KBC Bank
Half-Year Report - 1H2017

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

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.'

Contents

This report contains information that is subject to transparency regulations for listed companies. 31 August 2017, 8 a.m. CEST.

Report for the first six months of 2017

KBC Bank

Summary:
Profit of 1 187 million euros generated in first half of 2017.

Against the background of strong economic growth, low inflation, an appreciating euro and low interest rates, KBC Bank delivered an excellent performance in the first half of 2017, posting a net profit of 1 187 million euros, 29% higher than the 923 million euros recorded in the year-earlier period. The period under review included robust total income and significant loan loss impairment releases. Moreover, our lending and deposit volumes continued to grow and our solvency and liquidity positions remained strong.

Financial highlights for the first half of 2017, compared with the first half of 2016:

- Net interest income – our main source of income – was down 3% year-on-year. The net interest margin came to 1.87%, down 8 basis points year-on-year. On a comparable basis, lending to and deposits received from our clients increased by 4% and 8%, respectively, with increases recorded in all business units.
- Our net fee and commission income was strong in the period under review. Year-on-year, it went up 19%, thanks mainly to our asset management services.
- Our other income items combined rose 34% year-on-year, thanks primarily to high trading and fair value income.
- Our operating expenses increased by 2% year-on-year. As a consequence, our cost/income ratio for the first half of 2017 stood at 56%. When the bank taxes are evenly spread throughout the year and certain non-operating items are excluded, the adjusted cost/income ratio stands at a comfortable 53%.
- The six months under review included 72 million euros in net loan loss impairment releases. This was due essentially to the 137 million euros impairment release in Ireland combined with a generally very low impairment level in most other countries. Consequently, our cost of credit amounted to a to a very favourable -0.10% in the first half of 2017 (a negative figure indicates a positive impact on profit).
- Our liquidity position remained strong, as did our capital base, with a fully loaded common equity ratio of 13.8%.

Key data, KBC Bank (consolidated, in millions of EUR)		1H2017	1H2016
Net result		1 187	923
by business unit:	Belgium	505	400
	Czech Republic	350	309
	International Markets	276	172
	Group Centre	55	42
Balance sheet and solvency		30-06-2017	31-12-2016
Total assets		260 522	239 333
Total equity		14 987	14 158
Common equity ratio (Basel III, fully loaded)		13.8%	14.3%

Business highlights in the period under review (1H2017)

The strategy of KBC Bank is fully embedded in the strategy of its parent company, KBC Group. KBC Group's core strategy remains focused on providing bank-insurance products and services to retail, SME and mid-cap clients in Belgium, Bulgaria, the Czech Republic, Hungary, Ireland and Slovakia. In KBC Group, KBC Bank is essentially responsible for the banking business, and KBC Insurance for the insurance business.

- The period under review marked some important developments on the strategic front. First of all, we finalised the acquisition of United Bulgarian Bank (UBB) and Interlease in mid-June 2017 for a total consideration of 0.6 billion euros. The acquisition – which was announced on 30 December 2016 – was approved by the relevant regulatory authorities and received anti-trust approval. Together, UBB-CIBANK and DZI will seek to become the reference in bank-insurance in Bulgaria, one of KBC's core markets, boasting strong macroeconomic fundamentals and offering attractive potential for further development of financial services. Following this acquisition, KBC will also become active in leasing, asset management and factoring in Bulgaria, offering its clients a full range of financial services. The operational integration of the business entities will be gradually introduced in the coming 18 months.
- Secondly, we presented KBC Group's updated strategy at an Investor Visit event in Dublin in June 2017 and also provided an update of the capital deployment plans and financial guidance. As before, KBC Group will focus on strengthening its integrated bank-insurance business model in its core markets in a highly cost-efficient way. It will also concentrate on achieving sustainable and profitable growth within the framework of solid risk, capital and liquidity management and on creating superior client satisfaction via a seamless, multi-channel, client-centric distribution approach. As we find ourselves in an ever changing environment and are faced with shifting client behaviour and expectations, changing technology and digitalisation and a challenging macroeconomic environment, we will adapt the way we implement this strategy. Client-centricity – the core of our strategy – will be further fine-tuned into 'think client, but design for a digital world'. However, it is the client who will drive the pace of action and change. KBC Group intends to invest a further 1.5 billion euros group-wide in digital transformation between 2017 and year-end 2020. We have translated this updated strategy into a new capital deployment plan and updated our guidance on certain financial parameters at KBC Group level (see the press release and presentation of 21 June 2017 at www.kbc.com).

  We also redeveloped the strategy of our Irish bank and presented this on the Investor visit event. As Ireland has become one of the group's core markets recently, KBC Bank Ireland will now strive to achieve at least a 10% share of the retail and micro-SME markets and will plan to develop the bank-insurance model there too. In its 'Digital First' client-centric strategy, KBC Bank Ireland will accelerate its efforts and investments in expertise and resources to evolve fully into a digital-first client-centric bank, while continuing to carefully and efficiently manage its legacy portfolio for maximum recovery. It will facilitate 'always-on 24/7 accessibility' in terms of distribution and service. To digitalise and innovate faster, the bank will intensify its collaboration with other KBC Group entities and leverage proven innovations and learnings from other KBC core markets. Moreover, its new core banking system with an open architecture will allow KBC Bank Ireland to tap into opportunities offered by the fintech community and provide services from and to other market players, thus broadening the value proposition to its own clients and playing a frontrunner role for KBC Group.
- In May 2017, we already had reflected the importance we attach to innovation in the composition of our top management: our Executive Committee now includes a Chief Innovation Officer (Erik Luts) who will specifically manage KBC Group's innovation and digitalisation agenda. We also welcomed Rik Scheerlinck as the new Group CFO. He succeeded Luc Popelier who became the CEO of the International Markets Business Unit, replacing Luc Gijsens who left the Executive Committee after a much-appreciated 40-year career with our group.
- At its Global Awards for Excellence ceremony in London in early July, Euromoney – one of the UK's leading professional magazines in the financial sector – honoured KBC with the 'World's Best Bank Transformation Award 2017'. This award illustrates that the redefinition and repositioning of KBC is appreciated on the international stage and regarded as a major strategic strength. KBC also received the 'Best Bank Transformation Award in Western Europe' and the award for 'Best Bank in Belgium'. Earlier this year, ČSOB won the Euromoney award for 'Best Private Bank in the Czech Republic'. These multiple awards are recognition that KBC, more than ever, is a reference in the area of client-oriented bank-insurance.

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)	1H2017	1H2016
Net interest income	1 762	1 824
Dividend income	15	12
Net result from financial instruments at fair value through profit and loss	443	252
Net realised result from available-for-sale assets	50	119
Net fee and commission income	1 017	854
Other net income	82	57
Total income	3 368	3 118
Operating expenses	-1 893	-1 854
Impairment	67	-55
on loans and receivables	72	-54
on available-for-sale assets	0	0
on goodwill	0	0
on other	-4	-2
Share in results of associated companies and joint ventures	6	11
Result before tax	1 549	1 220
Income tax expense	-273	-217
Result after tax	1 276	1 003
attributable to minority interests*	89	80
attributable to equity holders of the parent	**1 187**	**923**
Breakdown of result after tax, attributable to equity holders of the parent		
Belgium	505	400
Czech Republic	350	309
International Markets	276	172
Group Centre	55	42

* Primarily the 48% stake that KBC Group holds in KBC Asset Management.

Highlights, consolidated balance sheet, KBC Bank (in millions of EUR)	30-06-2017	31-12-2016
Total assets	260 522	239 333
Loans and advances to customers	138 949	133 481
Securities (equity and debt instruments)	50 969	52 180
Deposits from customers and debt securities	190 582	178 697
Risk weighted assets (Basel III, fully loaded)	82 256	78 482
Total equity	14 987	14 158
of which parent shareholders' equity	13 344	12 568

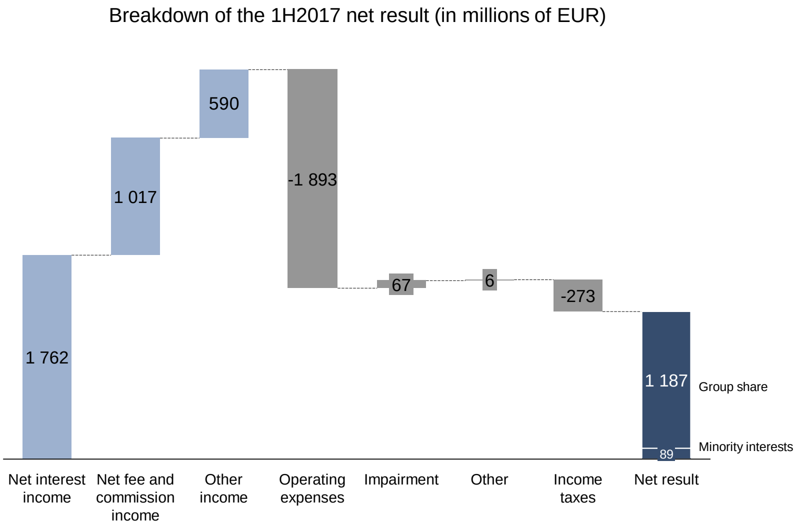
Selected ratios (consolidated)	1H2017	FY2016
Efficiency		
Cost/income ratio (between brackets: when evenly spreading the bank taxes and excluding certain non-operating items)	56% (53%)	54% (57%)
Solvency		
Common equity ratio according to Basel III (phased-in/fully loaded)	14.0%/13.8%	14.6%/14.3%
Leverage ratio according to Basel III (fully loaded)	4.7%	5.1%
Credit risk		
Credit cost ratio*	-0.10%	0.09%
Impaired loans ratio	6.9%	7.2%
for loans more than 90 days overdue	3.9%	3.9%
Liquidity		
Net stable funding ratio (NSFR)	130%	125%
Liquidity coverage ratio (LCR)	141%	139%

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

KBC Bank ended the first six months of 2017 (1H2017) with a net profit of 1 187 million euros, compared with a net profit of 923 million euros in the first six months of 2016 (1H2016)

Note: while the recently acquired UBB and Interlease entities in Bulgaria are included in the group's balance sheet and solvency figures as of 2Q2017, their results contribution will only be consolidated as of the next interim period.

Analysis of the major components of our profit and loss account



- Net interest income stood at 1 762 million euros in 1H2017, down 3% year-on-year. The net interest margin came to 1.87% *year-to-date*, 8 basis points lower than the level recorded in 1H2016. Net interest income in the period under review benefitted from lower funding costs and strong loan volume growth (see below), as well as the positive effect of enhanced ALM management. These positive items were offset by a lower level of interest income generated by the dealing rooms (including a shift to trading and fair value income), the continued effect of low reinvestment yields, lower prepayment fees on mortgage loan refinancing and loan margin pressure. On a comparable basis (i.e. excluding UBB/Interlease) both lending and customer deposit volumes increased: deposits from customers and debt certificates, excluding repos, went up by 8%, and loans and advances to customers, excluding reverse repos, by 4% year-on-year (percentages calculated after elimination of transactions between KBC Group companies). As regards deposits, volumes increased in Belgium (+8%), the Czech Republic (+12%), Slovakia (+2%), Hungary (+7%), Bulgaria (+20%) and decreased in Ireland (-4%). Lending went up in Belgium (+3%), the Czech Republic (+9%), Slovakia (+9%), Hungary (+7%) and Bulgaria (+13%), but decreased in Ireland (-3%, mainly due to the continued deleveraging of the corporate loan portfolio there).

- Net fee and commission income was strong in the period under review: it amounted to 1 017 million euros in 1H2017, up significantly (19%) on its 1H2016 level. The overall strong performance of this income line was largely attributable to the contribution of entry and management fees generated by our asset management activities. At the end of June 2017, the total assets under management of the KBC-group stood at 215 billion euros, up almost 4% year-on-year, thanks mainly to a positive price performance.

- All other income items combined amounted to 590 million euros in 1H2017. Dividend income stood at 15 million euros, compared to 12 million a year earlier. Realised gains on the sale of bonds and shares came to 50 million euros, down on the 119 million euros recorded in 1H2016, which had included the gain on the sale of Visa Europe shares (99 million euros). The net result from financial instruments at fair value (trading and fair value income) amounted to a high 443 million euros, up 76% on 1H2016, mainly thanks to the higher value of derivatives used for asset/liability management purposes and stronger dealing room results. Lastly, other net income came to 82 million euros in 1H2017, up 44% on 1H2016 as it included some positive one-off items.

- Operating expenses came to 1 893 million euros in 1H2017, up 2% on their year-earlier level. Operating expenses also include the banking tax charge (361 million euros in 1H2017, marginally down on the level recorded a year earlier). The overall year-on-year increase of operating expenses related to higher staff costs (wage drift, pension expenses etc.), increased professional fees (related to closure of the deal to acquire UBB/interlease, among other things), higher ICT expenses, etc. As a result, the cost/income ratio stood at 56% in the first half of 2017. When the bank taxes are evenly spread throughout the year and certain non-operating items are excluded (mark-to-market of derivatives used for asset/liability management purposes, the impact of legacy legal cases, the effect of the liquidation of group companies, etc.), the adjusted cost/income ratio for the first half of 2017 came to a solid 53%, compared to 57% for full year 2016

- In 1H2017, we released 72 million euros of loan loss impairments (leading to a positive impact on results). This compares with a net impairment addition (with negative impact) of 54 million euros in the year-earlier period. The net impairment release in the period under review was due essentially to Ireland, where there was a 137 million euros net release thanks mainly to the increase of the 9 month average house price index, some model changes and an improvement in the portfolio of non-performing loans. In all other core countries combined, there was a generally low level of loan loss impairment (a release of 10 million euros in Hungary, and impairment additions of 54 million euros in Belgium, 6 million euros in the Czech Republic, 2 million euros in Slovakia, 4 million euros in Bulgaria and 7 million euros in the Group Centre). Consequently, the annualised loan loss impairment for the entire group in the first half of 2017 accounted for an extremely low -0.10% of the total loan portfolio (a negative figure indicates a positive impact on the result). Loan quality further improved: at the end of June 2017, some 6.9% of our loan book (which for the first time includes the UBB loans) was classified as impaired, with 3.9% being impaired and more than 90 days past due (compared to 7.2% and 3.9%, respectively, at the beginning of 2017 and 7.8% and 4.4%, respectively, at the end of June 2016). Impairment on assets other than loans stood at 4 million euros, compared to 2 million in the year-earlier period.

Performance by business unit

- The Belgium Business Unit (encompassing all activities in Belgium) generated a net result of 505 million euros in 1H2017, compared with 400 million euros in 1H2016. The year-on-year increase was mainly thanks to stronger net fee and commission income and significantly higher trading and fair value income, despite lower net interest income, lower realised gains on the sale of financial assets (owing to the sale of Visa Europe shares in 1H2016), somewhat higher costs and increased loan loss impairment.
- The Czech Republic Business Unit (encompassing all activities in the Czech Republic) generated a net result of 350 million euros in 1H2017, compared with 309 million euros in 1H2016. The period under review included higher net interest income, significantly increased trading and fair value income, higher other net income (thanks to a one-off element, among other things) and slightly lower loan loss impairment charges, while realised gains on the sale of financial assets were lower (owing to the sale of Visa Europe shares in 1H2016) and costs were slightly higher.
- The International Markets Business Unit (covering activities in Ireland, Hungary, Slovakia and Bulgaria) generated a net result of 276 million euros in 1H2017, as opposed to 172 million euros in 1H2016. When broken down by country, the net result was as follows: 166 million euros for Ireland (up on the 53 million euros recorded in 1H2016, thanks essentially to the significant loan loss impairment releases in 1H2017); 41 million euros for Slovakia (compared to 52 million euros in 1H2016, which had benefitted from gains on the sale of Visa Europe shares, among other things); 7 million euros for Bulgaria (compared to 8 million euros in 1H2016) and 63 million euros for Hungary (compared to 59 million in 1H2016)
- The Group Centre's net result amounted to 55 million euros in 1H2017, as opposed to 42 million euros in 1H2016. 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.

	Belgium		Czech Republic		International Markets	
Selected ratios per business unit	1H2017	FY2016	1H2017	FY2016	1H2017	FY2016
Cost/income ratio, banking (between brackets: when evenly spreading bank taxes and excl. certain non-operating items)	56% (52%)	54% (55%)	41% (40%)	45% (46%)	66% (64%)	64% (66%)
Credit cost ratio*	0.11%	0.12%	0.06%	0.11%	-1.10%	-0.16%

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

Equity, solvency and liquidity

- At the end of June 2017, our total equity came to 15.0 billion euros (13.3 billion euros in parent shareholders' equity, 0.2 billion euros in minority interests and 1.4 billion euros in additional tier-1 instruments), up 0.8 billion euros on its level at the beginning of the year. The change during the first six months of the year resulted from the inclusion of the profit for that period (+1.3 billion euros, including minority interests), changes in the available-for-sale and cash flow hedge reserves (an aggregate +0.1 billion euros), dividends paid to KBC Group for financial year 2016 (-0.5 billion euros as the final dividend, following the 0.6 billion euros for the interim dividend paid in 2016), and a number of smaller changes.
- Our common equity ratio (Basel III) stood at 14.0% (phased-in) or 13.8% (fully loaded) at 30 June 2017. The leverage ratio (Basel III, fully loaded) stood at 4.7%.
- Our liquidity position remains excellent, as reflected in an LCR ratio of 141% and an NSFR ratio of 130% at the end of June 2017.

Statement of risk

- 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 KBC closely monitors and manages each of these risks within a strict risk framework containing governance and limits, they may all have a negative impact on asset values or could generate additional charges beyond anticipated levels.
- At present, a number of items are considered to constitute the main challenges for the financial sector in general and, as a consequence, are also relevant to us. Regulatory uncertainty regarding capital requirements is a dominant theme for the sector, besides enhanced consumer protection. Another ongoing challenge remains the low interest rate environment, despite the recent uptrend, particularly for longer maturities. 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. EU political risks have receded following the outcome of the Dutch and French elections, but concerns remain about the banking sector in certain countries. Financial technology 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.
- On the macroeconomic front, the strong momentum of economic growth worldwide continued in the second quarter of 2017. Against this background, the Fed raised its policy rate as planned by another 25 basis points in June 2017. Economic growth in the euro area remained well above its long-term rate, leading to further improvements on the European labour market. On balance, oil prices fell slightly during the second quarter, keeping a lid on headline inflation. Core inflation remained low in the euro area, partly as a result of subdued wage growth. Global long-term government bond yields were overall broadly unchanged, remaining at low levels with German yields slightly higher and US yields slightly lower. Meanwhile, the intra-EMU sovereign yield spreads narrowed, while the euro continued to strengthen against the US dollar, reflecting the strong momentum of growth in the euro area.
- Risk management data is provided in KBC Group's and KBC Bank's annual reports, interim reports and dedicated risk reports, all of which are available at www.kbc.com.

Our view and guidance

- Our view on interest rates and foreign exchange rates: from early 2018 on, we expect the ECB to gradually phase out its QE programme and to end it by mid-2018. It will probably only raise its policy rate in 2019. In the meantime, we expect another policy rate hike by the Fed in 2017 and three more in 2018 (each time by 25 basis points). As a result, we believe that the US dollar will appreciate against the euro in 2017, as it will benefit from short-term interest rate support. Given the low inflation environment and still highly accommodating global monetary policies, German and US long-term bond yields are expected to rise only moderately in the period ahead.
- Our view on economic growth: the economic environment in the euro area is favourable and, as a result, the consumer sector there remains solid. The unemployment rate is steadily falling, which will further support consumption in the period ahead. The most significant risks stem from the trend of de-globalisation and from geopolitical concerns which could create additional uncertainty and hence affect economic sentiment.
- For Ireland, our guidance for loan impairment is for a net release of 160 to 200 million euros for full year 2017.
- The planned reform of the Belgian corporate income tax regime announced on 26 July 2017 would impact KBC mainly because of the intended gradual decrease in the tax rate from 33.99% to 29.58% (as of accounting year 2018) and to 25% (as of accounting year 2020). We expect this to have a recurring positive impact on the income statement from 2018 onwards, a slightly positive one-off impact on the common equity ratio in the second half of 2017, and an estimated one-off negative upfront impact on the income statement in the second half of 2017 (estimated at -0.2 billion euros, related to a reduction in the amount of deferred tax assets). More information in this regard is provided under the note on post-balance sheet events in the 'Consolidated financial statements'.

Consolidated financial statements

according to IFRS, KBC Bank – 1H2017

Reviewed by the statutory auditor

Consolidated income statement

(in millions of EUR)	Note	1H 2017	1H 2016
Net interest income	3.1	1 762	1 824
Interest income	3.1	2 851	3 156
Interest expense	3.1	- 1 089	- 1 332
Dividend income		15	12
Net result from financial instruments at fair value through profit or loss	3.3	443	252
Net realised result from available-for-sale assets	3.4	50	119
Net fee and commission income	3.5	1 017	854
Fee and commission income	3.5	1 404	1 058
Fee and commission expense	3.5	- 387	- 203
Net other income	3.6	82	57
TOTAL INCOME		3 368	3 118
Operating expenses	3.7	- 1 893	- 1 854
Staff expenses	3.7	- 835	- 796
General administrative expenses	3.7	- 982	- 986
Depreciation and amortisation of fixed assets	3.7	- 76	- 71
Impairment	3.9	67	- 55
on loans and receivables	3.9	72	- 54
on available-for-sale assets	3.9	0	0
on goodwill	3.9	0	0
on other	3.9	- 4	- 2
Share in results of associated companies and joint ventures		6	11
RESULT BEFORE TAX		1 549	1 220
Income tax expense	3.11	- 273	- 217
RESULT AFTER TAX		1 276	1 003
Attributable to minority interest		89	80
Attributable to equity holders of the parent		**1 187**	**923**

Impact acquisition UBB/Interlease: there is no impact yet on the income statement (except for some acquisition-related costs included in ‘General administrative expenses’) as the closing date (on which the control was transferred to KBC) was very close to 30 June 2017. For more information see note ‘Main changes in the scope of consolidation’ (note 6.6) further in this report.

Condensed consolidated statement of comprehensive income

(in millions of EUR)	1H 2017	1H 2016
RESULT AFTER TAX	1 276	1 003
attributable to minority interest	89	80
attributable to equity holders of the parent	1 187	923
Other comprehensive income - to be recycled to P&L	106	- 544
Net change in revaluation reserve (AFS assets) - Equity	- 15	- 118
Net change in revaluation reserve (AFS assets) - Bonds	- 37	57
Net change in revaluation reserve (AFS assets) - Other	0	0
Net change in hedging reserve (cash flow hedge)	164	- 467
Net change in translation differences	- 6	- 14
Net change related to associated companies & joint ventures	1	- 2
Other movements	- 1	- 1
Other comprehensive income - not to be recycled to P&L	41	- 184
Net change in defined benefit plans	46	- 184
Net change on own credit risk - liabilities designated at FV(T)PL	- 5	0
Net change related to associated companies & joint ventures	0	0
TOTAL COMPREHENSIVE INCOME	1 423	274
attributable to minority interest	89	80
attributable to equity holders of the parent	1 334	194

The largest movements in other comprehensive income (1H 2017 vs. 1H 2016) were:

- Net change in revaluation reserve (AFS assets) – Equity: the -15 million euros in 1H 2017 can be explained for a large part by a transfer to net result (gains on disposal) partly compensated by positive stock exchange movements, while the -118 million euros in 1H 2016 was affected by transfers to net result (gains on disposal) and negative fair value movements.
- In 1H 2017 an increase in long-term interest rates drives the following impacts:
  - Net change in revaluation reserve (AFS assets) – Bonds: -37 million euros
  - Net change in hedging reserve (cash flow hedge): +164 million euros
  - Net change in defined benefit plans: +46 million euros
- In 1H 2016 a decrease in long-term interest rates drives the following impacts:
  - Net change in revaluation reserve (AFS assets) – Bonds: 57 million euros
  - Net change in hedging reserve (cash flow hedge): -467 million euros
  - Net change in defined benefit plans: -184 million euros

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	30-06-2017	31-12-2016
Cash, cash balances at central banks and other demand deposits		32 576	20 711
Financial assets	4.1 - 4.7	221 079	211 848
Held for trading	4.1 - 4.7	9 162	9 787
Designated at fair value through profit or loss	4.1 - 4.7	272	1 129
Available for sale	4.1 - 4.7	20 902	21 084
Loans and receivables	4.1 - 4.7	164 271	151 140
Held to maturity	4.1 - 4.7	26 073	28 297
Hedging derivatives	4.1 - 4.7	399	410
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		- 3	202
Tax assets		2 166	2 276
Current tax assets		68	49
Deferred tax assets		2 097	2 227
Non-current assets held for sale and assets associated with disposal groups		24	8
Investments in associated companies and joint ventures		189	180
Investment property		292	272
Property and equipment		2 346	2 249
Goodwill and other intangible assets		990	854
Other assets		863	732
TOTAL ASSETS		260 522	239 333

LIABILITIES AND EQUITY (in millions of EUR)	Note	30-06-2017	31-12-2016
Financial liabilities	4.1 - 4.7	242 976	222 646
Held for trading	4.1 - 4.7	8 033	8 586
Designated at fair value through profit or loss	4.1 - 4.7	1 627	3 900
Measured at amortised cost	4.1 - 4.7	231 808	208 455
Hedging derivatives	4.1 - 4.7	1 508	1 704
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		79	204
Tax liabilities		227	217
Current tax liabilities		111	124
Deferred tax liabilies		116	93
Provisions for risks and charges		228	207
Other liabilities		2 024	1 902
TOTAL LIABILITIES		245 535	225 175
Total equity	5.9	14 987	14 158
Parent shareholders' equity	5.9	13 344	12 568
Additional Tier-1 instruments included in equity	5.9	1 400	1 400
Minority interests		243	190
TOTAL LIABILITIES AND EQUITY		260 522	239 333

In order to align with the consolidated financial reporting framework (FINREP) of the European Banking Authority, the presentation of the balance sheet has been slightly changed: Cash and cash balances includes as of 2017 also other demand deposits with credit institutions and consequently has been renamed ‘Cash, cash balances at central banks and other demand deposits from credit institutions’. The reference figures have been restated accordingly (shift of 563 million euros mainly from Loans and receivables).
The balance sheet as at 30-06-2017 includes UBB/Interlease: for more information see note ‘Main changes in the scope of consolidation’ (note 6.6) further in this report.

Consolidated statement of changes in equity

In millions of EUR	Issued and paid up share capital	Share premium	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Remeasurement of defined benefit obligations	Own credit risk (through OCI)	Retained earnings	Translation differences	Parent share-holders' equity	Additional Tier-1 instruments included in equity	Minority interests	Total equity
30-06-2017												
Balance at the beginning of the period (01-01-2017)	**8 948**	**895**	**645**	**- 1 356**	**- 153**	**- 4**	**3 556**	**37**	**12 568**	**1 400**	**190**	**14 158**
Net result for the period	0	0	0	0	0	0	1 187	0	1 187	0	89	1 276
Other comprehensive income for the period	0	0	- 56	164	46	- 5	- 1	- 2	147	0	0	147
Total comprehensive income	**0**	**0**	**- 56**	**164**	**46**	**- 5**	**1 186**	**- 2**	**1 334**	**0**	**89**	**1 423**
Dividends	0	0	0	0	0	0	- 531	0	- 531	0	0	- 531
Coupon additional Tier-1 instruments	0	0	0	0	0	0	- 27	0	- 27	0	0	- 27
Change in minorities	0	0	0	0	0	0	0	0	0	0	- 37	- 37
Change in scope	0	0	0	0	0	0	0	0	0	0	0	0
Total change	**0**	**0**	**- 56**	**164**	**46**	**- 5**	**628**	**- 2**	**776**	**0**	**52**	**829**
Balance at the end of the period	**8 948**	**895**	**589**	**- 1 192**	**- 107**	**- 10**	**4 185**	**35**	**13 344**	**1 400**	**243**	**14 987**
of which revaluation reserve for shares			105									
of which revaluation reserve for bonds			484									
of which revaluation reserve for other assets than bonds and shares			0									
of which relating to equity method			10	0	0	0	0	11	21			21
30-06-2016												
Balance at the beginning of the period (01-01-2016)	8 948	895	742	- 1 163	97		2 349	19	11 888	1 400	202	13 490
Net result for the period	0	0	0	0	0		923	0	923	0	80	1 003
Other comprehensive income for the period	0	0	- 62	- 467	- 184		- 1	- 15	- 729	0	0	- 729
Total comprehensive income	**0**	**0**	**- 62**	**- 467**	**- 184**		**922**	**- 15**	**194**	**0**	**80**	**274**
Dividends	0	0	0	0	0		- 165	0	- 165	0	0	- 165
Coupon additional Tier-1 instruments	0	0	0	0	0		- 27	0	- 27	0	0	- 27
Change in minorities	0	0	0	0	0		0	0	0	0	- 52	- 52
Total change	**0**	**0**	**- 62**	**- 467**	**- 184**		**730**	**- 15**	**2**	**0**	**28**	**30**
Balance at the end of the period	**8 948**	**895**	**680**	**- 1 629**	**- 88**		**3 080**	**4**	**11 890**	**1 400**	**230**	**13 520**
of which revaluation reserve for shares			106									
of which revaluation reserve for bonds			574									
of which revaluation reserve for other assets than bonds and shares			0									
of which relating to equity method			13	0	0		0	6	19			19

As an advance payment of the total 2016 dividend, KBC Bank paid in November 2016 an interim dividend to KBC Group of 604 million euros. In 2017, it paid a final dividend of 531 million euros (deducted from retained earnings and is accounted for in 1H 2017).

Condensed consolidated cash flow statement

	1H 2017	1H 2016
Cash and cash equivalents at the beginning of the period	26 771	10 998
Net cash from (used in) operating activities	13 544	4 480
Net cash from (used in) investing activities	2 445	200
Net cash from (used in) financing activities	- 380	566
Effects of exchange rate changes on opening cash and cash equivalents	330	- 32
Cash and cash equivalents at the end of the period	42 710	16 212

Cash and cash equivalents increased substantially in 1H 2017 mainly thanks to the higher amount of reverse repos and cash balances at central banks. This was largely generated out of net cash from operating activities, thanks largely to higher deposits.
Impact acquisition UBB/Interlease: for more information see note 'Main changes in the scope of consolidation' (note 6.6) further in this report.

Notes on statement of compliance and changes in accounting policies

Statement of compliance (Note 1.1 in the annual accounts for 2016)

The condensed interim financial statements of KBC Bank for the first 6 months ended 30 June 2017 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 2016, which have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ('endorsed IFRS').
The same accounting policies, methods of computation and presentation have been followed in its preparation as were applied in the most recent annual financial statements, except for the following items:

- For financial liabilities, IFRS 9 changes the presentation of gains and losses on own credit risk for financial instruments designated at fair value through profit or loss. KBC early adopts this aspect of IFRS 9 with effect from 1 January 2017 and the gains and losses on own credit risk go through other comprehensive income from now on. The impact of early adoption is minimal given the limited effect of own credit risk.
- In order to align with the consolidated financial reporting framework (FINREP) of the European Banking Authority, the presentation of the balance sheet has been slightly changed: Cash and cash balances includes as of 2017 also other demand deposits with credit institutions and consequently has been renamed 'Cash, cash balances at central banks and other demand deposits from credit institutions'. The reference figures have been restated accordingly (shift of 563 million euros mainly from Loans and receivables).

Summary of significant accounting policies (Note 1.2 in the annual accounts for 2016)

A summary of the main accounting policies is provided in the annual financial statements as at 31 December 2016.

Notes on segment reporting

Segment reporting according to the management structure of the group (Note 2.2 in the annual accounts for 2016)

For a description on the management structure and linked reporting presentation, please refer to Note 2.1 in the annual accounts for 2016.

In millions of EUR	Business unit Belgium	Business unit Czech Republic	Business unit International Markets	*of which: Hungary*	*of which: Slovakia*	*of which: Bulgaria*	*of which: Ireland*	Group Centre	KBC Bank
1H 2017									
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
1H 2016									
Net interest income	1 085	408	349	*111*	*103*	*21*	*113*	- 17	1 824
Dividend income	4	0	0	*0*	*0*	*0*	*0*	8	12
Net result from financial instruments at fair value through profit or loss	92	73	53	*33*	*11*	*1*	*9*	35	252
Net realised result from available-for-sale assets	38	48	33	*17*	*14*	*2*	*0*	0	119
Net fee and commission income	618	121	118	*83*	*27*	*8*	*0*	- 4	854
Net other income	45	9	2	*0*	*2*	*- 1*	*0*	1	57
TOTAL INCOME	1 881	659	556	*244*	*157*	*31*	*122*	22	3 118
Operating expenses	- 1 164	- 289	- 353	*- 169*	*- 87*	*- 19*	*- 77*	- 47	- 1 854
Impairment	- 34	- 10	- 4	*2*	*- 7*	*- 3*	*4*	- 7	- 55
on loans and receivables	- 34	- 10	- 3	*3*	*- 7*	*- 3*	*4*	- 7	- 54
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	0	- 1	- 1	*- 1*	*0*	*0*	*0*	0	- 2
Share in results of associated companies and joint ventures	- 1	12	0	*0*	*0*	*0*	*0*	0	11
RESULT BEFORE TAX	682	371	199	*77*	*63*	*9*	*50*	- 33	1 220
Income tax expense	- 202	- 62	- 27	*- 18*	*- 11*	*- 1*	*3*	75	- 217
RESULT AFTER TAX	480	309	172	*59*	*52*	*8*	*53*	42	1 003
Attributable to minority interests	80	0	0	*0*	*0*	*0*	*0*	0	80
NET RESULT	400	309	172	*59*	*52*	*8*	*53*	42	923

Other notes

Net interest income (Note 3.1 in the annual accounts for 2016)

In millions of EUR	1H 2017	1H 2016
Total	1 762	1 824
Interest income	2 851	3 156
Available-for-sale assets	174	190
Loans and receivables	1 855	1 903
Held-to-maturity investments	339	387
Other assets not at fair value	70	36
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*2 438*	*2 516*
Financial assets held for trading	284	341
Hedging derivatives	126	152
Other financial assets at fair value through profit or loss	3	147
Interest expense	-1 089	-1 332
Financial liabilities measured at amortised cost	- 481	- 478
Other	- 38	- 5
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*- 519*	*- 483*
Financial liabilities held for trading	- 320	- 396
Hedging derivatives	- 230	- 289
Other financial liabilities at fair value through profit or loss	- 17	- 158
Net interest expense on defined benefit plans	- 3	- 6

Net realised result from financial instruments at fair value through profit and loss (Note 3.3 in the annual accounts for 2016)

The result from financial instruments at fair value through profit or loss in 1H 2017 is 191 million euros higher compared to 1H 2016, which is for a large part explained by:

- a higher level of dealing room income
- higher results for MtM ALM derivatives

Net realised result from available-for-sale assets (Note 3.4 in the annual accounts for 2016)

In millions of EUR	1H 2017	1H 2016
Total	50	119
Breakdown by portfolio		
Fixed-income securities	19	6
Shares	31	113

Net fee and commission income (Note 3.5 in the annual accounts for 2016)

In millions of EUR	1H 2017	1H 2016
Total	1 017	854
Income	1 404	1 058
Expense	- 387	- 203
Breakdown by type		
Asset Management Services	605	465
Income	626	480
Expense	- 21	- 14
Banking Services	375	362
Income	677	496
Expense	- 302	- 134
Distribution	37	27
Income	101	82
Expense	- 64	- 55

Presentation change to the note Net fee and commission income: in view of a more transparent breakdown of the net fee and commission income, the following breakdown is provided as of 2017 (reference figures were restated accordingly):

- Asset management services: include the income and expense relating to management fees and entry fees
- Banking services: include the income and expense relating to credit/guarantee related fees, payment service fees and securities related fees.
- Distribution: include the income and expense relating to the distribution of mutual funds, banking products and insurance products

The substantial increase 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.

Other net income (Note 3.6 in the annual accounts for 2016)

In millions of EUR	1H 2017	1H 2016
Total	82	57
Of which net realised result following		
The sale of loans and receivables	2	0
The sale of held-to-maturity investments	6	1
The repurchase of financial liabilities measured at amortised cost	0	- 7
Other: of which:	74	62
Income concerning leasing at the KBC Lease-group	33	32
Settlement of an old legal file	14	0

Operating expenses (Note 3.7 in the annual accounts for 2016)

The operating expenses for 1H 2017 include 361 million euros related to bank levies (367 million euros in 1H 2016). The application of IFRIC 21 (Levies) has as a consequence that certain levies are taken upfront in expense of the first half of the year.

Impairments – income statement (Note 3.9 in the annual accounts for 2016)

In millions of EUR	1H 2017	1H 2016
Total	67	- 55
Impairment on loans and receivables	72	- 54
Breakdown by type		
Specific impairments for on-balance-sheet lending	83	- 33
Provisions for off-balance-sheet credit commitments	- 27	6
Portfolio-based impairments	16	- 27
Breakdown by business unit		
Business unit Belgium	- 54	- 34
Business unit Czech Republic	- 6	- 10
Business unit International Markets	140	- 3
of which: Hungary	*10*	*3*
of which: Slovakia	*- 2*	*- 7*
of which: Bulgaria	*- 4*	*- 3*
of which: Ireland	*137*	*4*
Group Centre	- 7	- 7
Impairment on available-for-sale assets	0	0
Breakdown by type		
Shares	0	0
Other	0	0
Impairment on goodwill	0	0
Impairment on other	- 4	- 2
Intangible assets, other than goodwill	0	- 1
Property and equipment and investment property	- 4	- 1
Held-to-maturity assets	0	0
Associated companies and joint ventures	0	0
Other	- 1	0

Income tax expense (Note 3.11 in the annual accounts for 2016)

In 1H 2017, the income tax expenses were positively influenced by 66 million euros of deferred tax assets (DTA) related to the liquidation of IIB Finance Ireland at KBC Bank NV. According to Belgian tax law, the loss in paid-in capital that KBC Bank sustained as a result of the liquidation of IIB Finance Ireland is tax deductible for the parent company on the date of liquidation, rather than at the time the losses were incurred.

Financial assets and liabilities: breakdown by portfolio and products (Note 4.1 in the annual accounts for 2016)

The impact of the acquisition of UBB/Interlease on the financial assets and liabilities by product is shown in an additional pro forma column 'Total excluding UBB/Interlease' for informational purposes in order to provide a transparent view on the evolution of the financial assets and liabilities excluding this acquisition. For more information: see note 'Main changes in the scope of consolidation' (note 6.6) further in this report.

In millions of EUR	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Total	Total excluding UBB/ Interlease
FINANCIAL ASSETS, 30-06-2017								
Loans and advances to credit institutions and investment firms [a]	477	0	0	23 021	-	-	23 498	23 390
Loans and advances to customers [b]	0	43	0	138 907	-	-	138 949	137 085
Excluding reverse repos	*0*	*43*	*0*	*136 843*	-	-	*136 885*	*135 064*
Trade receivables	0	0	0	3 810	-	-	3 810	3 810
Consumer credit	0	0	0	3 886	-	-	3 886	3 534
Mortgage loans	0	27	0	58 008	-	-	58 035	57 615
Term loans	0	16	0	62 195	-	-	62 211	61 483
Finance leasing	0	0	0	5 224	-	-	5 224	5 072
Current account advances	0	0	0	5 342	-	-	5 342	5 127
Other	0	0	0	443	-	-	443	443
Equity instruments	465	0	401	-	-	-	866	854
Debt securities issued by	1 611	229	20 501	1 689	26 073	-	50 103	49 278
Public bodies	1 204	44	15 147	780	25 397	-	42 572	41 951
Credit institutions and investment firms	330	171	3 289	131	510	-	4 431	4 251
Corporates	77	14	2 065	778	166	-	3 100	3 075
Derivatives	6 609	-	-	-	-	399	7 008	7 008
Other	0	0	0	655	0	0	655	655
Total carrying value	9 162	272	20 902	164 271	26 073	399	221 079	218 269
[a] *Of which reverse repos*							*17 746*	*17 746*
[b] *Of which reverse repos*							*2 064*	*2 021*
FINANCIAL ASSETS, 31-12-2016								
Loans and advances to credit institutions and investment firms [a]	6	0	0	16 883	-	-	16 889	
Loans and advances to customers [b]	1	722	0	132 759	-	-	133 481	
Excluding reverse repos	*1*	*45*	*0*	*131 483*	-	-	*131 528*	
Trade receivables	0	0	0	3 549	-	-	3 549	
Consumer credit	0	0	0	3 180	-	-	3 180	
Mortgage loans	0	29	0	56 955	-	-	56 983	
Term loans	0	693	0	58 938	-	-	59 631	
Finance leasing	0	0	0	4 916	-	-	4 916	
Current account advances	0	0	0	4 640	-	-	4 640	
Other	1	0	0	582	-	-	582	
Equity instruments	426	0	392	-	-	-	818	
Debt securities issued by	999	408	20 692	966	28 297	-	51 362	
Public bodies	712	47	15 177	16	28 010	-	43 961	
Credit institutions and investment firms	126	171	3 240	140	215	-	3 893	
Corporates	161	189	2 274	811	73	-	3 509	
Derivatives	8 355	-	-	-	-	410	8 765	
Other	0	0	0	532	0	0	532	
Total carrying value	9 787	1 129	21 084	151 140	28 297	410	211 848	
[a] *Of which reverse repos*							*11 776*	
[b] *Of which reverse repos*							*1 953*	

In millions of EUR	Held for trading	Designated at fair value	Hedging derivatives	Measured at amortised cost	Total	Total excluding UBB/ Interleaase
FINANCIAL LIABILITIES, 30-06-2017						
Deposits from credit institutions and investment firms [a]	62	0	-	40 228	40 290	40 244
Deposits from customers and debt certificates [b]	359	1 627	-	188 597	190 582	187 566
Excluding repos	*358*	*1 627*	-	*187 368*	*189 352*	*186 337*
Demand deposits	0	0	-	71 616	71 616	70 204
Time deposits	38	721	-	22 043	22 802	21 947
Saving accounts	0	0	-	55 762	55 762	55 051
Special deposits	0	0	-	2 331	2 331	2 331
Other deposits	0	0	-	650	650	611
Certificates of deposit	0	9	-	17 819	17 828	17 828
Customer savings certificates	0	0	-	1 765	1 765	1 765
Non-convertible bonds	321	702	-	10 191	11 214	11 214
Non-convertible subordinated liabilities	0	195	-	6 421	6 616	6 616
Derivatives	6 905	0	1 508	-	8 413	8 412
Short positions	701	0	-	-	701	701
in equity instruments	43	0	-	-	43	43
in debt instruments	658	0	-	-	658	658
Other	7	0	-	2 983	2 990	2 990
Total carrying value	8 033	1 627	1 508	231 808	242 976	239 914
[a] *Of which repos*					*14 021*	*14 016*
[b] *Of which repos*					*1 230*	*1 230*
FINANCIAL LIABILITIES, 31-12-2016						
Deposits from credit institutions and investment firms [a]	5	1 766	-	30 249	32 020	
Deposits from customers and debt certificates [b]	541	2 134	-	176 021	178 697	
Excluding repos	*536*	*1 869*	-	*175 984*	*178 388*	
Demand deposits	0	0	-	63 933	63 933	
Time deposits	117	1 100	-	21 663	22 880	
Saving accounts	0	0	-	53 328	53 328	
Special deposits	0	0	-	2 056	2 056	
Other deposits	0	0	-	633	633	
Certificates of deposit	0	14	-	16 071	16 085	
Customer savings certificates	0	0	-	1 959	1 959	
Non-convertible bonds	424	744	-	11 519	12 687	
Non-convertible subordinated liabilities	0	276	-	4 859	5 135	
Derivatives	7 362	-	1 704	-	9 065	
Short positions	665	0	-	-	665	
in equity instruments	36	0	-	-	36	
in debt instruments	629	0	-	-	629	
Other	13	0	-	2 185	2 199	
Total carrying value	8 586	3 900	1 704	208 455	222 646	
[a] *Of which repos*					*9 420*	
[b] *Of which repos*					*309*	

Financial assets and liabilities at fair value – fair value hierarchy (Note 4.5 in the annual accounts for 2016)

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 2016.

Fair value hierarchy				30-06-2017				31-12-2016
In millions of EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Held for trading	1 345	5 750	2 067	9 162	1 031	6 692	2 064	9 787
Designated at fair value	30	219	23	272	44	898	188	1 129
Available for sale	18 572	1 621	709	20 902	18 672	1 672	739	21 084
Hedging derivatives	0	399	0	399	0	410	0	410
Total	19 947	7 989	2 798	30 735	19 747	9 672	2 991	32 410
Financial liabilities measured at fair value								
Held for trading	690	5 031	2 312	8 033	665	5 686	2 235	8 586
Designated at fair value	0	1 306	320	1 627	0	3 343	557	3 900
Hedging derivatives	0	1 508	0	1 508	0	1 704	0	1 704
Total	690	7 845	2 633	11 168	665	10 733	2 792	14 190

Financial assets and liabilities measured at fair value – transfers between level 1 and 2 (Note 4.6 in the annual accounts for 2016)

In the first 6 months of 2017, a total amount of 89 million euros in financial instruments at fair value was transferred from level 1 to level 2. KBC also transferred 29 million euros in financial instruments at fair value from level 2 to level 1. The majority of the transfers is due to changed liquidity of corporate and government bonds.

Financial assets and liabilities measured at fair value – focus on level 3 (Note 4.7 in the annual accounts for 2016)

In the first 6 months of 2017 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 debt securities decreased by 70 million euros, mainly due to the termination of CDO deals (85 million euros) and the fair value of derivatives increased by 30 million euros, due to the purchase of derivatives (254 million euros), largely offset by matured positions (-146 million euros) and fair value changes (-70 million euros).
- In the assets designated at fair value through profit and loss, the fair value of debt securities decreased mainly due to the termination of CDO deals (-171 million euros).
- In the available for sale unquoted equities, total fair value increased by 59 million euros for a large part due to acquisitions, changes in fair value and changes in consolidation scope.
- In the available for sale assets, the fair value of debt securities decreased by 98 million euros. A total amount of bonds of about 44 million euros was transferred out of level 3. The majority of the transfers is due to changed liquidity of bonds. The fair value further decreased due to the sale of bonds in an amount of 79 million euros and fair value movements. These effects were partly compensated by the purchase of new bonds (31 million euros).
- In the liabilities held for trading category, the fair value of derivatives increased by 76 million euros, resulting from purchase of derivatives, compensated mostly by maturing derivative positions and fair value movements.
- In the liabilities designated at fair value through profit and loss, the fair value of debt securities issued decreased by 237 million euros, mainly driven by termination of CDO deals (-142 million euros) and maturity of own issued instruments (-93 million euros).

Parent shareholders' equity (Note 5.9 in the annual accounts for 2016)

in number of shares	30-06-2017	31-12-2016
Ordinary shares	**915 228 482**	**915 228 482**
of which ordinary shares that entitle the holder to a dividend payment	*915 228 482*	*915 228 482*
of which treasury shares	*0*	*0*
Other information		
Par value per ordinary share (in EUR)	9,78	9,78
Number of shares issued but not fully paid up	0	0

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

Related-party transactions (Note 6.3 in the annual accounts for 2016)

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

	30-06-2017						31-12-2016					
	Parent enitities with joint control	Subsi-diaries	Associa-ted com-panies	Joint Ventures	Other	Total	Parent enitities with joint control	Subsi-diaries	Associa-ted com-panies	Joint Ventures	Other	Total
Assets	19	386	144	15	1 410	1 975	12	292	154	11	1 855	2 324
Loans and advances	8	102	45	2	1 282	1 438	0	104	46	1	1 608	1 759
Equity instruments	0	268	99	13	0	380	0	187	106	10	0	303
Other receivables	11	16	0	0	128	157	12	1	1	0	247	262
Liabilities	5 237	91	105	299	1 346	7 078	3 492	364	109	289	1 459	5 713
Deposits	16	91	9	299	1 287	1 702	27	364	8	289	1 339	2 027
Other financial liabilities	5 201	0	0	0	17	5 217	3 447	0	0	0	27	3 474
Other liabilities (including accrued expense)	21	0	96	0	42	159	17	0	101	0	94	212
Income statement	- 365	10	- 2	- 2	- 27	- 385	- 710	13	1	- 4	- 262	- 962
Net interest income	- 31	0	0	- 2	- 49	- 82	- 50	- 2	- 1	- 4	- 147	- 203
Interest income	0	1	0	0	0	2	0	1	1	0	2	4
Interest expense	- 31	- 1	- 1	- 2	- 49	- 84	- 50	- 2	- 2	- 5	- 149	- 208
Dividend income	0	2	3	0	1	6	0	0	9	0	3	13
Net fee and commission income	0	8	- 1	0	48	56	0	14	- 1	0	81	95
Fee and commission income	0	8	0	0	87	94	0	14	0	1	143	158
Fee and commission expense	0	0	- 1	0	- 38	- 39	0	0	- 1	0	- 62	- 63
Net other income	0	0	- 3	0	- 13	- 16	0	0	- 5	0	- 153	- 158
General administrative expenses	- 333	0	- 1	0	- 14	- 348	- 660	0	- 1	0	- 46	- 708
Loan commitments, financial guarantees and other commitments												
issued by the group	0	2	6	0	151	159	0	10	6	0	151	167
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 2016)

In 2016: no material changes

In 1H 2017: on 30 December 2016, KBC announced the acquisition of 99,91% of the shares of the United Bulgarian Bank AD and 100% of Interlease EAD in Bulgaria for a total consideration of 610 million euros, without any contingent consideration. On 13 June 2017, KBC completed this acquisition after approval by the relevant regulatory authorities and received anti-trust approval (final total consideration is 609 million euros fully paid in cash).

This transaction substantially strengthens KBC's position in Bulgaria. UBB is Bulgaria's fourth-largest banking group by total assets with market share of 7,4% as at the end of March 2017. UBB caters for approximately 875 000 retail clients with market share of 9,7% in retail loans. UBB also has a strong presence in the corporate banking market with a share of 7,6% in corporate loans. The table below summarizes the provisional fair values of the main assets and liabilities which are part of the acquisition of UBB/Interlease.

Together, UBB-CIBANK and DZI will become the reference in bank-insurance in Bulgaria, one of KBC's core markets. Following this acquisition, KBC will also become active in leasing, asset management and factoring in Bulgaria, offering its clients now a full range of financial services.

The operational integration of the business entities will be gradually introduced in the coming months. KBC envisages substantial value creation for shareholders through income and cost synergies.

The consolidated figures in these condensed interim financial statements include the impact of this announced acquisition as of 30 June 2017:

- KBC recorded a provisional goodwill in its consolidated financial statements of 107 million euro at 30 June 2017, taking into account specific negative fair value adjustments amounting to 81 million euros after tax which KBC identified during the due diligence process. Note that IFRS 3 (Business Combinations) allows to adjust the amount of goodwill during the 12 months measurement period starting from the acquisition date, hence the amount of goodwill is provisional and subject to change. The goodwill is not deductible for tax purposes.
- UBB and Interlease are part of the operating segment International Markets, country Bulgaria (see note 2).
- The impact of this acquisition on the financial assets and liabilities by product is shown in note 4.1: this note includes an additional pro forma column 'Total excluding UBB/Interlease' for informational purposes in order to provide a transparent view on the evolution of the financial assets and liabilities excluding this acquisition.
- There is no impact yet on the income statement (except for some acquisition related costs included in General administrative expenses) as the closing date (on which the control was transferred to KBC) was very close to 30 June 2017.
- The transaction had only a limited negative impact of 0.5% on KBC's solid capital position, keeping its CET1 ratio well above the regulatory minimum capital requirements.

In millions of EUR	30-06-2017
Percentage of shares bought (+) or sold (-) in the relevant year	UBB 99,91% / Interlease 100%
For business unit/segment	Bulgaria
Deal date (month and year)	June 2017
Incorporation of the result of the company in the result of the group as of:	01-07-2017
Purchase price or sale price	609
Cashflow for acquiring or selling companies less cash and cash equivalents acquired	185
Recognised amounts of identifiable assets acquired and liabilities assumed - provisional fair value*	
Cash and cash balances with central banks	693
Financial assets	2 810
Held for trading	502
Available for sale	335
Loans and receivables	1 973
Tax assets	12
Investments in associated companies and joint ventures	17
Investment property	15
Property and equipment	20
Goodwill and other intangible assets	4
Other assets	20
of which: cash and cash equivalents	*801*
Financial liabilities	3 063
Measured at amortised cost	3 062
Other liabilities	20
of which: cash and cash equivalents	*7*

* after elimination of intragroup transactions within the Group

Post balance sheet events (Note 6.8 in the annual accounts for 2016)

Significant non-adjusting events between the balance sheet date (30 June 2017) and the publication of this report (31 August 2017):

The planned reform of the Belgian corporate income tax regime as announced on 26 July 2017 will impact KBC mainly because of the gradual decrease of the tax rate from 33,99% to 29,58% as of accounting year 2018 and to 25% as of accounting year 2020. This would lead to:

- a slightly positive one-off impact on the CET1 ratio (fully loaded under the Danish Compromise) in 2H17 thanks to amongst others:
  - higher AFS revaluation reserves after tax
  - lower risk weighted assets due to lower outstanding deferred tax assets

  Despite
  - an estimated one-off upfront negative P&L impact of 0.2 billion euros. expected in 2H17, which will only have a small effect on CET1 as most of the impact was already deducted from common equity through the deduction of tax-loss-carry-forward DTAs
- a recurring positive P&L impact as of 2018 onwards as the lower tax rate from 2018 onwards will have a positive impact on income taxes of the Belgian KBC entities (amount depending on the pre-tax profit numbers in the coming years).

pwc

REPORT OF THE ACCREDITED AUDITOR TO THE SHAREHOLDERS OF KBC BANK NV ON THE REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2017 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 2017 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 260.522 million and a consolidated profit (share of the group) for the six-month period then ended of EUR 1.187 million.

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

Scope of Review

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

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Interim Condensed Consolidated Financial Statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2017, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34, as adopted for use in the European Union.

Sint-Stevens-Woluwe, 29 August 2017

The statutory auditor
PwC Bedrijfsrevisoren bcvba
represented by

Roland Jeanquart
Accredited auditor

Gregory Joos
Accredited auditor

Other information

KBC Bank, 1H2017

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 (except for confirmations of letters of credit and similar export-/import-related commercial 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	30-06-2017	31-12-2016
Total loan portfolio (in billions of EUR)		
Amount granted	187	181
Amount outstanding*	153	148
Total loan portfolio, by business unit (as a % of the portfolio of credit outstanding)		
Belgium	63%	65%
Czech Republic	16%	15%
International Markets	18%	17%
Group Centre	3%	3%
Total	100%	100%
Impaired loans (in millions of EUR or %)		
Amount outstanding	10 505	10 583
of which: more than 90 days past due	5 896	5 711
Ratio of impaired loans, per business unit		
Belgium	3.0%	3.3%
Czech Republic	2.6%	2.8%
International Markets	23.6%	25.4%
Group Centre	9.6%	8.8%
Total	6.9%	7.2%
of which: more than 90 days past due	3.9%	3.9%
Specific loan loss impairments (in millions of EUR) and cover ratio (%)		
Specific loan loss impairments	4 968	4 874
of which: more than 90 days past due	3 787	3 603
Cover ratio of impaired loans		
Specific loan loss impairments / impaired loans	47%	46%
of which: more than 90 days past due	64%	63%
Cover ratio of impaired loans, mortgage loans excluded		
Specific loan loss impairments / impaired loans, mortgage loans excluded	57%	54%
of which: more than 90 days past due	74%	72%
Credit cost, by business unit (%)		
Belgium	0.11%	0.12%
Czech Republic	0.06%	0.11%
International Markets	-1.10%	-0.16%
Slovakia	0.07%	0.24%
Hungary	-0.42%	-0.33%
Bulgaria	0.85%	0.32%
Ireland	-2.11%	-0.33%
Group Centre	0.32%	0.67%
Total	-0.10%	0.09%

* Outstanding amount includes all on-balance sheet commitments and off-balance sheet guarantees

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 2016 - 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.

The loan portfolios of United Bulgarian Bank and Interlease are included in the 30-06-2017 figures for a total outstanding amount of 2.5 billion euros (this amount differs from the accounting figure of loans and advances to customers excluding reverse repos mainly as the latter amount is net of impairment). The loan portfolios are assigned to Business Unit International Markets (country Bulgaria) and included in all the reported ratios with the exception of the credit cost (since there is no impact yet on the income statement).

Solvency

KBC Bank consolidated - CRDIV/CRR		30-06-2017		31-12-2016
In millions of EUR	Fully loaded	Phased in	Fully loaded	Phased in
Total regulatory capital, after profit appropriation	16 005	16 075	16 229	16 347
Tier-1 capital	12 768	12 892	12 625	12 803
Of which common equity	11 362	11 438	11 219	11 348
Tier-2 capital	3 236	3 182	3 604	3 544
Total weighted risks	82 256	81 816	78 482	77 579
Credit risk	68 468	68 028	65 933	65 030
Market risk	3 362	3 362	2 417	2 417
Operational risk	10 427	10 427	10 132	10 132
Solvency ratios				
Common equity ratio	13,8%	14,0%	14,3%	14,6%
Tier-1 ratio	15,5%	15,8%	16,1%	16,5%
CAD ratio	19,5%	19,6%	20,7%	21,1%

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	30-06-2017	31-12-2016
Detailed calculation under 'Solvency' in the 'Other information' section		
Phased-in*	14.0%	14.6%
Fully loaded*	13.8%	14.3%

* CRD IV capital rules are being implemented gradually to allow banks to build up the necessary capital buffers. The capital position of a bank taking into account the transition period is called 'phased-in'. The capital position of a bank based on a full application of all rules as applicable after the transition period is called 'fully loaded'.

Cost/income ratio

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

Calculation (in millions of EUR or %)	Reference	1H2017	1H2016
Operating expenses (A)	'Consolidated income statement': 'Operating expenses'	1 893	1 854
/			
Total income (B)	'Consolidated income statement': 'Total income'	3 368	3 118
= (A) / (B)		56.2%	59.5%

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 quarters 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 52.8% in 1H 2017.

Cover ratio

Indicates the proportion of impaired loans (see 'Impaired loans ratio' for definition) that are covered by impairment charges.

Calculation (in millions of EUR or %)	Reference	30-06-2017	31-12-2016
Specific impairment on loans (A)	'Overview of the loan portfolio' in the 'Other information' section	4 968	4 874
/			
Outstanding impaired loans (B)	'Overview of the loan portfolio' in the 'Other information' section	10 505	10 583
= (A) / (B)		47.3%	46.1%

Where appropriate, the numerator and denominator in the formula may be limited to impaired loans that are more than 90 days past due.

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	1H2017	1H2016
Net changes in impairment for credit risks (A) (annualised)	'Consolidated income statement': component of 'Impairment'	-72	54
/			
Average outstanding loan portfolio (B)	'Overview of the loan portfolio' in the 'Other information' section	149 793	145 299
= (A) / (B) *		-0.10%	0.07%

* 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.

Calculation (in millions of EUR or %)	Reference	30-06-2017	31-12-2016
Amount outstanding of impaired loans (A)	'Overview of the loan portfolio' in the 'Other information' section	10 505	10 583
/			
Total outstanding loan portfolio (B)	'Overview of the loan portfolio' in the 'Other information' section	152 864	147 526
= (A) / (B)		6.9%	7.2%

Where appropriate, the numerator may be limited to impaired loans that are more than 90 days past due (PD 11 + PD 12).

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	30-06-2017	31-12-2016
Regulatory available tier-1 capital (A)	'Solvency' table in the 'Other information' section	12 768	12 625
/			
Total exposure measures (total of non-risk-weighted on and off-balance sheet items, with a number of adjustments) (B)	Based on the Capital Requirements Regulation (CRR)	272 154	248 760
= (A) / (B)		4.7%	5.1%

Liquidity coverage ratio (LCR)

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

Calculation (in millions of EUR or %)	Reference	30-06-2017	31-12-2016
Stock of high-quality liquid assets (A)	Based on the European Commission's Delegated Act on LCR	72 800	65 400
/			
Total net cash outflows over the next 30 calendar days (B)		51 750	47 100
= (A) / (B)		141%	139%

Loan portfolio

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

Calculation (in millions of EUR)	Reference	30-06-2017	31-12-2016
Loans and advances to customers (A)	Note 4.1, 'Loans and advances to customers'	138 949	133 481
-			
Reverse repos with customers (B)	Note 4.1	-2 064	-1 953
+			
Debt instruments issued by corporates and by credit institutions and investment firms (C)	Note 4.1, component of 'Debt instruments issued by corporates and by credit institutions and investment firms'	7 124	7 114
+			
Loans and advances to credit institutions and investment firms (excluding dealing room activities) (D)	Note 4.1, component of 'Loans and advances to credit institutions and investment firms '	1 062	952
+			
Financial guarantees granted to clients (E)	Note 6.1, component of 'Financial guarantees given' in the annual report 2016	8 141	8 288
+			
Impairment on loans (F)	Note 4.2, component of 'Impairment' in the annual report 2016	5 028	5 094
+		-5 376	-5 450
Other (G)	Component of Note 4.1		
= (A)-(B)+(C)+(D)+(E)+(F)+(G)		152 864	147 526

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	1H2017	1H2016
Net interest income (A) (annualised)	'Consolidated income statement': component of 'Net interest income'	1 744	1 808
/			
Average interest-bearing assets (B)	'Consolidated balance sheet': component of 'Assets'	185 640	183 126
= (A) / (B)		1.87%	1.95%

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	30-06-2017	31-12-2016
Available amount of stable funding (A)	Basel III: 'the net stable funding ratio' (Basel Committee on Banking Supervision publication, October 2014)	153 850	144 150
/			
Required amount of stable funding (B)		118 300	114 950
= (A) / (B)		130%	125%

Total assets under management

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

Calculation (in billions of EUR)	Reference	30-06-2017	31-12-2016
Belgium Business Unit (A)	KBC Group company presentation on www.kbc.com	200	199
+			
Czech Republic Business Unit (B)		9	9
+			
International Markets Business Unit (C)		6	6
(A)+(B)+(C)		215	213

Total capital ratio (CAD ratio)

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

Calculation	30-06-2017	31-12-2016
Detailed calculation under 'Solvency' in the 'Other information' section		
Phased-in*	19.6%	21.1%
Fully loaded*	19.5%	20.7%

* CRD IV capital rules are being implemented gradually to allow banks to build up the necessary capital buffers. The capital position of a bank taking into account the transition period is called 'phased-in'. The capital position of a bank based on a full application of all rules as applicable after the transition period is called 'fully loaded'.
