KBC Bank
Half-Year Report - 1H2018

Company name

'KBC' or 'KBC Bank' as used in this report refer to the consolidated bank entity (i.e. KBC Bank NV including all companies that are included in the scope of consolidation). 'KBC Bank NV' refers solely to the non-consolidated entity. KBC Group or the KBC group refers to the parent company of KBC Bank (see below).

Difference between KBC Bank and KBC Group

KBC Bank is a subsidiary of KBC Group. Simplified, the KBC Group's legal structure has one single entity – KBC Group NV – in control of two underlying companies, viz. KBC Bank and KBC Insurance.

Forward-looking statements

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

Glossary of ratios used (including the alternative performance measures)

See separate section at the end of this report.

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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 abbreviated financial statements included in the interim report are based on the relevant accounting standards and fairly present in all material respects the financial condition and results of KBC Bank NV including its consolidated subsidiaries, and that the interim report provides a fair overview of the main events, the main transactions with related parties in the period under review and their impact on the abbreviated financial statements, and an overview of the main risks and uncertainties for the remainder of the current year.'

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This report contains information that is subject to transparency regulations for listed companies. 31 August 2018, 8 a.m. CEST.

Report for the first six months of 2018

KBC Bank

Important. As of 2018, we have started applying IFRS 9. In simplified terms, this means that the classification of financial assets and liabilities, as well as the impairment methodology, have changed significantly. As a result, some of the profit and loss and balance sheet figures are not fully comparable to the 2017 reference figures (which are still based on IAS 39, as KBC is making use of transition relief for comparative data). In order to enhance transparency, we have also, in line with IFRS 9 and as of 2018, moved interest accruals for FX derivatives in the banking book from 'fair value income' to 'net interest income'. We also shifted network income (income received from margins earned on FX transactions carried out by the network for our clients) from 'trading and fair value income' to 'net fee and commission'. A short overview is provided in the annex, and a more comprehensive overview is given in Note 1.1 of the consolidated financial statements. Furthermore, related to IFRS 9, we changed the definition of our loan portfolio from outstanding to gross carrying amount (i.e. incl. reserved and accrued interests) and slightly amended the scope. In order to enhance comparability, we have added certain comparisons with pro forma (recalculated) figures for 2017 (unaudited) in the analysis below. When this is done, it is indicated by the words '**on a comparable basis'**.

Profit of 947 million euros for first half of 2018

Key data, KBC Bank (consolidated, in millions of EUR)		1H2018 (IFRS 9)	1H2017 (IAS 39)
Net result		947	1 187
by business unit:	Belgium	379	505
	Czech Republic	297	350
	International Markets (Slovakia, Hungary, Bulgaria, Ireland)	280	276
	Group Centre	-9	55
Balance sheet and solvency		30-06-2018	31-12-2017
Total assets		266 379	256 322
Total equity		15 724	15 656
Common equity ratio (Basel III, fully loaded)		14.2%	14.5%

Financial highlights for the first half of 2018, compared with the first half of 2017 (on a comparable basis)

- Net interest income – our main source of income – was up 6% year-on-year. The net interest margin came to 2.01%. Lending to our clients increased by 5% and deposits (excluding debt certificates) grew by 6%, with increases recorded in all business units.
- Net fee and commission income remained strong in the period under review. Year-on-year, it fell by just 1%, despite sharply lower asset management-related entry fees, due to the fact that the first half of 2017 had benefited from the launch of ExpertEase in Belgium, among other things.
- All other income items combined fell by 54% year-on-year, due primarily to significantly lower trading and fair value income.
- Operating expenses increased by 6% year-on-year. Our cost/income ratio for the first half of 2018 stood at a comfortable 56%, when bank taxes are spread evenly throughout the year and excluding certain non-operating items.
- The period under review included 82 million euros in net loan loss impairment releases, most of which were related to Ireland. Consequently, our cost of credit amounted to a very favourable -0.10% (a negative figure indicates a positive impact on profit). Excluding Ireland, the credit cost ratio would have come to 0.00% in the period under review.
- Our liquidity position remained strong, as did our capital base, with a fully loaded common equity ratio of 14.2%.

Business highlights for the first half of 2018

- In the period under review, we took important new steps in the implementation of our sustainability strategy. In May, for instance, KBC – as promoter – became the first financial institution in the Belgian market to launch an SRI pension savings fund. The fund in question is managed by KBC Asset Management and is fully compliant with BEAMA sustainability criteria. In June, we published stricter policies for sustainable banking and insurance and in doing so, are responding to the constantly evolving expectations of our stakeholders and the wider community. And again in June, we were the first Belgian financial institution to launch a green bond.
- With the aim of further improving client experience, we have continued developing innovative client-centric solutions that make our clients' lives easier. To name just one example, we were the first bank in Belgium to add multi-banking possibilities to our KBC Mobile app following the opportunities created by PSD2. We also created new features in KBC Mobile that enhance user convenience even more, such as the possibility to pay for parking and the ability to check luncheon vouchers/eco vouchers. In this way, we're extending our existing channels to include new services and possibilities to accommodate the rapidly changing client behaviour and expectations.
- On the broader economic front, European economic conditions have remained attractive, though we believe that the growth peak is likely behind us. The risk of further economic de-globalisation, with an escalation of trade conflicts, remains the main factor that could impede European economic growth.

Analysis of the result and balance sheet

A full overview of the IFRS consolidated income statement and balance sheet is provided in the 'Consolidated financial statements' section of this interim report. Condensed statements of comprehensive income, changes in shareholders' equity and cash flow, as well as several notes to the accounts, are also available in the same section.

Consolidated income statement, KBC Bank (in millions of EUR)	1H2018 (IFRS 9)	1H2017 (IAS 39)
Net interest income	1 989	1 762
Dividend income	18	15
Net result from financial instruments at fair value through profit and loss[1]	86	443
Net realised result from available-for-sale assets	-	50
Net realised result from debt instruments at fair value through other comprehensive income	8	-
Net fee and commission income	1050	1 017
Other net income	83	82
Total income	3 233	3 368
Operating expenses	-2 001	-1 893
Impairment	57	67
Of which: on loans and receivables[2]	-	72
Of which: on financial assets at amortised cost and at fair value through other comprehensive income[2]	82	-
Share in results of associated companies and joint ventures	8	6
Result before tax	1 297	1 549
Income tax expense	-262	-273
Result after tax	1 035	1 276
attributable to minority interests[3]	88	89
attributable to equity holders of the parent	**947**	**1 187**
Breakdown of result after tax, attributable to equity holders of the parent		
Belgium	379	505
Czech Republic	297	350
International Markets (Slovakia, Hungary, Bulgaria, Ireland)	280	276
Group Centre	-9	55

1 Also referred to as 'trading and fair value income'
2 Also referred to as 'loan loss impairments'
3 Primarily the 48% stake that KBC Group holds in KBC Asset Management.

Highlights, consolidated balance sheet, KBC Bank (in millions of EUR)	30-06-2018 (IFRS 9)	31-12-2017 (IAS 39)
Total assets	266 379	256 322
Loans and advances to customers, excl. reverse repos	143 277	139 090
Securities (equity and debt instruments)	45 390	47 995
Deposits from customers and debt securities, excluding repos	193 862	194 257
Risk weighted assets (Basel III, fully loaded)	83 624	83 117
Total equity	15 724	15 656
of which parent shareholders' equity	13 115	14 083

Selected ratios, KBC Bank (consolidated)	1H2018	FY2017
Cost/income ratio (between brackets: when spreading the bank tax evenly throughout the year and excluding certain non-operating items)	62% (56%)	54% (55%)
Common equity ratio according to Basel III (fully loaded)	14.2%	14.5%
Leverage ratio according to Basel III (fully loaded)	5.1%	5.0%
Credit cost ratio*	-0.10%	-0.06%
Impaired loans ratio	5.5%	6.0%
for loans more than 90 days overdue	3.2%	3.4%
Net stable funding ratio (NSFR)	136%	134%
Liquidity coverage ratio (LCR)	139%	139%

* A negative figure indicates a net impairment release (with positive impact on results).

KBC Bank ended the first six months of 2018 (1H2018) with a net profit of 947 million euros, compared with a net profit of 1 187 million euros in the first six months of 2017 (1H2017)

Analysis of the main items in our profit and loss account

- Net interest income stood at 1 989 million euros in 1H2018, up 6% year-on-year, on a comparable basis. The net interest margin came to 2.01% year-to-date, 7 basis points above the level recorded in 1H2017. Net interest income in the period under review benefited from lower funding costs, rate hikes in the Czech Republic, the consolidation of UBB/Interlease (in Bulgaria, consolidated as of 2H2017, so not included in the 1H2017 reference figures) and loan volume growth (see below). These more than offset the negative impact of the low reinvestment yields and overall loan margin pressure. Both customer lending and deposit volumes increased: loans and advances to customers, excluding reverse repos, went up by 5% year-on-year and deposits from customers and debt certificates, excluding repos, went up by 2%. Excluding debt certificates (which were down year-on-year due to a lower amount of certificates of deposits, repayment of the contingent capital securities in January, etc.), deposits went up by as much as 6% year-on-year. The percentages were calculated after elimination of transactions between KBC group companies. Broken down per business unit, lending volumes increased by 5% in the Belgium, Czech Republic and International Markets business units (with increases in Slovakia, Hungary and Bulgaria and a slight decrease in Ireland due to deleveraging of the corporate loan portfolio there). Deposits too went up in all business units: Belgium (+1%, or +6% excluding debt certificates), the Czech Republic (+6%) and International Markets (+7%, with increases in all countries).
- Net fee and commission income remained strong in the period under review: on a comparable basis, it amounted to 1 050 million euros in 1H2018, only slightly down (-1%) on its 1H2017 level. The drop was attributable primarily to our asset management services (lower entry fees, as 1H2017 had benefited from the launch of ExpertEase in Belgium, among other things) and, to a lesser extent, to lower securities-related fees, partly offset by increased payment services-related fees and the positive effect of the consolidation of UBB/Interlease. At the end of June 2018, total assets under management of the KBC group stood at 214 billion euros, up 1% year-on-year, thanks mainly to a positive price performance.
- On a comparable basis, all other income items combined amounted to 195 million euros in 1H2018, compared to 420 million euros in 1H2017. Dividend income in 1H2018 stood at 18 million euros (15 million euros in the reference period), and the realised result from debt instruments at fair value through other comprehensive income at 8 million euros. The net result from financial instruments at fair value (trading and fair value income) amounted to 86 million euros, significantly down on the 273 million euros recorded in 1H2017 (figure on a comparable basis), mainly due to the lower value of derivatives used for asset/liability management purposes, the negative impact of various valuation adjustments and lower dealing room income. Lastly, other net income came to 83 million euros in 1H2018, in line with the figure for 1H2017.
- Operating expenses came to 2 001 million euros in 1H2018, up 6% on their year-earlier level, partly due to the consolidation of UBB/Interlease in the 1H2018-figures as well as higher facility and ICT costs, among other factors. It should be noted that operating expenses also include the special bank taxes of 378 million euros in 1H2018 (361 million euros in 1H2017). The year-to-date cost/income ratio consequently came to 62%, or an adjusted 56% when the bank taxes are evenly spread throughout the year and certain non-operating items are excluded (compared to 54% and 55%, respectively, for full-year 2017).
- We released 82 million euros of loan loss impairments (leading to a positive impact on results) in 1H2018, compared with a net impairment release of 72 million euros in the year-earlier period. As in the reference period, the net impairment release in the period under review was due essentially to Ireland, where there was a 81-million-euros net impairment release thanks mainly to the positive impact of increased house prices on the mortgage book. In all other core countries, there was either a small release of loan loss impairments (Czech Republic, Hungary, Bulgaria, Group Centre) or a generally low level of additional loan loss impairment charges (Belgium, Slovakia). Consequently, annualised loan loss impairment for the entire group in the first half of 2018 accounted for an extremely low -0.10% of the total loan portfolio, compared to -0.06% in full-year 2017 (a negative figure indicates a positive impact on the result). Excluding Ireland, the credit cost ratio would have come to 0.00%, compared to 0.09% in full-year 2017. Loan quality further improved in all business units: at the end of June 2018, some 5.5% of our loan book was classified as impaired, with 3.2% being impaired and more than 90 days past due (compared to 6.0% and 3.4%, respectively, at year-end 2017). Impairment on assets other than loans stood at 25 million euros, compared to 4 million in the year-earlier period, and related in part to the impact of the review of residual values of financial car leases under short term contracts in the Czech Republic.

Performance by business unit

- The Belgium Business Unit (encompassing all activities in Belgium) generated a net result of 379 million euros in 1H2018, compared with 505 million euros in 1H2017. On a comparable basis, the year-on-year decrease was mainly due to a significantly lower level of trading and fair value income, a decrease in net interest income and net fee and

commission income, and slightly higher costs. These items were partly offset by better dividend income and other net income, lower loan loss impairment charges and lower income tax.

- The Czech Republic Business Unit (encompassing all activities in the Czech Republic) generated a net result of 297 million euros in 1H2018, compared with 350 million euros in 1H2017. On a comparable basis, the year-on-year decrease was mainly due to a significantly lower trading and fair value income, a decrease in other net income and higher costs. These items were partly offset by higher net interest income and net fee & commission income combined with an improvement in loan loss impairment (even a small net release in 1H2018).
- The International Markets Business Unit (covering activities in Ireland, Hungary, Slovakia and Bulgaria) generated a net result of 280 million euros in 1H2018, as opposed to 276 million euros in 1H2017. Broken down by country, the net result was 113 million euros for Ireland (benefiting from a 81-million-euro net release of loan loss impairments), 37 million euros for Slovakia, 41 million euros for Bulgaria and 89 million euros for Hungary. For the business unit as a whole, the result remained more or less unchanged, since higher total income (in various income line items) and the positive impact of the consolidation of UBB/Interlease was offset by higher costs and a lower amount of net loan loss releases (a 100-million-euro net release in 1H2018 and a 140-million-euro net release in 1H2017, most of which in both cases related to Ireland).
- The Group Centre's net result amounted to -9 million euros in 1H2018, as opposed to 55 million euros in 1H2017. The Group Centre includes certain capital and liquidity management-related costs, costs related to the holding of participations and the results of the companies or activities that are earmarked for divestment or are in run-down. The decrease of the net result was for a large part due to the fact that 1H2017 had benefited from the positive impact of the booking of a deferred tax asset related to the liquidation of IIB Finance Ireland (a positive impact of 66 million euros).

	Belgium		Czech Republic		International Markets	
Selected ratios per business unit	**1H2018**	**FY2017**	**1H2018**	**FY2017**	**1H2018**	**FY2017**
Cost/income ratio, banking when spreading the bank tax evenly throughout the year and excluding certain non-operating items	57%	53%	45%	43%	62%	72%
Credit cost ratio[1]	0.08%	0.09%	-0.03%	0.02%	-0.71%	-0.74%
Impaired loans ratio[2]	2.4%	2.8%	2.1%	2.4%	19.5%	19.7%

1 Negative figure indicates a net impairment release (with positive impact on results).
2 Since 2018 based on a slightly changed definition of the loan portfolio.

Equity, solvency and liquidity

- At the end of June 2018, total equity came to 15.7 billion euros (13.1 billion euros in parent shareholders' equity, 0.2 billion euros in minority interests and 2.4 billion euros in additional tier-1 instruments), up 0.7 billion euros on its level at the beginning of the year on a like-for-like basis (i.e. after adjustment for the impact of the first-time application of IFRS 9, which led to a drop of 0.6 billion euros). The like-for-like change during the first six months of the year resulted from the inclusion of the profit for that period (+0.9 billion euros, excluding minority interests), the issuance of a new additional tier-1 instrument in April 2018 (+1 billion euros), changes in the various revaluation reserves (an aggregate -0.1 billion euros), dividends paid to KBC Group for financial year 2017 (-1.2 billion euros) and a number of smaller changes.
- The common equity ratio (Basel III) stood at 14.2% (fully loaded) at 30 June 2018 (14.5% at 31 December 2017). The leverage ratio (Basel III, fully loaded) stood at 5.1% (5.0% at 31 December 2017).
- KBC Bank's liquidity position remains excellent, as reflected in an LCR ratio of 139% and an NSFR ratio of 136% at the end of June 2018 (139% and 134%, respectively, at 31 December 2017).

Risk statement, economic views and guidance

- Risk statement: as we are mainly active in banking and asset management, we are exposed to a number of typical risks for these financial sectors such as – but not limited to – credit default risk, counterparty credit risk, concentration risk, movements in interest rates, currency risk, market risk, liquidity and funding risk, changes in regulations, operational risk, customer litigation, competition from other and new players, as well as the economy in general. Although we closely monitor and manage each of these risks within a strict risk framework containing governance and limits, they may all have a negative impact on asset values or could generate additional charges beyond anticipated levels.
- At present, a number of items are considered to constitute the main challenges for the financial sector. Regulatory uncertainty remains a dominant theme for the sector (even though the 'Basel IV' agreement in December has brought

some clarification as regards future capital requirements), as does enhanced consumer protection. Another ongoing challenge remains the low interest rate environment, combined with the increased risk of asset bubbles. The financial sector also faces the potential systemic consequences of political and financial developments like Brexit or protectionist measures in the US, which will have an impact on the European economy. Technology used in the financial industry is an additional challenge for the business model of traditional financial institutions. Finally, cyber risk has become one of the main threats during the past few years, not just for the financial sector, but for the economy as a whole.

- We provide risk management data in KBC Group's and/or KBC Bank's annual reports, quarterly reports and dedicated risk reports, all of which are available at www.kbc.com.
- Our view on interest rates and foreign exchange rates: In line with its recent communication, we expect the ECB to taper its Asset Purchase Programmes after September 2018 and to end it in December 2018. The first step towards policy rate normalisation will only be taken well after the end of QE (quantitative easing), which is likely to be in the second half of 2019 at the earliest. In the meantime, we expect the Fed to carry out two more rate hikes in 2018 each time by 25 basis points. Consequently, we believe that the US dollar strength against the euro will continue in the short term, as it will benefit from short-term interest rate support arising from the persistent monetary policy divergence. Towards the end of 2018, however, the euro will probably start appreciating again. Given the low-inflation environment and still highly accommodating monetary policy of the ECB, German long-term bond yields are expected to rise only modestly in the period ahead. Unlike the dovish stance of the ECB, the Czech National Bank has been tightening its monetary policy during the past few months and is expected to continue doing so in 2018 given the buoyant Czech growth and inflation environment. We forecast one more rate hike for this year in the Czech Republic, which would bring the repo rate to 1.50% by the end of 2018. As a result, we expect the Czech currency to appreciate moderately to 25.70 Czech koruna per euro by the end of 2018.
- Our view on economic growth: the European economic environment remains attractive. Although growth has slowed down somewhat compared to 2017, it remains above trend. Growth has probably already peaked, but we are still optimistic about the years to come. Persistently decreasing unemployment rates, with even growing labour shortages in some European economies, combined with gradually rising wage inflation will continue to support private consumption. Moreover, also investments will remain an important growth driver. The main element that could impede European economic sentiment and growth remains the risk of further economic de-globalisation, including an escalation of trade conflicts.
- Guidance for the remainder of 2018:
  - Solid returns for all business units
  - For Ireland, our guidance for loan impairment is for a net release of 100 to 150 million euros for full year 2018.
  - For Belgium, we expect a recurring positive impact on results from the reform of the Belgian income tax system. The negative upfront effect in the last quarter of 2017 should be fully recuperated in roughly three years' time.
- Important non-adjusting post-balance sheet event: on 8 August 2018, KBC Bank Ireland reached an agreement with Goldman Sachs to sell part (approximately 1.9 billion euros) of its legacy portfolio, comprising of non-performing corporate loans, non-performing Irish buy-to-let mortgage loans, and performing & non-performing UK buy-to-let mortgage loans. As a result of the transaction, KBC Bank Ireland's impaired loans ratio reduces by roughly 11 percentage points to around 25% pro forma at end 2Q2018. The transaction is expected to result in a net profit impact of +14 million euros (based on 1Q2018 numbers and including all costs related to the transaction) and a release of risk-weighted assets of approximately 0.4 billion euros at KBC Bank, leading to an improvement of the KBC Bank common equity ratio of 8 bps. The transaction is expected to close in the 4th quarter of 2018.

Annex

Pro forma recalculation of 2017 reference figures for the main income lines, KBC Bank (in millions of EUR, unaudited figures)		**Pro forma recalculation of 2017 reference figures**	
	1H2018	**2H2017**	**1H2017**
Net interest income	1 989	1 785	1 762
+ interest accrual FX derivatives		+183	+122
= pro forma reference figure (used in our results analysis)		=1 968	=1 884
Net result from financial instruments at fair value through P&L (FIFV)	86	417	443
- interest accrual FX derivatives		-183	-122
- network income		-51	-48
= pro forma reference figure (used in our results analysis)		=183	=273
Net fee and commission income	1 050	1 007	1 017
+ network income		+51	+48
= pro forma reference figure (used in our results analysis)		=1 058	=1 065

Interest accrual on FX derivatives: moved from FIFV to 'net interest income' (in line with the transition to IFRS 9).
Network income (income received from margins earned on FX transactions carried out by the network for clients): moved from FIFV to 'net fee and commission income'.

Consolidated financial statements

according to IFRS, KBC Bank – 1H2018

Reviewed by the statutory auditor

Glossary and abbreviations used in the financial statements

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

Consolidated income statement

(in millions of EUR)	Note	1H 2018 IFRS 9	1H 2017 IAS 39
Net interest income	3.1	1 989	1 762
Interest income	3.1	3 138	2 851
Interest expense	3.1	- 1 149	- 1 089
Dividend income		18	15
Net result from financial instruments at fair value through profit or loss	3.3	86	443
Net realised result from available-for-sale assets		-	50
Net realised result from debt instruments at fair value through OCI		8	-
Net fee and commission income	3.5	1 050	1 017
Fee and commission income	3.5	1 299	1 404
Fee and commission expense	3.5	- 249	- 387
Net other income	3.6	83	82
TOTAL INCOME		3 233	3 368
Operating expenses	3.7	- 2 001	- 1 893
Staff expenses	3.7	- 868	- 835
General administrative expenses	3.7	- 1 050	- 982
Depreciation and amortisation of fixed assets	3.7	- 83	- 76
Impairment	3.9	57	67
On loans and receivables	3.9	-	72
On financial assets at amortised cost and at FV through OCI	3.9	82	-
On available-for-sale assets	3.9	-	0
On goodwill	3.9	0	0
On other	3.9	- 25	- 4
Share in results of associated companies and joint ventures		8	6
RESULT BEFORE TAX		1 297	1 549
Income tax expense	3.11	- 262	- 273
RESULT AFTER TAX		1 035	1 276
Attributable to minority interest		88	89
Attributable to equity holders of the parent		**947**	**1 187**

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

Condensed consolidated statement of comprehensive income

(in millions of EUR)	1H 2018 IFRS 9	1H 2017 IAS 39
RESULT AFTER TAX	1 035	1 276
Attributable to minority interest	88	89
Attributable to equity holders of the parent	947	1 187
Other comprehensive income - to be recycled to P&L	- 80	106
Net change in revaluation reserve AFS equity	-	- 15
Net change in revaluation reserve AFS bonds	-	- 37
Net change in revaluation reserve FVOCI debt instruments	- 55	-
Net change in hedging reserve - cash flow hedge	17	164
Net change in translation differences	- 131	- 6
Hedge of net investments in foreign operations	94	0
Net change related to associated companies & joint ventures	- 6	1
Other movements	0	- 1
Other comprehensive income - not to be recycled to P&L	4	41
Net change in revaluation reserve FVOCI equity instruments	5	-
Net change in defined benefit plans	- 3	46
Net change on own credit risk - liabilities designated at FVPL	3	- 5
Net change related to associated companies & joint ventures	0	0
TOTAL COMPREHENSIVE INCOME	959	1 423
Attributable to minority interest	88	89
Attributable to equity holders of the parent	871	1 334

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

The largest movements in other comprehensive income are:

- The revaluation reserve (FV OCI debt instruments) lowered in 1H 2018 by -55 million euros, negatively impacted by an increase of the credit spread on Italian government bonds and the unwinding effect (the latter also partly explains the positive net change in the hedging reserve (cash flow hedge)). In 1H 2017, the net change in revaluation reserve (AFS assets) – Bonds and in hedging reserve (cash flow hedge) amounted to respectively -37 million euros and +164 million euros, which were both mainly explained by an increase in long-term interest rates.
- Net change in translation differences in 1H 2018 (-131 million euros) is mainly caused by the depreciation of the CZK and HUF. This was largely compensated by the hedge of net investments in foreign operations (+94 million euros). The net impact between these two items can mainly be explained by the asymmetrical deferred tax treatment (no tax on net change in translation differences, while deferred tax is calculated on the hedge).

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	30-06-2018 IFRS 9	31-12-2017 IAS 39	01-01-2018 IFRS9
Cash, cash balances at central banks and other demand deposits from credit institutions		31 379	29 762	
Financial assets	4.1-4.7	228 326	220 184	219 442
Held for trading	4.1-4.7	-	7 509	-
Designated at fair value through profit or loss	4.1-4.7	-	63	-
Available for sale	4.1-4.7	-	19 637	-
Loans and receivables	4.1-4.7	-	166 927	-
Held to maturity	4.1-4.7	-	25 803	-
Amortised cost	4.1-4.7	214 227	-	205 377
Fair value through OCI	4.1-4.7	6 019	-	6 394
Fair value through profit or loss	4.1-4.7	7 825	-	7 426
Of which held for trading	4.1-4.7	7 651	-	7 225
Hedging derivatives	4.1-4.7	255	245	245
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		- 18	- 78	
Tax assets		1 652	1 575	
Current tax assets		123	45	
Deferred tax assets		1 529	1 530	
Non-current assets held for sale and assets associated with disposal groups		13	21	
Investments in associated companies and joint ventures		171	210	
Property, equipment and investment property		2 953	2 846	
Goodwill and other intangible assets		1 010	1 019	
Other assets		892	785	
TOTAL ASSETS		266 379	256 322	

LIABILITIES AND EQUITY (in millions of EUR)	Note	30-06-2018 IFRS 9	31-12-2017 IAS 39	01-01-2018 IFRS9
Financial liabilities	4.1-4.7	248 463	238 273	238 273
Amortised cost	4.1-4.7	239 694	228 509	
Fair value through profit or loss	4.1-4.7	7 607	8 479	
Of which held for trading	4.1-4.7	6 064	6 998	
Hedging derivatives	4.1-4.7	1 161	1 284	
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		- 127	- 86	
Tax liabilities		114	210	
Current tax liabilities		27	72	
Deferred tax liabilies		87	139	
Liabilities associated with disposal groups		0	0	
Provisions for risks and charges		250	373	
Other liabilities		1 955	1 895	
TOTAL LIABILITIES		250 655	240 666	
Total equity	5.9	15 724	15 656	
Parent shareholders' equity	5.9	13 115	14 083	13 483
Additional Tier-1 instruments included in equity	5.9	2 400	1 400	
Minority interests		208	173	
TOTAL LIABILITIES AND EQUITY		266 379	256 322	

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

Consolidated statement of changes in equity

In millions of EUR	Issued and paid up share capital	Share premium	Retained earnings	Revaluation reserve AFS assets	Revaluation reserve FVOCI debt instruments	Revaluation reserve FVOCI equity instruments	Hedging reserve - cashflow hedges	Translation differences	Hedge of net investments in foreign operations	Remeasure-ment of defined benefit obligations	Own credit risk (through OCI)	Total revaluation reserves	Parent share-holders' equity	Additional Tier-1 instruments included in equity	Minority interests	Total equity
1H 2018 IFRS 9																
Balance at the end of the period (31-12-2017)	**8 948**	**895**	**4 974**	**651**	**0**	**0**	**- 1 339**	**- 10**	**47**	**- 73**	**- 10**	**- 735**	**14 083**	**1 400**	**173**	**15 656**
Impact transition to IFRS 9	0	0	- 222	- 651	254	19	0		0		0	- 378	- 600	0	0	- 600
Balance at the beginning of the period (01-01-2018) after impact IFRS 9	**8 948**	**895**	**4 752**	**0**	**254**	**19**	**- 1 339**	**- 10**	**47**	**- 73**	**- 10**	**- 1 113**	**13 483**	**1 400**	**173**	**15 057**
Net result for the period	0	0	947	0	0	0	0	0	0	0	0	0	947	0	88	1 035
Other comprehensive income for the period	0	0	0	0	- 57	5	17	- 134	94	- 3	3	- 76	- 76	0	0	- 76
Subtotal	**0**	**0**	**947**	**0**	**- 57**	**5**	**17**	**- 134**	**94**	**- 3**	**3**	**- 76**	**871**	**0**	**88**	**959**
Dividends	0	0	- 1 199	0	0	0	0	0	0	0	0	0	- 1 199	0	0	- 1 199
Coupon additional Tier-1 instruments	0	0	- 29	0	0	0	0	0	0	0	0	0	- 29	0	0	- 29
Transfer from reserve to retained earnings on realisations	0	0	- 7	0	0	0	0	0	0	0	0	0	- 7	0	0	- 7
Issue of additional Tier-1 instruments included in equity	0	0	- 5	0	0	0	0	0	0	0	0	0	- 5	1 000	0	995
Change in minorities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	- 53	- 53
Total change	**0**	**0**	**- 292**	**0**	**- 57**	**5**	**17**	**- 134**	**94**	**- 3**	**3**	**- 76**	**- 368**	**1 000**	**35**	**667**
Balance at the end of the period	**8 948**	**895**	**4 460**	**0**	**197**	**24**	**- 1 321**	**- 145**	**141**	**- 77**	**- 8**	**- 1 188**	**13 115**	**2 400**	**208**	**15 724**
of which relating to equity method				0	- 1	0	0	12	0	0	0	11	11			11
1H 2017 IAS 39																
Balance at the end of the period (31-12-2016)	**8 948**	**895**	**3 556**	**645**	**-**	**-**	**-1 356**	**37**	**-**	**- 153**	**- 4**	**- 832**	**12 568**	**1 400**	**190**	**14 158**
Net result for the period	0	0	1 187	0	-	-	0	0	-	0	0	0	1 187	0	89	1 276
Other comprehensive income for the period	0	0	- 1	- 56	-	-	164	- 2	-	46	- 5	148	147	0	0	147
Subtotal	**0**	**0**	**1 186**	**- 56**	**-**	**-**	**164**	**- 2**	**-**	**46**	**- 5**	**148**	**1 334**	**0**	**89**	**1 423**
Dividends	0	0	- 531	0	-	-	0	0	-	0	0	0	- 531	0	0	- 531
Coupon additional Tier-1 instruments	0	0	- 27	0	-	-	0	0	-	0	0	0	- 27	0	0	- 27
Change in minorities	0	0	0	0	-	-	0	0	-	0	0	0	0	0	- 37	- 37
Total change	**0**	**0**	**628**	**- 56**	**-**	**-**	**164**	**- 2**	**-**	**46**	**- 5**	**148**	**776**	**0**	**52**	**829**
					-	-			-							
Balance at the end of the period	**8 948**	**895**	**4 185**	**589**	**-**	**-**	**-1 192**	**35**	**-**	**- 107**	**- 10**	**- 684**	**13 344**	**1 400**	**243**	**14 987**
of which revaluation reserve for shares				105												
of which revaluation reserve for bonds				484												
of which relating to equity method				10			0	11		0		21	21			21

As of 2018, the financial information is prepared in accordance with IFRS 9. For more information see 'Statement of compliance and (changes in) accounting policies' (note 1.1) further in this report, including transition disclosures. KBC has opted to use transition relief for disclosing comparative information.
The 'Dividends' item in 2018 (1 199 million euros) includes the final dividend for 2017 (paid in May 2018), the amount in 2017 (531 million euros) includes the final dividend for 2016 (paid in May 2017). For more information on AT1 instruments, see 'Parent shareholders' equity (Note 5.9) further in this report.

Condensed consolidated cash flow statement

	1H 2018 IFRS 9	1H 2017 IAS 39
Cash and cash equivalents at the beginning of the period	40 447	26 771
Net cash from (used in) operating activities	3 314	13 544
Net cash from (used in) investing activities	2 094	2 445
Net cash from (used in) financing activities	367	- 380
Effects of exchange rate changes on opening cash and cash equivalents	- 400	330
Cash and cash equivalents at the end of the period	45 823	42 710

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

The positive net cash from operating activities in 1H 2018 is mainly thanks to the realized result and lower outstanding debt securities at fair value through OCI (versus year-end 2017). The positive net cash from operating activities in 1H 2017 is largely thanks to higher deposits (versus year-end 2016).

The net cash flow from financing activities in 1H 2018 includes:
- the call by KBC Bank of the 1-billion-US-dollar contingent capital note (CoCo) that had been issued in January 2013 and 1 199 million euros dividend payment,
- the issue of covered bonds for 750 million euros,
- the issue of a green bond for 500 million euros by KBC Group, subsequently lent to KBC bank (see note 4.1)
- the issue of Additional Tier-1 instruments included in equity for 1 billion euros

Notes on statement of compliance and changes in accounting policies

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

The condensed interim financial statements of KBC Bank for the first quarter ended 30 June 2018 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ('endorsed IFRS').

The following IFRS standards became effective on 1 January 2018 and have been applied in this report:
- IFRS 9
  - IFRS 9 (Financial instruments) on the classification and measurement of financial instruments has been implemented as per 1st January 2018 as a replacement of IAS 39 (Financial Instruments: Recognition and Measurement).
  - 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.
  - Impairment of financial instruments: financial instruments that are subject to impairment are classified into three stages, namely Stage 1: Performing; Stage 2: Underperforming (where lifetime expected credit losses are required to be measured); and Stage 3: Non-performing or impaired. KBC has established policies and processes to assess whether credit risk has increased significantly at the end of each reporting period and, therefore, whether 'staging' is required (i.e. moving from one stage to another). For the loan portfolio, a multi-tier approach has been adopted to staging, based on internal credit ratings, forbearance measures, collective assessment and days past due as a backstop. A similar multi-tier approach is used for the investment portfolio, except that KBC uses the low-credit-risk exemption, meaning that all investment grade bonds in scope are considered to be in 'Stage 1', unless any of the other triggers indicate otherwise. For 'Stage 1' and 'Stage 2' – under IAS 39 – KBC recorded incurred-but-not-reported (IBNR) impairment losses, which are influenced by emergence periods. Under IFRS 9, impairment of financial assets is calculated on a 12-month expected credit loss (ECL) basis for 'Stage 1' and on

a lifetime ECL basis for 'Stage 2'. Forward looking information is incorporated into the staging criteria and measurement of ECL. Different macroeconomic factors are taken into consideration and KBC applies three scenarios to evaluate a range of possible outcomes.

- Hedge accounting: KBC uses the option to continue with hedge accounting under IAS 39 and awaits further developments at the IASB regarding macro hedging.
- As a result of the application of IFRS 9, the income statement, balance sheet, statement of comprehensive income and the statement of changes in equity, together with the Notes have changed significantly. KBC has opted to use transition relief for disclosing comparative information. The accounting policies in Note 1.2 are adjusted to include IFRS 9, and are re-designed. For the accounting policies, applicable on the comparative figures, we refer to Bank's annual accounts as at 31 December 2017. The transition disclosures are included in Note 1.4 and additional explanations are given in the notes, where relevant.
- For financial liabilities, the aspects of IFRS 9 relating to the presentation of gains and losses on own credit risk for financial instruments designated at fair value through profit or loss were early adopted with effect from 1 January 2017.
- Presentation change of interest accruals for FX derivatives, which are shifted from 'Net result from financial instruments at fair value through profit or loss' to 'Net interest income'. This new presentation is connected to IFRS 9 due to a decision from IFRIC (International Financial Reporting Interpretation Committee) from 20 November 2017. This avoids an asymmetric presentation as the interest accrual of the underlying transaction is also presented under 'Net interest income'. If 2017 would have been restated for this item, the impact of the shift to Net interest income would have been 122 million euro in 1H 2017 and 183 million euros in 2H2017.
- KBC does not make use of any transitional arrangements with regard to the impact of IFRS 9 on capital, as it wants to provide full transparency. Consequently, own funds, capital and the leverage ratio reflects the full impact of IFRS 9.

- IFRS 15 (Revenue from Contract with Customers) provides guidance on the recognition of revenue. KBC has identified the relevant contracts and assessed them using the new five-step model for revenue recognition. The main focus related to the (i) identification of the performance obligations and (ii) variable consideration in certain asset management contracts. The new requirements had no material impact on the revenue recognition of KBC.

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

- A change in presentation was made with regard to 'Network income' which is shifted from 'Net result from financial instruments at fair value through profit or loss' to 'Net fee and commission income'. 'Network income' is income received from margins earned on FX transactions (related to payments, credits, deposits, investments) and performed by the network (branches, online) for clients. The new presentation better reflects the business reality it concerns income received from margins earned on FX transactions carried out by the network for clients. The financial statements have not been restated retroactively according to IAS 8, as the total impact on them is considered to be non-material (a one-off impact of 48 million euros in 1H 2018, before tax).

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

- IFRS 16: In January 2016, the IASB issued IFRS 16 (Leases), which will become effective on 1 January 2019. The new standard does not significantly change the accounting treatment of leases for lessors and, therefore, its impact is expected to be limited for KBC (since KBC mainly acts as a lessor rather than a lessee). An analysis of its impact is ongoing.
- Other: The IASB published several limited amendments to existing IFRSs. They will be applied when they become mandatory, but their impact is currently estimated to be negligible.

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

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

1. General / Basic principle

The general accounting principles of KBC Bank (hereunder referred as "KBC") are based on the International Financial Reporting Standards (IFRS), as adopted by the European Union and IFRS Framework. The financial statements of KBC are prepared based on the going concern assumption.

KBC presents each material class of similar items separately, presents separately any dissimilar items unless they are immaterial and offsets only in cases when it is specifically required or permitted by the relevant IFRS.

2. Financial Assets

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

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

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

- Classification and Measurement – debt instruments
  When KBC concludes that the financial asset is a debt instrument then on initial recognition, it can be categorised in one of the following categories:
  - Mandatorily measured at fair value through profit or loss (FVPL);
  - Designated at initial recognition at fair value through profit or loss (FVO);
  - Fair value through other comprehensive income (FVOCI);
  - Amortised cost (AC);

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

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

  A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVO:
  - the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
  - and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  A debt instrument is measured at AC only if it meets both of the following conditions and is not designated as at FVO:
  - the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
  - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Business model assessment
  The business model assessment is relevant for debt instruments to assess whether they are allowed to be measured at AC and FVOCI. In performing the assessment, KBC reviews the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
  - the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
  - how the performance of the portfolio is evaluated and reported to KBC Bank's Executive Committee and Board of Directors;
  - the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
  - how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
  - the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how KBC's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

- Assessment whether contractual cash flows are solely payments of principal and interest (SPPI)
  For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.
  In assessing whether the contractual cash flows are solely payments of principal and interest, KBC considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, KBC considers:
  - contingent events that would change the amount and timing of cash flows;
  - leverage features;
  - prepayment and extension terms;
  - terms that limit KBC's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
  - features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

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

- Classification and Measurement – equity instruments
  Financial equity instruments are categorised in one of the following categories:
  - Mandatorily measured at fair value through profit or loss (FVPL);
  - Equity instruments elected for fair value through other comprehensive income (FVOCI)

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

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

3. Financial Assets – Impairments

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

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

- **Expected credit loss model - General**
  The model for impairment of financial assets is called the Expected Credit Loss model (ECL).

  The scope of the ECL model is based on the classification of financial assets. The ECL model is applicable to the following financial assets:
  - Financial assets measured at amortised cost;
  - Debt instruments measured at fair value through the other comprehensive income;
  - Loan commitments and financial guarantees;
  - Finance lease receivables; and
  - Trade and other receivables.

  No ECL are calculated for equity investments.

  Financial assets that are in scope for the ECL carry an amount of impairments equal to the life-time ECL if the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly since initial recognition, the loss allowance equals to an amount of 12 month ECL (see below for the references to the significant increase in credit risk).

  To distinguish between the different stages with regards the amount of ECL, KBC uses the internationally accepted terminology for stage 1, stage 2 and stage 3 financial assets.
  All financial assets at initial recognition, unless they are already credit impaired, are classified at stage 1 and carry 12 month ECL. Once a significant increase in credit risk since initial recognition occurs, the asset migrates to stage 2 and carries life-time ECL. Once an asset meets the definition of default it migrates to stage 3.
  IFRS 9 allows for a practical expedient for trade receivables. The ECL for trade receivable can be measured to an amount equal to the life-time ECL. KBC applies this practical expedient for trade and other receivables.
  Impairment gains and losses on financial assets are recognised under the heading "Impairments" in the income statement.

  Financial assets that are measured at amortised cost are presented on the balance sheet at their carrying amount being the gross carrying amount minus loss allowances. Debt instruments measured at fair value through other

comprehensive income are presented on the balance sheet at their carrying amount being the fair value at the reporting date. The adjustment for the ECL is recognised as a reclassification adjustment between the income statement and the other comprehensive income.

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

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

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

  - Loan portfolio
    For the loan portfolio KBC uses a five-tier approach. This MTA is a waterfall approach, i.e. if after assessing the first Tier, doesn't result in migrating to stage 2, then the second Tier is assessed and so on. At the end, if all Tiers are being assessed without triggering a migrations to stage 2, then the financial asset remains in stage 1.
    - Internal rating: the internal rating is used as the main criterion for assessing the increase in credit risk. This is a relative assessment comparing the PD at initial recognition to the PD at the reporting date. KBC makes the assessment on a facility level at reach reporting period.
    - Forbearance: Forborne financial assets are always considered as stage 2, unless they are already impaired. In the latter case, they migrate to stage 3.
    - Days past due: KBC uses the backstop described in the standard. A financial asset that has more than 30 days past due, migrates to stage 2.
    - Internal rating backstop: KBC uses an absolute level of PD as a backstop for financial assets to migrate to stage 2. This backstop corresponds to the highest PD (i.e. PD9 based on the KBC internal rating) before a financial asset is considered to be impaired.
    - Management assessment: Finally management reviews and assesses the significant increase in credit risk for financial assets at an individual and a portfolio level.

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

- Measurement of ECL
  The ECL is calculated as the product of the probability of default (PD), the estimated exposure at default (EAD) and the loss given default (LGD).
  The ECL are calculated in a way that reflect:
  - an unbiased, probability weighted amount;
  - the time value of money; and
  - information about the past events, current conditions and forecast economic conditions.

  The life-time ECL represents the sum of the ECL over the life time of the financial asset discounted at the original effective interest.
  The 12 months ECL represent the portion of the life time ECL that results from a default in 12-month period after the reporting date.

  KBC uses specific IFRS 9 models for PD, EAD and LGD to calculate ECL. To the extent possible KBC uses similar modelling techniques that have been developed for prudential purposes (i.e. Basel models) for efficiency purposes. Having said that, KBC ensures that the Basel models are adapted to be in compliance with IFRS 9, for example:
  - KBC removes the conservatism which is required by the regulator for Basel models

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

KBC also considers three different forward looking macro-economic scenarios with different weights in the calculation of ECL. The base case macro-economic scenario represents KBC's estimations for the most probable outcome and it also serves as a primary input for other internal and external purposes.

The maximum period for measurement of the ECL is the maximum contractual period (including extensions) with the exception of specific financial assets which include a drawn and an undrawn amount available on demand which is not limited the exposure to the contractual period. Only for such assets a measurement period can extend beyond the contractual period.

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

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

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

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

5. Financial Liabilities

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

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

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

- Financial liabilities – recognition and derecognition
  KBC recognises a financial liability when it becomes a party to the contractual provisions of the instrument which is typically the date when the consideration received in the form of cash or other financial asset has been received. At initial recognition the financial liability is recognised at fair value and less transaction costs that are directly attributable to its issuance, except for financial liabilities at fair value through profit or loss.
  Financial liabilities are derecognised when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires. KBC can also derecognise the financial liability and recognise a new one when there is an exchange between KBC and the lenders of the financial liability with substantially different terms, as well as substantial modifications of the terms of the existing financial liabilities. In assessing whether terms are different, KBC compares the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, and the discounted present value of the remaining cash flows of the original financial liability. If the difference is at least 10% or more then KBC derecognises the original financial liabilities and recognises a new one. When the exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

- Financial liabilities – classification and measurement
  KBC classifies the recognised financial liabilities into three different categories as provided by IFRS 9.

- Financial liabilities held for trading
  Held-for-trading liabilities are those incurred principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. A liability also qualifies as a trading liability if it belongs to a portfolio of financial instruments held for trading separately by the trading desk and for which there is a recent pattern of short-term profit-taking.
  Trading liabilities can include derivative liabilities, short positions in debt and equity instruments, time deposits and debt certificates. In connection with derivative liabilities KBC makes similarly distinction between trading and hedging derivatives as in case for derivative assets.
  Initially, held-for-trading liabilities are measured at fair value. At the end of the reporting date, trading liabilities are measured at fair value. Fair value adjustments are always recorded in the income statement.

- Financial liabilities upon initial recognition designated by the entity at fair value through profit or loss
  IFRS 9 allows measuring a (group of) financial liability(s) on initial recognition at fair value, whereby fair value changes are recognized in profit or loss except for fair value changes related to the changes in own credit risk which are presented separately in OCI. The fair value designation is used by KBC for the following reasons:
  - Managed on a FV basis: KBC designates a financial liability or group of financial liabilities at fair value when these are managed and their performance are evaluated on a fair value basis. It is used to account for (unbundled) deposit components (i.e. financial liabilities not including a discretionary participation feature)
  - Accounting mismatch: Fair value option can be used when the use eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.
  - Hybrid instruments: A financial instrument is regarded as a hybrid instrument when it contains one or more embedded derivatives that are not closely related to the host contract. The fair value option can be used when it is not possible to separate the non-closely related embedded derivative from the host contract and then the entire hybrid instrument can be designated at fair value. This results that both the embedded derivative and the host contract are measured at fair value. KBC uses this option when, for example, structured products contain non closely related embedded derivatives, in which case both the host contract and the embedded derivative are measured at fair value.

- Financial liabilities measured at amortised cost
  KBC classifies most of its financial liabilities under this category, also those used to fund trading activities, when the trading intent is not present in the financial liabilities (e.g.: issued bonds).
  These financial liabilities are initially measured at cost, which is the fair value of the consideration received including transaction costs. Subsequently they are measured at amortised cost, which is the amount at which the funding liability was initially recognised minus principal repayments and plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount. The difference between the amount made available and the nominal value is recorded on an accruals basis as an interest expense. Interest expenses accrued, but not yet paid, are recorded under accruals and deferrals.

- Financial liabilities – own credit risk
  For financial liabilities designated at fair value, IFRS 9 requires measuring the financial liability on initial recognition at fair value. Thereafter fair value changes are recognized in the income statement, except for fair value changes related to the changes in own credit risk which are presented separately in OCI.
  Accordingly, the fair value movement of the liability is presented in different parts: changes in own credit risk are presented in OCI and all other fair value changes are presented in the income statement under the line item "*Net result from financial instruments at fair value through profit or loss*". The amounts recognized in OCI relating to the own credit risk are not recycled to the income statement even when the liability is derecognized and the amounts are realized. Although recycling is prohibited, KBC transfers the amounts in OCI to other reserves within equity at derecognition.
  The only situation when the presentation of the own credit risk in OCI is not applied when this would create an accounting mismatch in the income statement. Such accounting mismatch could arise if due to a close economic relationship between the financial liability designated at fair value for which the own credit risk recognised in OCI while all fair value changes on the corresponding financial asset is measured and recognised at fair value through profit or loss. This is the case for the unit-linked investment contracts where the fair value change in the liability position is perfectly offset by the asset position.

- Financial liability – financial guarantee contract
  A financial guarantee contract is a contract that requires KBC to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Such a contract is initially recognised at fair value and is subsequently measured at the higher of (a) the amount determined in accordance with impairment provisions of IFRS 9 (see section "*Financial*

Assets – Impairment") and (b) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition principle of IFRS 15.

- **Offsetting**
  KBC offsets and presents only a net amount in the balance sheet of a financial asset and financial liability when and only when it:
  - has currently a legally enforceable right to set off the recognized amounts; and
  - intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

- **Fair value**
  KBC defines 'fair value' as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale. An imbalance between supply and demand (e.g. fewer buyers than sellers, thereby forcing prices down) is not the same as a forced transaction or distress sale.
  Market value adjustments are recognised on all positions that are measured at fair value, with fair value changes being reported in the income statement or in equity. They relate to close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk (credit value adjustment) and funding costs:
  - Credit value adjustments (CVAs) are used when measuring derivatives to ensure that the market value of the derivatives is adjusted to reflect the credit risk of the counterparty. In making this adjustment, both the mark-to-market value of the contract and its expected future fair value are taken into account. These valuations are weighted based on the counterparty credit risk that is determined using a quoted credit default swap (CDS) spread, or, if there is no such spread, on the counterparty credit risk that is derived from bonds whose issuers are similar to the derivative counterparty in terms of rating, sector and geographical location. A debt value adjustment (DVA) is made for contracts where the counterparty is exposed to KBC. It is similar to a CVA, but the expected future negative fair value of the contracts is taken into consideration.
  - A funding value adjustment (FVA) is a correction made to the market value of uncollateralised derivatives in order to ensure that the (future) funding costs or income attached to entering into and hedging such instruments are factored in when measuring the value of the instruments.

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

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

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

  Micro Fair value hedges: When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a (portfolio of) recognised asset or liability or a firm commitment that could affect the income statement, changes in the fair value of the derivative are recognised immediately in the income statement together with changes

in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the income statement as the hedged item). However, accrued interest income from interest rate swaps are recognised in "*Net Interest Income*". If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. Any adjustment, up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised into the income statement as part of the recalculated effective interest rate of the item over its remaining life or recognised directly when the hedged item is derecognised.

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

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

6. Leasing

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

7. Equity

Equity represents the residual interest in KBC's total assets after deducting all of its liabilities (together net asset) and encompasses all equity instruments issued by KBC, reserves attributable to the holders of the equity instruments and minority interest.

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

8. Employee benefits

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

- **Post-employment benefits**
  KBC offers pension plans to its employees and these are provided either through defined contribution or defined benefit plans. Under defined contribution plans KBC's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. The amount of the post-employment benefit to be received by the employee is determined by

the amount of contribution paid by KBC and the employee him or herself to the post-employment benefit plan together with the investment returns arising from those contributions. The actuarial risk is born by the employee.
Conversely, under defined benefit plans KBC's obligation is to provide the agreed benefits to current and former employees and the actuarial risk and investment risk fall, in substance, on KBC. This means that in case the actuarial or investment experience are worse than expected then KBC's obligation may be increased.
In Belgium, the defined contribution plans contain a legally guaranteed minimum return and the actual return can be lower than the legally required return, these plans have defined benefit plan features and KBC accounts them as defined benefit plans.

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

9. Net fee and commission income

Most of the net fee and commission income falls under the scope of IFRS 15 Revenue from Contracts with Customers as they cover services provided by KBC to its customers and are out of scope of other IFRS standards. For the recognition of revenue KBC identifies the contract and defines what are the promises (performance obligations) in the transaction. Revenue is recognised only when KBC has satisfied the performance obligation.

The revenue presented as Securities and Asset Management falls under the scope of IFRS 15 and entails in principal that KBC holds assets in a trust for the beneficiary ("fund") and is responsible to invest the amounts received from the customer for the benefit of the customer. These transactions are straightforward because KBC provides a series of distinct services which is consumed by the customer simultaneously when the benefits are provided. KBC is remunerated through the monthly or quarterly management fee which is calculated as a fixed percentage of the net asset value or by a subscription fee retained from the beneficiary. The fees do not include any variable compensation.

Payment services whereby KBC charges the customer for different transactions linked with its current accounts, domestic or foreign payments, payment services through ATM, etc. are mainly completed when the actual transaction is executed therefore the relating consideration can be recognised directly at that point in time.

10. Government grants

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

11. Levies

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

12. Income tax

Income tax consists of three elements: current year's taxes paid/payable, previous years' under/over provision and changes in deferred tax assets/liabilities.

Income tax is accounted for either in the income statement or in the Other Comprehensive Income depending on where the items that triggered the tax are accounted for. Income taxes that are initially accounted for in the Other Comprehensive

Income and that relate to gains/losses that are subsequently recognised in the income statement, are recycled in the income statement in the same period that the item is account for in the income statement.
Deferred and current tax assets and liabilities are offset when there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

- Current tax assets/liabilities
  Current tax for the period is measured at the amount expected to be paid to/recover from the tax authorities, using the rates of tax in effect during the reporting period.
- Deferred tax assets/liabilities
  Deferred tax liabilities are recognised for all taxable temporary differences between the carrying amount of an asset or liability and its tax base. They are measured using the tax rates that are substantially enacted at the reporting date and expected to be in effect on realisation of the assets or settlement of the liabilities to which they relate and which reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of the underlying asset or liability at the balance sheet date.
  Deferred tax assets are recognised for all deductible temporary differences between the carrying value of assets and liabilities and their tax base, and for carry forward of unused tax losses and for carry forward unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. KBC calculates deferred tax assets for carry forward unused tax losses. When estimating the period over which tax losses can be used against future taxable profits, KBC uses projections for a period between eight to ten years.
  Deferred tax assets/liabilities that relate to business combinations are accounted for directly in Goodwill.
  Deferred tax assets/liabilities are not discounted.

13. Property, Plant and Equipment

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

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

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

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

14. Investment property

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

Investment property is initially recognised at cost (including directly attributable costs). KBC subsequently measures investment property at initial cost minus accumulated depreciation and impairment losses.
The depreciation charge is recorded within the line item of "*Net Other Income*" of the income statement

15. Intangible Assets

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

Separately acquired intangible assets (mainly software developed externally) are initially recognised at cost. Internally developed intangible assets (mainly software developed-in-house) are recognised only it arises from development and KBC can demonstrate the:
- Technical feasibility of completing the intangible asset;
- Intention to complete for usage or sales;
- Ability to use of sell the intangible assets;
- Manner how the intangible asset will generate future economic benefits;

- Availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- Reliable measurement of the expenditure attributable to the intangible asset during its development.

Internally generated intangible assets are initially measured at the development costs that are directly attributable to the design and testing of the unique software controlled by KBC. Directly attributable costs capitalised as part of the Software Developed In-House include software development employee costs and directly attributable overhead costs.
Research expenses, other development expenditures, costs associated with maintaining software and investment projects (large-scale projects introducing or replacing an important business objective or model) which do not meet the recognition criteria are recognized as an expense when incurred.
Intangible assets are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation begins when the asset is available for use as intended by management. The amortisation of the software is as follow:

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

16. Impairment of non-financial assets

When KBC prepares financial statements it ensures that the carrying amount of the non-financial asset does not exceed the amount what could be obtained from either using or selling it (“*recoverable amount*”). Property, plant and equipment, investment property and software are subject to the impairment review only when an objective evidence of impairment indicator exists. Goodwill and Intangible assets with an indefinite useful life are subject to impairment reviews at least annually and in addition, these assets are also reviewed for impairment indicators at every quarter.

Indications for impairments can be either from internal source (e.g. the condition of an asset) or external source (e.g.: new technology or significant decline of the asset’s market value).
When an impairment indicator is present, KBC reviews the asset’s recoverable amount and the asset is impaired if its recoverable amount is lower than its carrying amount at the reporting date. The recoverable account is defined as the higher of the value in use and the fair value less cost to sell. Value is use is defined as the discounted future cash flows expected to be delivered from an asset or a cash generating unit.

The impairment is carried on individual asset level but when the individual asset does not generate cash inflows that are largely independent of those from other assets or group of assets then the recoverable amount is determined for the so-called “cash generating unit” (CGU) to which the asset or group of assets belong(s). In forming the CGUs, KBC applies its own judgement to define the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. This process mainly applies to goodwill which has been recognised in connection with acquisitions.

Impairment losses are recognised in the income statement the period that they occur. An impairment loss can be reversed if the condition that triggered the impairment loss is not present any more, except for goodwill which can never be reversed. Impairment gains are recognised in the income statement in the period that they occur.

17. Provisions, contingent liabilities and contingent assets

Provisions are recognised at the reporting date if and only if the following criteria are met:
- there is a present obligation (legal or constructive) due to a past event,
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at balance sheet date. When the timing effect is material, the amount recognised as a provision is the net present value of the best estimate.

Due to its inherent nature, a provision requires management judgment regarding the amount and timing of probable future economic outflows.

18. Consolidated financial statements / Interim financial statements

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

- Consolidation threshold
  Subsidiaries are effectively included in the consolidated financial statements using the full consolidation method if at least two of the following materiality criteria are exceeded:
  - Group share in own funds: 2 500 000 EUR;
  - Group share in the result: 1 000 000 EUR (absolute value);
  - Group share in balance-sheet total: 100 000 000 EUR.

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

19. Business combinations and Goodwill

Business combinations are accounted for using the acquisition method. Under this method, the cost of an acquisition is measured as the aggregate of the consideration transferred (measured at acquisition date fair value) and the amount of any minority interest in the acquiree. For the measurement of the minority interests, KBC can decide for each business combination separately whether to measure the minority interest at fair value or as their proportionate share of the acquiree's net identifiable assets. The way how minority interest is measured at acquisition date will have an impact on the purchase accounting through the determination of goodwill.

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

20. Effects of changes in foreign exchange rate

KBC's functional and presentation currency is Euro.
Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the spot rate at balance sheet date.
Negative and positive valuation differences, except for those relating to the funding of shares and investments of consolidated companies in foreign currency, are recognised in the income statement.
Non-monetary items measured at historical cost are translated into the functional currency at the historical exchange rate that existed on the transaction date. Non-monetary items carried at fair value are translated at the spot rate of the date the fair value was determined.
Translation differences are reported together with changes in fair value. Income and expense items in foreign currency are taken to the income statement at the exchange rate prevailing when they were recognised.
Valuation differences are accounted for either in the income statement or in the Other Comprehensive Income. Valuation differences that are initially accounted for in the Other Comprehensive Income and that relate to gains/losses that are subsequently recognised in the income statement, are recycled in the income statement in the same period that the item is recycled to the income statement.
The balance sheets of foreign subsidiaries are translated into the presentation currency at the spot rate at the reporting date (with the exception of the capital and reserves, which are translated at the historical rate). The income statement is translated at the average rate for the financial year as best estimate of the exchange rate at transaction date.

21. Related party transactions

A related party to KBC is either a party over which KBC has control or significant influence or a party that has control or significant influence over KBC.

KBC defines its related parties as:
- KBC subsidiaries
- KBC associates and joint ventures
- KBC Key management personnel (being its Board of Directors and the Executive Committee of KBC Bank NV)

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

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

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

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

23. Events after reporting period

Events after the reporting date are defined as favourable or unfavourable events that occur between the reporting date and the date that the financial statements are authorised for issue. There are two types of events after the reporting period:
- those which provide evidence of conditions that existed at the reporting date (adjusting events)
- those that are indicative of conditions that arose after the reporting date (non-adjusting events).

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

Transition disclosures IFRS 9 (note 1.4)

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

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

Total FTA (first time application) impact of the transition from IAS 39 to IFRS 9 as per 1st January 2018, including both the impact on the financial assets and provisions, is a decrease in equity amounting to -755 million euros before tax (-599 million euros after tax), split between:

- a classification and measurement impact of -475 million euros before tax, mainly decreasing OCI (other comprehensive income) reserves and
- an increase in impairments and provisions amounting to -280 million euros before tax

Transition disclosures on financial assets

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

a) Classification and measurement (-475 million euros before tax):

- The loans and advances to credit institutions, loans and advances to customers and the debt securities classified in L&R (Loans and Receivables) under IAS 39 shift almost in their entirety to AC (amortized cost). The (net negative) frozen AFS (available for sale) reserves on historically transferred bonds from AFS to L&R related to some of these instruments were reversed and as a result the OCI reserves increase by +33 million euros before tax.
- The debt securities previously classified as HTM (held to maturity) mainly shifted to AC. The (net positive) frozen AFS reserves on historically transferred bonds from AFS to HTM related to these instruments were reversed and as a result decrease the OCI reserves by -31 million euros before tax.
- Debt securities previously classified as AFS have been shifted for an amount of 15 060 million euros to AC. The AFS reserves related to those debt securities were reversed and decreased the OCI reserves for an amount of -614 million euros before tax. Under IFRS 9, 6 043 million euros of debt securities are classified as FVOCI, of which 4 349 million euros were AFS under IAS39. FV impacts resulting from previously HTM assets increase the OCI reserves for an amount of +143 million euros before tax.
- Equity instruments (excluding participations), previously classified as AFS have been reclassified to FVOCI (fair value through other comprehensive income). The shift out of retained earnings to OCI reserves, because of reversed impairments, amounts to 39 million euros before tax.
- From the debt instruments that were designated at FVPL under IAS39, 24 million euros shift to MFVPL (mandatorily at fair value through profit or loss) because they fail the SPPI test whereas 39 million euros remain FVO (fair value option) because of accounting mismatches. None of these shifts impacted equity.
- Loans previously classified as HFT (held for trading) were reported as FVOCI as of 1st January 2018. This shift amounting to 284 million euros only brings about a shift in equity components: 18 million euros will be reclassified out of retained earnings to OCI reserves.

b) Impairment (-275 million euros before tax):

The implementation of the ECL model resulted in an increase in the impairment on debt instruments at AC and FVOCI by 275 million euros before tax as per 1st January 2018, decreasing retained earnings by the same amount. As impairments on FVOCI debt instruments shall not reduce the instruments' carrying amount, 8 million euros is shifted to OCI reserves. The increase in impairments is mainly caused by the stage 2, lifetime expected credit loss and mainly situated in the loans and advances (260 million euros) (mortgage loans, term loans and current accounts).

KBC Bank consolidated

FINANCIAL ASSETS, 201712

in millions of EUR

	Before IFRS 9 application									IMPACT IFRS 9, 1-1-2018			
	Debt Instruments (2)					Equity Instruments				Retained Earnings		OCI Reserve	
	Loans & Receivables	Held to maturity	Available for Sale	Designated at Fair Value	Held for Trading	Available for Sale	Designated at Fair Value	Held for Trading	Total	BEFORE TAX	AFTER TAX	BEFORE TAX	AFTER TAX
FINANCIAL ASSETS, 31-12-2017 (total carrying amount before IFRS 9)	**166 927**	**25 803**	**19 424**	**63**	**1 156**	**213**	**0**	**509**	**214 095**	**-255**	**-210**	**-483**	**-375**
Amortised cost									**205 377**	**-265**	**-221**	**-611**	**-471**
Amount classified before IFRS 9 application	166 811	24 386	15 060	0	0	-	-	-	206 258	0	0	0	0
Remeasurement	-227	-34	-621	0	0	-	-	-	-881	0	0	0	0
due to reclassification: reversal revaluation reserve (IAS39)	*33*	*-31*	*-614*	-	-	-	-	-	*-611*	-	-	*-611*	*-471*
due to reclassification: portfolio FV hedge (shifts to non-financial assets)	-	-	*-4*	-	-	-	-	-	*-4*	-	-	-	-
impact impairments	*-260*	*-3*	*-2*	*0*	*0*	-	-	-	*-265*	*-265*	*-221*	-	-
Reserved interests	688	0	0	0	0	-	-	-	688	0	0	0	0
Reversal specific impairments	3 840	4	8	-	-	-	-	-	3 853	0	0	0	0
Reversal IBNR provision	215	0	0	-	-	-	-	-	215	0	0	0	0
Transfer to lifetime ECL - stage 3	-4 549	-4	-8	0	0	-	-	-	-4 561	0	0	0	0
Transfer to lifetime ECL - stage 2	-357	-1	0	0	0	-	-	-	-357	0	0	0	0
Transfer to 12-month ECL - stage 1	-97	-2	-2	0	0	-	-	-	-102	0	0	0	0
IFRS 9 measurement on 1 January 2018	**166 584**	**24 353**	**14 440**	**0**	**0**	**-**	**-**	**-**	**205 377**	**0**	**0**	**0**	**0**
Fair value through other comprehensive income									**6 394**	**20**	**21**	**118**	**86**
Amount classified before IFRS 9 application	0	1 410	4 349	0	284	213	0	0	6 256	0	0	0	0
Remeasurement	0	138	0	0	0	0	-	-	138	0	0	0	0
due to reclassification: reversal revaluation reserve (IAS39)	*0*	*-5*	*-154*	-	-	*-60*	-	-	*-220*	-	-	*-220*	*-185*
due to reclassification: impact revaluation reserve (IAS39) on OCI-reserve (IFRS9)	-	-	*154*	-	-	*60*	-	-	*215*	-	-	*215*	*182*
due to reclassification: other than reversal revaluation reserve	*0*	*143*	*1*	*0*	*0*	*-39*	-	-	*105*	*-18*	*-16*	*123*	*90*
impact impairments	*0*	*0*	*-1*	*0*	*0*	*39*	-	-	*38*	*38*	*37*	-	-
Reversal specific impairments	0	0	0	-	-	39	-	-	39	0	0	0	0
Reversal IBNR provision	0	0	0	-	-	-	-	-	0	0	0	0	0
Transfer to lifetime ECL - stage 3	0	0	0	0	0	-	-	-	0	0	0	0	0
Transfer to lifetime ECL - stage 2	0	0	0	0	0	-	-	-	0	0	0	0	0
Transfer to 12-month ECL - stage 1	0	0	-1	0	0	-	-	-	-1	0	0	0	0
IFRS 9 measurement on 1 January 2018	**0**	**1 548**	**4 349**	**0**	**284**	**213**	**0**	**0**	**6 394**	**0**	**0**	**0**	**0**
Fair value through P&L - HFT									**1 381**	**0**	**0**	**0**	**0**
Amount classified before IFRS 9 application	0	0	0	0	872	0	0	509	1 381	0	0	0	0
Remeasurement	0	0	0	-	-	0	-	-	0	0	0	0	0
IFRS 9 measurement on 1 January 2018	**0**	**0**	**0**	**0**	**872**	**0**	**0**	**509**	**1 381**	**0**	**0**	**0**	**0**
Fair value through P&L - Fair value option (FVO)									**39**	**0**	**0**	**0**	**0**
Amount classified before IFRS 9 application	0	0	0	39	0	-	-	-	39	0	0	0	0
Remeasurement	0	0	0	-	-	-	-	-	0	0	0	0	0
IFRS 9 measurement on 1 January 2018	**0**	**0**	**0**	**39**	**0**	**-**	**-**	**-**	**39**	**0**	**0**	**0**	**0**
Fair value through P&L - Mandatorily at fair value through profit and loss other than Held for trading (1)									**162**	**-9**	**-10**	**10**	**10**
Amount classified before IFRS 9 application	116	6	15	24	0	0	0	0	161	0	0	0	0
Remeasurement	2	-2	0	-	-	0	0	-	1	0	0	0	0
due to reclassification: reversal revaluation reserve (IAS39)	*12*	*0*	*-1*	-	-	*0*	-	-	*10*	-	-	*10*	*10*
due to reclassification: impact revaluation reserve (IAS39) on retained earnings (IFRS9)	*-12*	*0*	*1*	-	-	*0*	-	-	*-10*	*-10*	*-10*	-	-
due to reclassification: other than reversal revaluation reserve	*0*	*-2*	*0*	-	-	*0*	-	-	*-2*	*-2*	*-2*	-	-
impact impairments	*3*	*0*	*0*	-	-	*0*	-	-	*3*	*3*	*3*	*0*	*0*
IFRS 9 measurement on 1 January 2018	**119**	**4**	**15**	**24**	**0**	**0**	**0**	**0**	**162**	**0**	**0**	**0**	**0**
Hedging									**245**	**-**	**-**	**-**	**-**
Amount classified before IFRS 9 application	-	-	-	-	-	-	-	-	245	0	0	0	0
IFRS 9 measurement on 1 January 2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**245**	**0**	**0**	**0**	**0**
FINANCIAL ASSETS, 1-1-2018 (total IFRS 9 carrying amount)	**166 703**	**25 906**	**18 804**	**63**	**1 156**	**213**	**0**	**509**	**213 352**				
IMPACT RETAINED EARNINGS EXCLUDING EQUITY METHOD, 1-1-2018 (IFRS 9)									**- 210**	**- 255**	**- 210**		
IMPACT OCI RESERVE EXCLUDING EQUITY METHOD, 1-1-2018 (IFRS 9)									**- 375**			**- 483**	**- 375**
IMPACT RETAINED EARNINGS - EQUITY METHOD, 1-1-2018 (IFRS 9)									**- 4**	**- 5**	**- 4**		
IMPACT OCI RESERVE - EQUITY METHOD, 1-1-2018 (IFRS 9)									**- 3**			**- 3**	**- 3**
IMPACT RETAINED EARNINGS - OTHER, 1-1-2018 (IFRS 9)									**- 3**	**- 3**	**- 3**		
TOTAL IMPACT RETAINED EARNINGS AND OCI RESERVE, 1-1-2018 (IFRS 9)									**- 594**	**- 263**	**- 216**	**- 487**	**- 378**
of which phase 1 impact										**12**	**13**	**-487**	**-378**
of which phase 2 impact										**-275**	**-229**	**-**	**-**

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

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

Transition disclosures on financial liabilities

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

Transition disclosures on provisions

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

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

Notes on segment reporting

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

For a description on the management structure and linked reporting presentation, please refer to Note 2.1 in the annual accounts for 2017.

In millions of EUR	Business unit Belgium	Business unit Czech Republic	Business unit Interna-tional Markets	*of which: Hungary*	*of which: Slovakia*	*of which: Bulgaria*	*of which: Ireland*	Group Centre	KBC Bank
1H 2018 IFRS 9									
Net interest income	1 062	475	440	*117*	*101*	*73*	*148*	12	1 989
Dividend income	16	0	0	*0*	*0*	*0*	*0*	2	18
Net result from financial instruments at fair value through profit or loss	25	48	42	*34*	*3*	*6*	*0*	- 30	86
Net realised result from debt instruments at fair value through OCI	0	0	0	*0*	*0*	*0*	*0*	8	8
Net fee and commission income	719	166	167	*106*	*33*	*30*	*- 1*	- 3	1 050
Net other income	60	7	16	*14*	*4*	*- 1*	*0*	0	83
TOTAL INCOME	1 881	696	666	*270*	*141*	*107*	*148*	- 10	3 233
Operating expenses	- 1 201	- 332	- 434	*- 173*	*- 93*	*- 68*	*- 100*	- 34	- 2 001
Impairment	- 41	- 16	94	*7*	*0*	*6*	*81*	20	57
On financial assets at amortised cost and at fair value through OCI	- 41	3	100	*7*	*0*	*12*	*81*	20	82
On goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
On other	0	- 19	- 6	*0*	*0*	*- 5*	*- 1*	0	- 25
Share in results of associated companies and joint ventures	- 5	12	1	*0*	*0*	*1*	*0*	0	8
RESULT BEFORE TAX	634	360	327	*104*	*48*	*46*	*129*	- 24	1 297
Income tax expense	- 167	- 63	- 46	*- 15*	*- 11*	*- 5*	*- 16*	15	- 262
RESULT AFTER TAX	467	297	280	*89*	*37*	*41*	*113*	- 9	1 035
Attributable to minority interests	88	0	0	*0*	*0*	*0*	*0*	0	88
NET RESULT	379	297	280	*89*	*37*	*41*	*113*	- 9	947
1H 2017 IAS 39									
Net interest income	977	423	374	*114*	*103*	*22*	*135*	- 12	1 762
Dividend income	9	0	0	*0*	*0*	*0*	*0*	6	15
Net result from financial instruments at fair value through profit or loss	290	115	48	*33*	*9*	*1*	*5*	- 10	443
Net realised result from available-for-sale assets	9	17	2	*2*	*0*	*1*	*0*	22	50
Net fee and commission income	767	126	125	*85*	*30*	*8*	*0*	- 1	1 017
Net other income	46	30	6	*2*	*4*	*0*	*0*	- 1	82
TOTAL INCOME	2 098	711	555	*236*	*146*	*32*	*139*	4	3 368
Operating expenses	- 1 184	- 292	- 368	*- 169*	*- 91*	*- 20*	*- 87*	- 49	- 1 893
Impairment	- 56	- 9	139	*9*	*- 3*	*- 4*	*137*	- 7	67
On loans and receivables	- 54	- 6	140	*10*	*- 2*	*- 4*	*137*	- 7	72
On available-for-sale assets	0	0	0	*0*	*0*	*0*	*0*	0	0
On goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
On other	- 1	- 2	- 1	*- 1*	*0*	*0*	*0*	0	- 4
Share in results of associated companies and joint ventures	- 4	10	0	*0*	*0*	*0*	*0*	0	6
RESULT BEFORE TAX	855	420	326	*76*	*53*	*8*	*189*	- 53	1 549
Income tax expense	- 261	- 70	- 50	*- 13*	*- 12*	*- 1*	*- 24*	108	- 273
RESULT AFTER TAX	594	350	277	*63*	*41*	*7*	*166*	55	1 276
Attributable to minority interests	89	0	0	*0*	*0*	*0*	*0*	0	89
NET RESULT	505	350	276	*63*	*41*	*7*	*166*	55	1 187

In millions of EUR	Business unit Belgium	Business unit Czech Republic	Business unit Interna-tional Markets	*of which: Hungary*	*of which: Slovakia*	*of which: Bulgaria*	*of which: Ireland*	Group Centre	KBC Group
30-06-2018 IFRS 9									
Deposits from customers & debt certificates excl. repos	137 791	31 117	22 795	*6 992*	*6 252*	*4 011*	*5 540*	2 159	193 862
Demand deposits	48 840	20 546	11 247	*5 336*	*3 114*	*2 062*	*735*	0	80 633
Saving accounts	46 616	7 565	4 718	*889*	*1 307*	*831*	*1 691*	0	58 899
Time deposits	11 293	1 230	6 289	*743*	*1 430*	*1 118*	*2 998*	0	18 813
Debt certificates	28 862	1 258	315	*23*	*177*	*0*	*116*	2 159	32 595
Special and other deposits	2 180	518	226	0	226	0	0	0	2 923
Loans & advances to customers excluding reverse repos	96 198	22 751	24 327	*4 109*	*6 861*	*2 765*	*10 592*	0	143 277
Term loans	49 752	8 164	5 317	*1 880*	*2 223*	*581*	*634*	0	63 234
Mortgage loans	33 638	10 784	15 616	*1 481*	*3 123*	*1 102*	*9 910*	0	60 038
Other	12 808	3 804	3 394	748	1 515	1 082	48	0	20 006
31-12-2017 IAS 39									
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

Other notes

Net interest income (Note 3.1 in the annual accounts for 2017)

In millions of EUR	1H 2018 IFRS 9	1H 2017 IAS 39
Total	1 989	1 762
Interest income	3 138	2 851
Interest income on financial instruments calculated using effective interest rate method		
Loans and receivables	-	1 855
Held-to-maturity investments	-	339
Financial assets at amortised cost	2 466	-
Available-for-sale assets	-	174
Financial assets at fair value through OCI	57	-
Derivatives under hedge accounting	170	126
Other assets not at fair value	28	70
Interest income on other financial instruments		
Financial assets mandatorily at fair value other than HFT	4	0
Financial assets held for trading	411	284
of which economic hedge	*398*	*273*
Other financial assets at fair value through profit or loss	0	3
Interest expense	-1 149	-1 089
Interest expense on financial instruments calculated using effective interest rate method		
Financial liabilities measured at amortised cost	- 535	- 481
Derivatives under hedge accounting	- 261	- 230
Other	- 58	- 38
Interest expense on other financial instruments		
Financial liabilities held for trading	- 280	- 320
of which economic hedge	*- 265*	*- 310*
Financial liabilities designated at fair value through profit or loss	- 13	- 17
Net interest expense on defined benefit plans	- 2	- 3

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

Net realised result from financial instruments at fair value through profit and loss (Note 3.3 in the annual accounts for 2017)

As of 2018, the financial information is prepared in accordance with IFRS 9. For more information see note 'Summary of significant accounting policies' (note 1.2), as well as the narrative under the income statement.

The result from financial instruments at fair value through profit or loss in 1H2018 is 357 million euros lower compared to 1H2017, due to:

- Presentation change of interest accruals for FX derivatives, which are shifted from 'Net result from financial instruments at fair value through profit or loss' to 'Net interest income' for an amount of 122 million euros in 1H2017 (for more information, see note 'Statement of compliance' (note 1.1)).
- Presentation change with regard to 'Network income' which is shifted from 'Net result from financial instruments at fair value through profit or loss' to 'Net fee and commission income' for an amount of 48 million euros in 1H2017 (for more information, see note 'Statement of compliance' (note 1.1)).
- Excluding these items, the result from financial instruments at fair value through profit or loss in 1H2018 is 187 million euros lower compared to 1H2017, mainly explained by
  - Negative MTM ALM derivatives in 1H18 compared to very high positive MTM ALM derivatives in 1H 2017 (mainly as a result of CZK/EUR spread tightening in 1H 2017),
  - Lower dealing room income in Czech Republic and Belgium,
  - Negative market value adjustments in 1H 2018 compared to positive market value adjustments in 1H 2017

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

In millions of EUR	1H 2018	1H 2017
Total	1 050	1 017
Income	1 299	1 404
Expense	- 249	- 387
Breakdown by type		
Asset Management Services	566	605
Income	590	626
Expense	- 25	- 21
Banking Services	440	375
Income	607	677
Expense	- 167	- 302
Distribution	45	37
Income	102	101
Expense	- 57	- 64

A change in presentation was made with regard to 'Network income' which is shifted from 'Net result from financial instruments at fair value through profit or loss' to 'Net fee and commission income'. 'Network income' is income received from margins earned on FX transactions (related to payments, credits, deposits, investments) and performed by the network (branches, online) for clients. The new presentation better reflects the business reality, it concerns income received from margins earned on FX transactions carried out by the network for clients. The financial statements have not been restated retroactively according to IAS 8, as the total impact on them is considered to be non-material (a one-off impact of 48 million euros in 1H2018, before tax).

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

The substantial higher amounts in 1H 2017 of the fee and commission income as well as expense within banking services is related to stock lending: the income includes dividends received on borrowed shares, while the expense includes the transfer of this dividend to the lender of the shares. These amounts have been netted in 2018.

Other net income (Note 3.6 in the annual accounts for 2017)

In millions of EUR	1H 2018 IFRS 9	1H 2017 IAS 39
Total	83	82
Of which net realised result following		
The sale of loans and receivables	-	2
The sale of held-to-maturity investments	-	6
The sale of financial assets at amortised cost	11	-
The repurchase of financial liabilities measured at amortised cost	0	0
Other: of which:	72	74
Income concerning leasing at the KBC Lease-group	28	33
Settlement of old legal files	18	14

Note: the settlement of old legal files concerns Belgium (1H2018) and the Czech Republic (1H2017).

Operating expenses (Note 3.7 in the annual accounts for 2017)

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

The operating expenses for 1H2018 include 378 million euros related to bank levies. Application of IFRIC 21 (Levies) has as a consequence that certain levies are taken upfront in expense of the first interim period of the year.

Impairments – income statement (Note 3.9 in the annual accounts for 2017)

In millions of EUR	1H 2018 IFRS 9	1H 2017 IAS 39
Total	57	67
Impairment on financial assets at amortised cost and FV through OCI	82	-
Impairment on financial assets at amortised cost (IAS 39: loans and receivables)	82	72
Breakdown by product		
Loans and advances	68	99
Debt securities	0	0
Provision for off-balance sheet commitments	13	- 27
Breakdown by type		
Loss allowance measured as 12 month ECL - stage 1	- 11	-
Loss allowance measured as lifetime ECL - stage 2	49	-
Loss allowance measured as lifetime ECL - stage 3	43	-
Purchased or originated credit-impaired (including off-balance-sheet credit commitments)	0	-
Specific impairments for on-balance-sheet lending	-	83
Provisions for off-balance-sheet credit commitments (*)	-	- 27
Portfolio-based impairments	-	16
Impairment on financial assets at fair value through OCI (IAS 39: available-for-sale assets)	0	0
Breakdown by type		
Equity instruments (2017: Shares) (**)	-	0
Debt securities (2017: Other)	0	0
Impairment on goodwill	0	0
Impairment on other	- 25	- 4
Intangible assets, other than goodwill	0	0
Property and equipment and investment property	- 26	- 4
Held-to-maturity assets (IAS 39)	-	0
Modification gains/losses	0	-
Associated companies and joint ventures	0	0
Other	1	- 1

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

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

Income tax expense (Note 3.11 in the annual accounts for 2017)

In Belgium, the tax rate has decreased from 33,99% in 2017 to 29,58% in 2018 applying to the Belgian group companies, while a 100% exemption for dividends received has been introduced (instead of 95%), partly offset by the negative impact of some offsetting measures. The result of 1H2018 has been positively impacted by these changes by approximately +41 million euros.

Financial assets and liabilities: breakdown by portfolio and products (Note 4.1 in the annual accounts for 2017)

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

In millions of EUR	Amortised cost	Fair value through other compre-hensive income	Mandatorily at fair value through profit and loss other than Held for trading	Held for trading	Available for sale	Loans and receivables	Held to maturity	Designated at fair value through profit and loss	Hedging derivatives	Total
FINANCIAL ASSETS, 30-06-2018										
Loans and advances to credit institutions and investment firms excluding reverse repos	5 055	0	0	0	-	-	-	-	0	5 055
Loans and advances to customers excluding reverse repos	143 177	0	86	0	-	-	-	14	0	143 277
Trade receivables	4 274	0	0	0	-	-	-	0	0	4 274
Consumer credit	4 275	0	0	0	-	-	-	0	0	4 275
Mortgage loans	59 968	0	70	0	-	-	-	0	0	60 038
Term loans	63 204	0	16	0	-	-	-	14	0	63 234
Finance leasing	5 371	0	0	0	-	-	-	0	0	5 371
Current account advances	5 326	0	0	0	-	-	-	0	0	5 326
Other	759	0	0	0	-	-	-	0	0	759
Reverse repos	26 288	0	0	53	-	-	-	0	0	26 340
Reverse repos to credit institutions and investment firms	23 646	0	0	53	-	-	-	0	0	23 699
Reverse repos to customers	2 641	0	0	0	-	-	-	0	0	2 641
Equity instruments	0	216	0	502	-	-	-	-	-	718
Debt securities issued by	37 550	5 803	74	1 245	-	-	-	0	0	44 672
Public bodies	32 375	4 979	0	1 046	-	-	-	0	0	38 401
Credit institutions and investment firms	2 841	759	0	117	-	-	-	0	0	3 718
Corporates	2 334	64	74	82	-	-	-	0	0	2 554
Derivatives	-	-	-	5 833	-	-	-	-	255	6 088
Other	2 157	0	0	19	-	-	-	0	0	2 175
Total carrying value	214 227	6 019	160	7 651	-	-	-	14	255	228 326
FINANCIAL ASSETS, 31-12-2017										
Loans and advances to credit institutions and investment firms excluding reverse repos	-	-	-	0	0	4 856	-	0	0	4 856
Loans and advances to customers excluding reverse repos	-	-	-	0	0	139 052	-	38	0	139 090
Trade receivables	-	-	-	0	0	3 985	-	0	0	3 985
Consumer credit	-	-	-	0	0	3 857	-	0	0	3 857
Mortgage loans	-	-	-	0	0	59 815	-	23	0	59 838
Term loans	-	-	-	0	0	60 769	-	15	0	60 784
Finance leasing	-	-	-	0	0	5 308	-	0	0	5 308
Current account advances	-	-	-	0	0	4 728	-	0	0	4 728
Other	-	-	-	0	0	590	-	0	0	590
Reverse repos	-	-	-	2	0	21 516	-	0	0	21 517
Reverse repos to credit institutions and investment firms	-	-	-	2	0	19 570	-	0	0	19 572
Reverse repos to customers	-	-	-	0	0	1 945	-	0	0	1 945
Equity instruments	-	-	-	509	213	-	-	-	-	722
Debt securities issued by	-	-	-	1 154	19 424	868	25 803	24	0	47 273
Public bodies	-	-	-	954	14 701	52	25 123	0	0	40 830
Credit institutions and investment firms	-	-	-	121	2 766	125	511	0	0	3 523
Corporates	-	-	-	79	1 957	691	169	24	0	2 921
Derivatives	-	-	-	5 844	-	-	-	-	245	6 090
Other	-	-	-	0	0	636	-	0	0	636
Total carrying value	-	-	-	7 509	19 637	166 927	25 803	63	245	220 184

In millions of EUR	Amortised cost	Held for trading	Designated at fair value through profit and loss	Hedging derivatives	Total
FINANCIAL LIABILITIES, 30-06-2018					
Deposits from credit institutions and investment firms excluding repos	28 723	0	1	0	28 725
Deposits from customers and debt certificates excluding repos	192 115	206	1 542	0	193 862
Demand deposits	80 633	0	0	0	80 633
Time deposits	18 466	23	324	0	18 813
Saving accounts	58 899	0	0	0	58 899
Special deposits	2 426	0	0	0	2 426
Other deposits	497	0	0	0	497
Certificates of deposit	13 813	0	8	0	13 820
Customer savings certificates	1 695	0	0	0	1 695
Non-convertible bonds	9 739	182	1 027	0	10 948
Non-convertible subordinated liabilities	5 947	0	184	0	6 131
Repos	14 821	91	0	0	14 913
Repos from credit institutions	11 678	91	0	0	11 769
Repos from customers	3 144	0	0	0	3 144
Derivatives	0	5 198	0	1 161	6 359
Short positions	0	563	0	0	563
in equity instruments	0	22	0	0	22
in debt instruments	0	540	0	0	540
Other	4 034	6	0	0	4 041
Total carrying value	239 694	6 064	1 543	1 161	248 463
FINANCIAL LIABILITIES, 31-12-2017					
Deposits from credit institutions and investment firms excluding repos	27 746	3	12	0	27 762
Deposits from customers and debt certificates excluding repos	192 568	219	1 470	0	194 257
Demand deposits	74 011	0	0	0	74 011
Time deposits	19 547	11	403	0	19 961
Saving accounts	56 692	0	0	0	56 692
Special deposits	2 235	0	0	0	2 235
Other deposits	560	0	0	0	560
Certificates of deposit	22 579	0	14	0	22 593
Customer savings certificates	1 721	0	0	0	1 721
Non-convertible bonds	8 863	208	866	0	9 937
Non-convertible subordinated liabilities	6 361	0	186	0	6 547
Repos	5 835	0	0	0	5 836
Repos from credit institutions	5 575	0	0	0	5 575
Repos from customers	260	0	0	0	260
Derivatives	0	5 867	0	1 284	7 151
Short positions	0	905	0	0	905
in equity instruments	0	13	0	0	13
in debt instruments	0	892	0	0	892
Other	2 360	3	0	0	2 363
Total carrying value	228 509	6 998	1 482	1 284	238 273

Note: within the framework for issues of green bonds, on June 20, 2018 KBC Group launched an initial issue with a term of five years and a value of 500 million euros. KBC Group is the first Belgian financial institution to bring its own green bond into the market. KBC Group subsequently lent this amount to KBC Bank.

Impaired financial assets (Note 4.2.1 in the annual accounts for 2017)

in millions of EUR	Carrying amount before impairment	Impairment	Carrying amount
Financial assets at Amortised cost			**30-06-2018**
Loans and advances	179 129	- 4 609	174 520
- Subject to 12month ECL - performing (Stage 1)	154 558	- 106	154 452
- Subject to Lifetime ECL - underperforming (Stage 2)	15 751	- 306	15 445
- Subject to Lifetime ECL - non-performing (Stage 3)	8 652	- 4 144	4 508
- Purchased or originated credit-impaired	168	- 53	115
Debt Securities	37 563	- 12	37 550
- Subject to 12month ECL - performing (Stage 1)	37 369	- 4	37 364
- Subject to Lifetime ECL - underperforming (Stage 2)	185	- 1	184
- Subject to Lifetime ECL - non-performing (Stage 3)	9	- 6	2
- Purchased or originated credit-impaired	0	0	0
Financial instruments at FV through OCI			
Debt Securities	5 804	- 1	5 803
- Subject to 12month ECL - performing (Stage 1)	5 804	- 1	5 803
- Subject to Lifetime ECL - underperforming (Stage 2)	0	0	0
- Subject to Lifetime ECL - non-performing (Stage 3)	0	0	0
- Purchased or originated credit-impaired	0	0	0

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

Fair value hierarchy				30-06-2018				31-12-2017
In millions of EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Mandatorily at fair value other than held for trading	22	0	137	160	-	-	-	-
Held for trading	1 402	4 777	1 473	7 651	1 122	4 480	1 907	7 509
Designated at fair value	0	14	0	14	14	38	10	63
Fair value through other comprehensive income	5 395	345	279	6 019	-	-	-	-
Available for sale	-	-	-	-	16 344	2 918	376	19 637
Hedging derivatives	0	255	0	255	0	245	0	245
Total	6 819	5 390	1 890	14 099	17 480	7 681	2 293	27 454
Financial liabilities measured at fair value								
Held for trading	551	3 531	1 982	6 064	905	3 875	2 218	6 998
Designated at fair value	0	851	692	1 543	0	897	585	1 482
Hedging derivatives	0	1 161	0	1 161	0	1 284	0	1 284
Total	551	5 544	2 674	8 769	905	6 056	2 803	9 764

For more details on how KBC defines and determines fair value and the fair value hierarchy and level 3 valuations, please refer to Notes 4.4 up to and including 4.7 of the annual accounts 2017.

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

In 1H 2018, a total amount of 30 million euros in financial instruments at fair value was transferred from level 1 to level 2. KBC also transferred 330 million euros in financial instruments from level 2 to level 1. The majority of the transfers is due to changed liquidity of government and corporate bonds.

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

The first time application impact of the implementation of IFRS 9 resulted in an increase of 35 million euros of financial assets and liabilities measured at fair value in level 3. The largest changes are:

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

In the first 6 months of 2018 the following material movements are observed with respect to instruments classified in level 3 of the fair value level hierarchy:

- In the assets held for trading category, the fair value of derivatives decreased by 417 million euros, which is mainly due to maturing deals and fair value movements, slightly compensated by new positions.
- In the fair value OCI category the fair value increased by 14 million euros, which is mainly due to an increase in unquoted equity instruments:
  - The fair value of unquoted equity instruments in FVOCI increased by 14 million euros mainly due to transfers into level 3 and positive fair value changes.
  - The fair value of debt securities in FVOCI remained stable
- In the liabilities held for trading category, the fair value decreased by 236 million euro, which is a combination of a decrease in derivatives and an increase in debt securities issued.
  - The fair value of derivatives decreased by 421 million euro, which is mainly due to maturing deals and fair value movements, compensated by new positions.
  - The fair value of debt securities issued increased by 186 million euro due to transfers into level 3.
- In the liabilities designated at fair value category, the fair value debt securities issued increased by 107 million euros, mainly due to new issues and transfers into level 3 for a large part compensated by maturing deals.

Parent shareholders' equity (Note 5.9 in the annual accounts for 2017)

in number of shares	30-06-2018	31-12-2017
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
Par value per ordinary share (in EUR)	9,78	9,78
Number of shares issued but not fully paid up	0	0

The shares of KBC Bank NV are held by KBC Group (915 228 481 shares) and KBC Insurance (1 share).

Additional tier-1 instruments: on April 17, 2018 KBC Group NV placed 1 billion euros in Additional Tier-1 (AT1) instruments, and subsequently lent this amount to KBC Bank in the form of new additional tier-1 instrument. This AT1 instrument is a 7.5-year non-call perpetual with a temporary write-down at 5.125% CET1 and an initial coupon of 4.25% per annum, payable semi-annual. Since they are classified as equity instruments under IAS 32 (because interest payments are discretionary and the securities are perpetual), the annualized coupon of 4.25% – which is paid semi-annually – is treated as a dividend.

Related-party transactions (Note 6.3 in the annual accounts for 2017)

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

	30-06-2018						31-12-2017					
	Parent enitities with joint control	Subsidiaries and other entities of the same group	Associa-ted com-panies	Joint Ventures	Other	Total	Parent enitities with joint control	Subsidiaries and other entities of the same group	Associa-ted com-panies	Joint Ventures	Other	Total
Assets	6	1 359	97	7	123	1 592	15	1 846	137	11	47	2 057
Loans and advances	0	1 145	43	2	57	1 247	0	1 586	44	2	45	1 676
Equity instruments	4	71	53	0	46	174	5	109	92	10	0	215
Other receivables	2	143	1	5	20	172	10	151	2	0	3	166
Liabilities	5 998	1 221	99	894	363	8 575	5 317	1 044	101	151	318	6 932
Deposits	260	1 163	11	892	360	2 686	49	998	11	151	312	1 521
Other financial liabilities	5 726	21	0	0	0	5 747	5 229	17	0	0	0	5 246
Other liabilities (including accrued expense)	12	37	88	2	3	141	39	29	90	0	6	165
Income statement	- 385	- 43	2	- 3	1	- 428	- 718	- 15	- 7	- 4	4	- 741
Net interest income	- 33	- 95	0	- 3	0	- 131	- 65	- 75	- 1	- 4	0	- 145
Interest income	0	0	0	0	0	1	0	0	1	0	0	2
Interest expense	- 33	- 95	- 1	- 4	0	- 132	- 65	- 75	- 1	- 5	0	- 147
Dividend income	0	2	5	0	3	9	0	2	0	0	7	9
Net fee and commission income	0	45	- 1	0	1	45	0	100	- 1	0	3	102
Fee and commission income	0	88	0	0	1	89	0	179	1	0	3	182
Fee and commission expense	0	- 43	- 1	0	0	- 44	0	- 78	- 1	0	0	- 80
Net other income	- 1	- 8	0	0	0	- 9	- 1	- 16	- 2	0	0	- 20
General administrative expenses	- 352	13	- 2	0	- 2	- 343	- 652	- 26	- 4	0	- 5	- 687
Loan commitments, financial guarantees & other commitments												
issued by the group	0	39	1	0	142	181	0	39	7	0	137	183
received by the group	0	0	0	0	0	0	0	0	0	0	0	0

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

In 1H2018:

- Legal merger between United Bulgarian Bank and CIBANK (no consolidated impact).

In 2017:

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

Post balance sheet events (Note 6.8 in the annual accounts for 2017)

Significant non-adjusting events between the balance sheet date (30 June 2018) and the publication of this report (31 August 2018):

- On 8 August 2018, KBC Bank Ireland reached an agreement with Goldman Sachs to sell part (approximately 1.9 billion euros) of its legacy portfolio, comprising of non-performing corporate loans, non-performing Irish buy-to-let mortgage loans, and performing & non-performing UK buy-to-let mortgage loans. As a result of the transaction, KBC Bank Ireland's impaired loans ratio reduces by roughly 11 percentage points to around 25% pro forma at end 2Q2018. The transaction is expected to result in a net profit impact of +14 million euros (based on 1Q2018 numbers and including all costs related to the transaction) and a release of risk-weighted assets of approximately 0.4 billion euros at KBC Bank, leading to an improvement of the KBC Bank common equity ratio of 8 bps. The transaction is expected to close in the 4th quarter of 2018.

REPORT OF THE ACCREDITED AUDITOR TO THE BOARD OF DIRECTORS OF KBC BANK NV ON THE REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2018 AND FOR THE SIX-MONTH PERIOD THEN ENDED

Introduction

We have reviewed the accompanying interim consolidated balance sheet of KBC Bank NV and its subsidiaries (collectively referred to as "the Group") as at 30 June 2018 and the related interim consolidated income statement and condensed consolidated statement of comprehensive income for the six-month period then ended, and the interim consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended, and explanatory notes, comprising a summary of significant accounting policies and other explanatory notes, collectively, the "Interim Condensed Consolidated Financial Statements".

These statements show a consolidated balance sheet total of EUR 266.379 million and a consolidated profit (share of the Group) for the six-month period then ended of EUR 947 million.

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

Scope of Review

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

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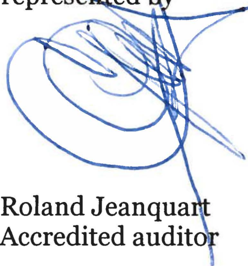
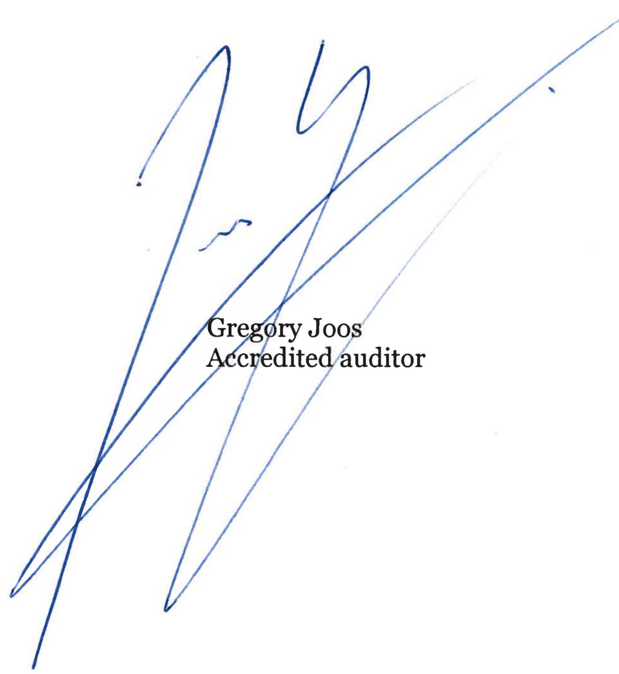
Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Interim Condensed Consolidated Financial Statements are not prepared, in all material respects, in accordance with IAS 34 as adopted by the European Union.

Sint-Stevens-Woluwe, 30 August 2018

The statutory auditor
PwC Bedrijfsrevisoren bcvba
represented by





Roland Jeanquart
Accredited auditor

Gregory Joos
Accredited auditor

Other information

KBC Bank, 1H2018

Not reviewed by the statutory auditor

Overview of the loan portfolio

The main source of credit risk is the loan portfolio. A snapshot of this portfolio is shown in the table below. It includes all payment credit, guarantee credit, standby credit and credit derivatives, granted by KBC Bank to private persons, companies, governments and banks. Bonds held in the investment portfolio are included if they are corporate- or bank-issued, hence government bonds and trading book exposure are not included.

Credit risk: loan portfolio overview	30-06-2018	31-12-2017
Total loan portfolio (in billions of EUR)		
Amount outstanding+undrawn[1]	207	191
Amount outstanding[1]	167	154
Total loan portfolio, by business unit (as a % of the portfolio of credit outstanding)		
Belgium	65%	63%
Czech Republic	15%	16%
International Markets	17%	18%
Group Centre	2%	3%
Total	100%	100%
Impaired loans (in millions of EUR or %)		
Amount outstanding	9 175	9 186
of which: more than 90 days past due	5 348	5 242
Ratio of impaired loans, per business unit		
Belgium	2.4%	2.8%
Czech Republic	2.1%	2.4%
International Markets	19.5%	19.7%
Group Centre	11.4%	9.8%
Total	5.5%	6.0%
of which: more than 90 days past due	3.2%	3.4%
Stage 3 loan loss impairments (in millions of EUR) and cover ratio (%)		
Stage 3 loan loss impairments	4 403	4 039
of which: more than 90 days past due	3 621	3 361
Cover ratio of impaired loans		
Stage 3 loan loss impairments / impaired loans	48%	44%
of which: more than 90 days past due	68%	64%
Cover ratio of impaired loans, mortgage loans excluded		
Stage 3 loan loss impairments / impaired loans, mortgage loans excluded	57%	54%
of which: more than 90 days past due	75%	73%
Credit cost, by business unit (%)		
Belgium	0.08%	0.09%
Czech Republic	-0.03%	0.02%
International Markets	-0.71%	-0.74%
Slovakia	0.01%	0.16%
Hungary	-0.28%	-0.22%
Bulgaria	-0.71%	0.83%
Ireland	-1.30%	-1.70%
Group Centre	-0.93%	0.40%
Total	-0.10%	-0.06%

1 Outstanding amount includes all on-balance sheet commitments and off-balance sheet guarantees but excludes off-balance sheet undrawn commitments. 30-06-2018 amounts are measured in Gross Carrying amounts, whereas the 2017 figures relate to the old definition of drawn principle (excluding reserved and accrued interests).

Impaired loans are loans for which full (re)payment of the contractual cash flows is deemed unlikely. This coincides with KBC's Probability-of-Default-classes 10, 11 and 12 (see annual accounts FY 2017 - section on credit risk for more information on PD classification). These impaired loans are equal to 'non-performing loans' under the (new) definition used by EBA.

Since 2018 a switch has been made in the reported 'outstanding' figures from drawn principal to the new IFRS 9 definition of gross carrying amount (GCA), i.e. including reserved and accrued interests. The additional inclusion of reserved interests led, among others, to an increase in the reported amount of impaired loans. Furthermore, the transaction scope of the credit portfolio was extended and now additionally includes the following 4 elements: (1) bank exposure (money market placements, documentary credit, accounts), (2) debtor risk KBC Commercial Finance, (3) unauthorized overdrafts, and (4) reverse repo (excl. central bank exposure).

In the table below the 31-12-2017 credit portfolio is restated to take into account the extended scope. Some restated ratios are available in the section 'Details of ratios and terms'.

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

Solvency

KBC Bank consolidated - CRDIV/CRR In millions of EUR	30/06/2018 Fully loaded	31-12-2017 Fully loaded
Total regulatory capital, after profit appropriation	16 617	15 756
Tier-1 capital	14 319	13 484
Of which common equity	11 913	12 077
Tier-2 capital	2 298	2 273
Total weighted risks	83 624	83 117
Credit risk	69 652	68 842
Market risk	3 059	3 361
Operational risk	10 913	10 913
Solvency ratios		
Common equity ratio	14,2%	14,5%
Tier-1 ratio	17,1%	16,2%
CAD ratio	19,9%	19,0%

Details of ratios and terms

Common equity ratio

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

Calculation	30-06-2018	31-12-2017	30-06-2017
Detailed calculation under 'Solvency' in the 'Other information' section			
Fully loaded	14.2%	14.5%	13.8%

Cost/income ratio

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

Calculation (in millions of EUR or %)	Reference	1H2018	FY2017	1H2017
Operating expenses (A)	'Consolidated income statement': 'Operating expenses'	2 001	3 568	1 893
/				
Total income (B)	'Consolidated income statement': 'Total income'	3 233	6 588	3 368
= (A) / (B)		62%	54%	56%

Where relevant, we also estimate the exceptional and/or non-operating items to calculate a cost/income ratio adjusted for these items. The adjustments include: MTM ALM derivatives (excluded), bank taxes (including contributions to European Single Resolution Fund) are included pro rata and hence spread over all interim periods of the year instead of being recognised for the most part upfront (as required by IFRIC 21) and one-off items (excluded). The cost/Income ratio adjusted for specific items is 56% in 1H2018, 55% in FY2017 and 53% in 1H2017.

Cover ratio

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

Calculation (in millions of EUR or %)	Reference	30-06-2018	31-12-2017	30-06-2017
Specific impairment on loans (A)	'Overview of the loan portfolio' in the 'Other information' section	4 403	4 039	4 968
/				
Outstanding impaired loans (B)	'Overview of the loan portfolio' in the 'Other information' section	9 175	9 186	10 505
= (A) / (B)		48%	44%	47%

Note: as of 2018, the definition of 'Loan portfolio' has been changed slightly (see further). The Cover ratio for 31-12-2017 taking into account the new definition would have been 48%.

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	1H2018	FY2017	1H2017
Net changes in impairment for credit risks (A) (annualised)	'Consolidated income statement': component of 'Impairment'	-82	-87	-72
/				
Average outstanding loan portfolio (B)	'Overview of the loan portfolio' in the 'Other information' section	164 455	151 681	149 793
= (A) / (B) *		-0.10%	-0.06%	-0.10%

* Negative figure indicates a net impairment release (with positive impact on results).

Impaired loans ratio

Indicates the proportion of impaired loans in the loan portfolio (see 'Loan portfolio' for definition) and, therefore, gives an idea of the creditworthiness of the portfolio. Impaired loans are loans where it is unlikely that the full contractual principal and interest will be repaid/paid. These loans have a KBC default status of PD 10, PD 11 or PD 12 and correspond to the new definition of 'non-performing' used by the European Banking Authority. Where appropriate, the numerator may be limited to impaired loans that are more than 90 days past due (PD 11 + PD 12).

Calculation (in millions of EUR or %)	Reference	30-06-2018	31-12-2017	30-06-2017
Amount outstanding of impaired loans (A)	'Overview of the loan portfolio' in the 'Other information' section	9 175	9 186	10 505
/				
Total outstanding loan portfolio (B)	'Overview of the loan portfolio' in the 'Other information' section	166 949	154 160	152 864
= (A) / (B)		5.5%	6.0%	6.9%

Note: as of 2018, the definition of 'Loan portfolio' has been changed slightly (see further). The Impaired loans ratio for 31-12-2017 taking into account the new definition would have been 6.1%.

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	30-06-2018	31-12-2017	30-06-2017
Regulatory available tier-1 capital (A)	'Solvency' table in the 'Other information' section	14 319	13 484	12 768
/				
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)	280 833	269 242	272 154
= (A) / (B)		5.1%	5.0%	4.7%

Liquidity coverage ratio (LCR)

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

Calculation (in millions of EUR or %)	Reference	30-06-2018	31-12-2017	30-06-2017
Stock of high-quality liquid assets (A)	Based on the European Commission's Delegated Act on LCR	81 089	79 850	72 800
/				
Total net cash outflows over the next 30 calendar days (B)		58 398	57 600	51 750
= (A) / (B)		139%	139%	141%

Note: from year-end 2017 on, KBC discloses 12-month-average LCR calculations in accordance with EBA guidelines on LCR-disclosure.

Loan portfolio

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

Calculation (in millions of EUR)	Reference	30-06-2018	31-12-2017	30-06-2017
Loans and advances to customers	Note 4.1, 'Loans and advances to customers'	143 277	139 090	136 885
+				
Corporate bonds in investment books	Note 4.1, component of 'debt securities –corporates'	2 472	-	-
+				
Reverse repos excl. central banks	Note 4.1, component of 'reverse repos with credit institutions'	2 562	-	-
+				
Bank bonds in investment books	Note 4.1, component of 'debt securities – credit institutions'	3 607	-	-
+				
Exposure on credit institutions	-	4 839	-	-
+				
Debt instruments issued by corporates and by credit institutions and investment firms	Note 4.1, component of 'Debt instruments issued by corporates and by credit institutions and investment firms'	-	6 243	7 124
+				
Loans and advances to credit institutions and investment firms (excluding dealing room activities)	Note 4.1, component of 'Loans and advances to credit institutions and investment firms '	-	881	1 062
+				
Financial guarantees granted to clients	Note 6.1, component of 'Financial guarantees given' in the annual report 2017	8 206	8 241	8 141
+				
Impairment on loans	Note 4.2, component of 'Impairment' in the annual report 2017	4 623	4 058	5 028
+				
Non-loan related receivables	-	-759	-	-
+				
Other	Component of Note 4.1	-1 877	-4 353	-5 376
= sum (gross carrying amount)		166 949	154 160	152 864

As of 2018 a switch has been made in the risk reporting figures from 'outstanding' to the new definition of 'gross carrying amount', i.e. including reserved and accrued interests. In addition, the transaction scope of the loan portfolio was extended and now additionally includes the following 4 elements: (1) bank exposure (money market placements, documentary credit, accounts), (2) debtor risk KBC Commercial Finance, (3) unauthorized overdrafts, and (4) reverse repo (excl. central bank exposure).

Net interest margin

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

Calculation (in millions of EUR or %)	Reference	1H2018	FY2017	1H2017
Net interest income (A) (annualised)	'Consolidated income statement': component of 'Net interest income'	1 893	3 513	1 744
/				
Average interest-bearing assets (B)	'Consolidated balance sheet': component of 'Assets'	187 526	187 216	185 640
= (A) / (B)		2.01%	1.85%	1.87%

From 2018 the definition of NIM has been updated. It now concerns net interest income excluding dealing room and the net positive impact of ALM FX swaps and repos.

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	30-06-2018	31-12-2017	30-06-2017
Available amount of stable funding (A)	Basel III: 'the net stable funding ratio' (Basel Committee on Banking Supervision publication, October 2014)	164 300	157 700	153 850
/				
Required amount of stable funding (B)		120 750	117 300	118 300
= (A) / (B)		136%	134%	130%

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	30-06-2018	31-12-2017	30-06-2017
Belgium Business Unit (A)	KBC Group company presentation on www.kbc.com	200.3	202.1	198.1
+				
Czech Republic Business Unit (B)		9.6	9.6	9.2
+				
International Markets Business Unit (C)		4.3	5.0	5.7
(A)+(B)+(C)		214.2	216.7	213.0

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