

KBC Tax Strategy 2014

INTRODUCTION: OBJECTIVES and MISSION¹

1) *General aim of the KBC Tax Strategy*

KBC GROUP acts as a **RESPONSIBLE TAX PAYER** based on a professionally executed TAX COMPLIANCE and a legitimate TAX PLANNING driven by VALID BUSINESS PURPOSES.

2) *Concrete objectives*

At the one hand, **tax risk management** must safeguard the reputation of KBC Group as a responsible tax payer by:

- ensuring payment of all taxes due correctly and timely
- pro actively limiting the tax risks
- pro actively managing the tax disputes
- providing tax clearance for the products of KBC

and at the other hand, **legitimate tax planning** must reduce the tax cost of KBC Group by:

- pro actively managing the effective tax rate of corporation tax and the other tax liabilities
- avoiding tax leakages by the compensation of carry forward losses and the optimisation of the VAT recovery
- giving the Business the necessary comfort by high quality and solution driven tax advices

3) *Mission statement*

The mission statement describes briefly the activities of the Tax team.

1. *Tax compliance* (= being in control):

Correct, on time and efficient processing of all the fiscal data in accordance with the requirements of the tax legislation.

¹ The KBC Tax Strategy 2014 replaces the “KBC Entities abroad: Fiscal Policy Memorandum” (approved by EC of KBC Group on 20/05/2003), the “Fiscal Best Practice for a KBC Tax Function” (approved by EC of KBC Group on 21/09/2004) and the “KBC Tax Strategy 2006” (approved by EC of KBC Group on 23/05/2006).

2. *Tax advice* (= in business):
including tax risk management, mitigating the tax cost of KBC through tax planning.

CHAPTER I: AN EFFICIENT ORGANIZATION OF THE TAX FUNCTION

1) *Distinction between Group and Local Tax:*

Essentially, two tax activities will be performed at group level by Group Tax: tax strategy and international/foreign taxation.

Based on the subsidiarity principle, all other tasks as described in the mission are performed by Local Tax.

2) *Integration of the tax function: one Local Tax team per country*

3) *Tax Function should not be a business or part of a business, but a Group supporting function acting independently. Absence of “profit center” approach.*

4) *Centers of Excellence and Shared Service Centre*

It is the ambition of Group Tax to create Centres of Excellence where it does make sense.

CHAPTER II: VALUES AND PRINCIPLES FOR THE TAX FUNCTION

1) *Tax Avoidance is allowed. Tax Evasion is NEVER allowed. Valid business purpose test is a leading criterion.*

2) *Business strategies take precedence over tax strategies.*

The business strategy as discussed by the C-MC's / EC must take precedence over the tax strategy, except where the tax laws forcefully oblige the organization to implement certain rules of a tax strategy .

3) *Presumption of openness with tax authorities*

Full disclosure to the tax authorities is the guideline.

4) *Excellent compliance procedures*

A top quality compliance of the tax returns (corporation tax, VAT, withholding taxes and other indirect taxes) must be based on certain principles. A separate policy has defined those principles.

5) *Quality standards of a tax advice are based on the fact that the Tax Function supports the Business*

To ensure an appropriate standard of professional quality, an internal tax advice must meet the “Four eyes” principle, be legally correct, timely, client friendly and solution driven.

6) *Anticipation and timely reaction to legislative changes*

7) *Tax advice to external clients*

the members of the Group must refrain from providing their customers with advice of a nature to incite them to commit tax violations.

CHAPTER III: A FORMAL TAX RISK MANAGEMENT PROCESS IN KBC

Group Tax creates the framework (rules, procedures, standards, best practices) for *minimizing tax risks* in terms of cost and reputation risk in a separate policy. Group Tax provides support for the implementation at local level and takes initiatives to eliminate significant tax risks.

1) *KBC position on tax risk appetite*

KBC Groups positions itself as slightly more prudent than the average of 5. The KBC position qualifies as a “4” on the tax risk management scale where a no risk acceptance is “0” and an extremely aggressive approach is “10”, for tax advice as well for tax compliance.

KBC Group does not accept extremely tax aggressive positions as it wishes to safeguard its reputation as a responsible tax payer. When in doubt KBC Group inclines towards a more prudent position, hence the number 4.

2) *Roles and responsibilities*

The Group Tax manager and the KBC country tax managers are jointly responsible for an independent and pro-active tax risk management.

3) *Formal process of reporting tax risks to the Group Tax manager*

The reporting includes an assessment of the local tax compliance function, providing information about the significant tax risks, ongoing audits by the tax authorities and the recommendations by Internal Audit.

CHAPTER IV: VARIOUS TAX POLICIES ²

Group Tax is responsible for translating the KBC Tax Strategy in various tax policies: **KBC Global Transfer Pricing policy³, KBC External Tax Advisors policy⁴, Formal tax risk management process in KBC⁵, Tax Residence Substance guidelines⁶, Excellent tax compliance procedures⁷, Fiscal guidelines on credit decision procedures and credit allocation⁸, Excellent VAT management⁹, VAT substance guidelines¹⁰, Business Architect Vision of Group Tax¹¹** and eventually others if deemed necessary.

CHAPTER V: TRANSPARENCY THROUGH A REPORTING SYSTEM AND AN OPTIMAL EXCHANGE OF INFORMATION

Certain tax data of the KBC entities will be reported on a yearly basis to the Group Tax manager:

- effective amount of corporate taxes paid and the effective tax rate (compared with the marginal tax rate)
- carry forward losses and similar tax base reducing items being carried forward plus the related deferred tax assets, if any
- VAT figures
- tax disputes (to be provided obligatory by Group Tax to EC of KBC Group, Internal Audit and to the statutory auditor)
- external tax fees
- tax risks (see Chapter III,3).

Based on the received information, Group Tax drafts a yearly KBC Tax management report.

On Connections (intranet) , Group Tax has set up a Community where the strategy, policies and other group wide relevant documents are easily accessible for all with an interest.

² The KBC Tax Strategy 2014 will not elaborate the content of these policies. The full text of the separate tax policies is kept by Group Tax and can be provided if requested.

³ Approved by EC of KBC Group on 11/10/2005 and latest update on 09/07/2009

⁴ Approved by Group CFO on 23/11/2006 and latest update on 14/06/2011

⁵ Approved by Group CFO on 07/09/2011 under the reservation of potential modifications by Group Finance Committee

⁶ Approved by EC of KBC Group on 23/09/2008

⁷ Approved by Group CFO on 12/06/2006

⁸ Approved by Group Credit Risk Committee on 09/12/2009

⁹ To be drafted

¹⁰ Approved by EC of KBC GS on 16/03/2009

¹¹ Approved by Group CFO on 13/07/2011

Approval

Approved by Group Tax

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