the legal provisions and the provisions of the articles of association.
- There are no transactions undertaken or decisions taken in breach of the Company's articles of association or the Companies' Code that we have to report to you.
- This report is consistent with the additional report to the audit committee referred to in article 11 of the Regulation (EU) N° 537/2014.

Sint-Stevens-Woluwe, 20 March 2018

The statutory auditor
PwC Bedrijfsrevisoren bcvba
represented by

Roland Jeanquart
Accredited auditor

Gregory Joos
Accredited auditor

Additional information

Ratios used

Common equity ratio

A risk-weighted measure of the group's solvency, based on common equity tier-1 capital The CRD IV rules are gradually being implemented to allow banks to build up the necessary capital buffers. The capital position of a bank, when account is taken of the transition period, is referred to as the 'phased-in' view. The capital position based on full application of all the rules – as would be the case after this transition period – is referred to as 'fully loaded'.

Calculation	2017	2016
Method of calculation provided in the 'Capital adequacy' section		
Phased-in	14.6%	14.6%
Fully loaded	14.5%	14.3%

Cost/income ratio

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

Calculation (in millions of EUR or %)	Reference	2017	2016
Operating expenses (A)	Operating expenses' in the consolidated income statement	3 568	3 399
/			
Total income (B)	Total income' in the consolidated income statement	6 588	6 240
= (A) / (B)		54%	54%

We also use the same methodology to calculate this ratio for each business unit.

Cover ratio

Indicates the proportion of impaired loans (see 'Impaired loans ratio' for definition) that are covered by impairment charges.
The numerator and denominator in the formula relate to all impaired loans, but may be limited to impaired loans that are *more than 90 days past due* (the figures for that particular calculation are also given in the 'Loan and investment portfolio' table in the 'Risk management' section).

Calculation (in millions of EUR or %)	Reference	2017	2016
Specific impairment on loans (A)	Loan and investment portfolio' table in the 'Risk management' section	4 039	4 874
/		9 186	10 583
Outstanding impaired loans (B)	Loan and investment portfolio' table in the 'Risk management' section		
= (A) / (B)		44%	46%

Credit cost ratio

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

Calculation (in millions of EUR or %)	Reference	2017	2016
Net changes in impairment for credit risks (A)	Consolidated income statement': component of 'Impairment'	-87	126
/			
Average outstanding loan portfolio (B)	Loan and investment portfolio' table in the 'Risk management' section	151 681	146 257
= (A) / (B)		-0.06%	0.09%

We also use the same methodology to calculate this ratio for each business unit.

Impaired loans ratio

Indicates the proportion of impaired loans in the loan portfolio (see 'Loan portfolio' for definition) and, therefore, gives an idea of the creditworthiness of the portfolio. Impaired loans are loans where it is unlikely that the full contractual principal and interest will be repaid/paid. These loans have a KBC default status of PD 10, PD 11 or PD 12 and correspond to the definition of 'non-performing' used by the European Banking Authority.
Where appropriate, the numerator in the formula may be limited to impaired loans that are more than 90 days past due (PD 11 + PD 12). Relevant figures for that calculation are also given in the 'Loan and investment portfolio' table in the 'Risk management' section.

Calculation (in millions of EUR or %)	Reference	2017	2016
Amount outstanding of impaired loans (A)	Loan and investment portfolio' table in the 'Risk management' section	9 186	10 583
/			
Total outstanding loan portfolio (B)	Loan and investment portfolio' table in the 'Risk management' section	154 160	147 526
= (A) / (B)		6.0%	7.2%

We also use the same methodology to calculate this ratio for each business unit.

Leverage ratio

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

Calculation (in millions of EUR or %)	Reference	2017	2016
Regulatory available tier-1 capital (A)	Solvency of KBC Bank' table in the 'Capital adequacy' section	13 484	12 625
/			
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)	269 242	248 760
= (A) / (B)		5.0%	5.1%

Liquidity coverage ratio (LCR)

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

Calculation (in millions of EUR or %)	Reference	2017	2016
Stock of high-quality liquid assets (A)	Based on the European Commission's Delegated Act on LCR.	79 850	65 400
/			
Total net cash outflows over the next 30 calendar days (B)		57 600	47 100
= (A) / (B)		139%	139%

Loan portfolio

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

Calculation (in millions of EUR)	Reference ('Consolidated financial statements')	2017	2016
Loans and advances to customers (A)	Loans and advances to customers' in Note 4.1	141 036	133 481
-			
Reverse repos with customers (B)	Reverse repos in Note 4.1	-1 945	-1 953
+			
Debt instruments issued by corporates and by credit institutions and investment firms (C)	Note 4.1, component of 'Debt instruments issued by corporates and by credit institutions and investment firms'	6 243	7 114
+			
Loans and advances to credit institutions and investment firms (excluding dealing room activities) (D)	Note 4.1, component of 'Loans and advances to credit institutions and investment firms'	881	952
+			
Financial guarantees granted to clients (E)	Note 6.1, component of 'Financial guarantees given'	8 241	8 288
+			
Impairment on loans (F)	Note 3.9, component of 'Impairment'	4 058	5 094
+			
Other (G)	Component of Note 4.1	-4 353	-5 450
= (A) - (B) + (C) + (D)+ (E) + (F) + (G)		154 160	147 526

Net interest margin

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

Calculation (in millions of EUR or %)	Reference	2017	2016
Net interest income* (A)	Consolidated income statement': component of 'Net interest income'	3 513	3 602
/			
Average interest-bearing assets* (B)	Consolidated balance sheet': component of 'Total assets'	187 216	184 117
= (A) / (B) X 360/number of calendar days		1.85%	1.92%

* After elimination of all divestments and volatile short-term assets used for liquidity management purposes.

We also use the same methodology to calculate this ratio for each business unit.

Net stable funding ratio (NSFR)

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

Calculation (in millions of EUR or %)	Reference	2017	2016
Available amount of stable funding (A)	Basel III: the net stable funding ratio' (Basel Committee on Banking Supervision publication, October 2014).	157 700	144 150
/			
Required amount of stable funding (B)		117 300	114 950
= (A) / (B)		134%	125%

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)	Reference	2017	2016
Belgium Business Unit (A)	-	204.6	198.9
+			
Czech Republic Business Unit (B)		9.6	8.5
+			
International Markets Business Unit (C)		5.0	5.7
= (A) + (B) + (C)		219.2	213.1

Management certification

‘I Rik Scheerlinck,, Chief Financial Officer of KBC Bank, certify on behalf of the Executive Committee of KBC Bank NV that, to the best of my knowledge, the financial statements, which are based on the relevant standards for annual accounts, fairly present in all material respects the assets, the financial condition and results of KBC Bank NV and its consolidated subsidiaries, and that the annual report provides a fair overview of the development, results and the situation of KBC Bank NV and its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed.’