KBC Group Quarterly Report 2Q2018

KBC Group

Report for 2Q2018

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Consolidated financial statements

Additional information

Management certification

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

Forward-looking statements

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

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This report contains information that is subject to transparency regulations for listed companies. Date of release: 9 August 2018

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Second-quarter result of 692 million euros

KBC Group - overview (consolidated, IFRS)	2Q2018 (IFRS 9)	1Q2018 (IFRS 9)	2Q2017 (IAS 39)	1H2018 (IFRS9)	1H2017 (IAS39)
Net result (in millions of EUR)	692	556	855	1 248	1 485
Basic earnings per share (in EUR)	1.61	1.30	2.01	2.91	3.49
Breakdown of the net result by business unit (in millions of EUR)					
Belgium	437	243	483	680	785
Czech Republic	145	171	183	316	364
International Markets	163	137	177	299	292
Group Centre	-53	5	12	-48	45
Parent shareholders' equity per share (in EUR, end of period)	39.9	40.9	39.8	39.9	39.8

2Q2018

We recorded a net profit of 692 million euros in the second quarter of 2018. Yet again a good result, thanks, among other things, to a sound level of net interest income, a strong non-life insurance result and seasonally high dividend income, which partly offset the decrease in trading and fair value income, the slight drop in fee and commission income and the negative one-off impact related to the settlement of a legacy legal case. Given seasonal effects, costs remained under control and moreover, we were able yet again to release some loan loss provisions, mainly related to our Irish mortgage book. Adding the result for the second quarter to the 556-million-euro net profit figure for the previous quarter brings our result for the first half of 2018 to a solid 1 248 million euros. Our solvency position remained strong too, with a common equity ratio of 15.8% at the end of June 2018, comfortably surpassing the regulatory minimum levels in this respect.

In April, we successfully issued a new additional tier-1 instrument for an amount of 1 billion euros. And early July, we completed our announced buyback of 2.7 million own shares for a total consideration of 181 million euros. The cancellation of these shares has reduced the total number of KBC Group shares to 415 897 567. Lastly, in line with our dividend policy, we decided to pay an interim dividend of 1 euro per share on 16 November 2018, as an advance payment on the total dividend for 2018.

We also 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 our 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.

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.

In closing, I'd like to take this opportunity again to thank our clients and other stakeholders for the trust they place in our company and our employees, and to repeat that we remain fully committed and focused in our efforts to become the reference in bank-insurance in all our core countries.

Important non-adjusting post-balance sheet event

I'm also pleased to announce that KBC Bank Ireland reached an agreement with Goldman Sachs to sell a part (approximately 1.9 billion euros) of its legacy loan portfolio. As a result of that 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), a release of risk-weighted assets of approximately 0.4 billion euros at KBC Group, leading to an improvement of the KBC Group common equity ratio of 7 bps. The transaction is expected to close in the 4th quarter of 2018.

Johan Thijs
Chief Executive Officer

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, as of 2018 and in line with IFRS 9, moved interest accruals for FX derivatives in the banking book from 'fair value income' to 'net interest income'. We also shifted network income (income received from margins earned on FX transactions carried out by the network for our customers) from 'trading and fair value income' to 'net fee and commission'. A short overview is provided in the annex. Furthermore, related to IFRS 9, we changed, as of 2018, the definition of our loan portfolio from outstanding to gross carrying amount (i.e. incl. reserved and accrued interests) and slightly amended the scope. In order to enhance comparability, we have added certain comparisons with pro forma (recalculated) figures for 2017 (unaudited) in the analysis below. When this is done, it is indicated by the words '**on a comparable basis**'.

Financial highlights in the second quarter of 2018

- Good performance delivered by the commercial bank-insurance franchises in our core markets and core activities.

- Lending volumes were up 3% quarter-on-quarter and 5% year-on-year, with increases in all business units. Deposits excluding debt certificates rose by 3% quarter-on-quarter and by 6% year-on-year, again with increases in all business units.

- Net interest income was relatively stable (-1%) quarter-on-quarter, but improved by 2% year-on-year (on a comparable basis). Net interest income benefited from lower funding costs, higher repo rates in the Czech Republic, loan volume growth and the positive year-on-year effect of the consolidation of UBB/Interlease in Bulgaria, but continued to suffer from loan margin pressure and low reinvestment yields, among other things.

- Technical income from our non-life insurance activities increased 11% compared to the year-earlier quarter, thanks to higher earned premiums. The resulting combined ratio for the first six months of the year amounted to an excellent 88%, fully in line with the figure for full-year 2017. Sales of our life insurance products fell by 14% on the previous quarter (partly a seasonal effect), but were up 3% on their level of the second quarter of 2017.

- On a comparable basis, our net fee and commission income was down 3% and 4%, respectively, on its quarter-earlier and year-earlier levels. This was due essentially to lower asset management-related entry fees.

- All other income items combined were down 37% quarter-on-quarter, owing to lower trading and fair value income and lower other net income (impacted by a negative one-off item) and partly offset by seasonally higher dividend income, among other factors. Year-on-year, all other income items combined fell by more than half – on a comparable basis – due primarily to a significantly lower level of trading and fair value income.

- The quarter-on-quarter comparison of costs is distorted by the fact that the bulk of special bank taxes for full-year 2018 is booked in the first quarter. Disregarding these taxes, costs were up 2% quarter on-quarter. Year-on-year, costs increased by 6% though that was caused in part by the inclusion of UBB/Interlease. When bank taxes are spread evenly throughout the year, the cost/income ratio amounted to 56% in the first half of 2018, more or less in line with the figure recorded for full-year 2017 (55%).

- The quarter benefited from a 21-million-euro release of loan loss provisions mainly thanks to Ireland. Consequently, our annualised cost of credit amounted to a very favourable -0.10% (a negative figure indicates a positive impact on the results), compared to the -0.06% registered for full-year 2017. Without Ireland, the credit cost ratio would have come to 0.00%, compared to 0.09% for full-year 2017.

- Our liquidity position remained strong, as did our capital base, with a common equity ratio of 15.8% (fully loaded, Danish compromise).

The cornerstones of our strategy

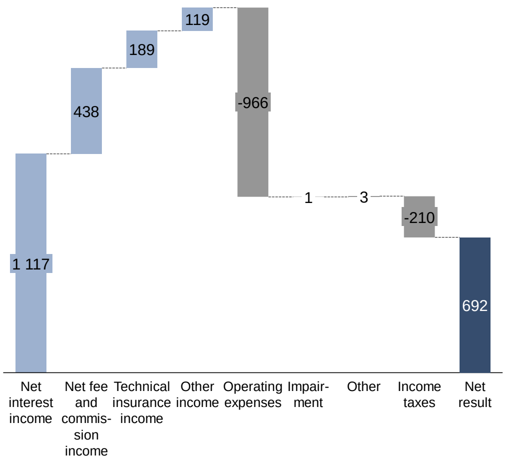
client centricity | bank-insurance | sustainable profitable growth | role in society

Our strategy rests on four principles:

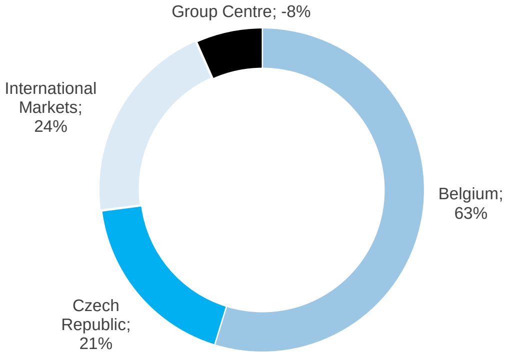
- We place our clients at the centre of everything we do.
- We look to offer our clients a unique bank-insurance experience.
- We focus on our group's long-term development and aim to achieve sustainable and profitable growth.
- We meet our responsibility to society and local economies.

Breakdown of the 2Q2018 result

(in millions of EUR)



Contribution of the business units to the group result (2Q2018)



Overview of results and balance sheet

Consolidated income statement, IFRS KBC Group (in millions of EUR)	2Q2018 (IFRS 9)	1Q2018 (IFRS 9)	4Q2017 (IAS 39)	3Q2017 (IAS 39)	2Q2017 (IAS 39)	1H2018 (IFRS 9)	1H2017 (IAS 39)
Net interest income	1 117	1 125	1 029	1 039	1 028	2 242	2 052
Non-life insurance (before reinsurance)	202	162	152	188	179	364	366
Earned premiums	*392*	*378*	*384*	*378*	*369*	*770*	*729*
Technical charges	*-190*	*-216*	*-232*	*-190*	*-190*	*-406*	*-363*
Life insurance (before reinsurance)	1	-7	-3	-3	-24	-5	-52
Earned premiums	*315*	*336*	*410*	*282*	*267*	*651*	*579*
Technical charges	*-314*	*-343*	*-414*	*-284*	*-291*	*-656*	*-631*
Ceded reinsurance result	-14	-9	-10	16	-10	-23	-13
Dividend income	34	21	8	11	30	55	44
Net result from financial instruments at fair value through P&L[1]	54	96	235	182	249	150	439
Net realised result from available-for-sale assets	-	-	51	51	52	-	97
Net realised result from debt instruments at fair value through other comprehensive income	8	1	-	-	-	9	-
Net fee and commission income	438	450	430	408	430	889	869
Other net income	23	71	-14	4	47	94	124
Total income	1 863	1 912	1 878	1 896	1 980	3 775	3 926
Operating expenses	-966	-1 291	-1 021	-914	-910	-2 257	-2 139
Impairment	1	56	-2	-31	71	58	64
Of which: on loans and receivables[2]	-	-	30	-15	78	-	72
Of which: on financial assets at amortised cost and at fair value through other comprehensive income[2]	21	63	-	-	-	84	-
Share in results of associated companies & joint ventures	3	6	-5	8	3	10	8
Result before tax	901	683	850	959	1 144	1 585	1 858
Income tax expense	-210	-127	-451	-268	-288	-337	-373
Result after tax	692	556	398	691	855	1 248	1 485
attributable to minority interests	0	0	0	0	0	0	0
attributable to equity holders of the parent	**692**	**556**	**399**	**691**	**855**	**1 248**	**1 485**
Basic earnings per share (EUR)	1.61	1.30	0.92	1.62	2.01	2.91	3.49
Diluted earnings per share (EUR)	1.61	1.30	0.92	1.62	2.01	2.91	3.49

Key consolidated balance sheet figures KBC Group (in millions of EUR)	30-06-2018 (IFRS 9)	31-03-2018 (IFRS 9)	31-12-2017 (IAS 39)	30-09-2017 (IAS 39)	30-06-2017 (IAS 39)
Total assets	301 934	304 022	292 342	296 885	296 479
Loans and advances to customers, excl. reverse repos	145 346	142 512	140 999	139 538	138 522
Securities (equity and debt instruments)	63 936	66 050	67 743	69 273	70 898
Deposits from customers and debt certificates, excl.repos	192 951	188 034	193 708	188 962	188 708
Technical provisions, before reinsurance	18 595	18 754	18 641	18 696	18 905
Liabilities under investment contracts, insurance	13 428	13 338	13 552	13 294	13 339
Parent shareholders' equity	16 616	17 119	17 403	17 003	16 665

Selected ratios KBC group (consolidated)	1H2018	FY2017
Return on equity	16%	17%
Cost/income ratio, banking (when excluding certain non-operating items and evenly spreading the bank tax)	62% (56%)	54% (55%)
Combined ratio, non-life insurance	88%	88%
Common equity ratio, Basel III Danish Compromise (fully loaded)	15.8%	16.3%
Common equity ratio, FICOD (fully loaded)	15.0%	15.1%
Leverage ratio, Basel III (fully loaded)	6.0%	6.1%
Credit cost ratio[3]	-0.10%	-0.06%
Impaired loans ratio	5.5%	6.0%
for loans more than 90 days past due	3.2%	3.4%
Net stable funding ratio (NSFR)	136%	134%
Liquidity coverage ratio (LCR)	139%	139%

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

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

Analysis of the quarter (2Q2018)

Total income

1 863 million euros

Total income was slightly down (-3%) quarter-on-quarter. Overall, net interest income was relatively stable (-1%), non-life insurance income and dividend income increased, net fee and commission income fell slightly and trading and fair value income dropped significantly. Net other income was adversely impacted by a one-off item.

Net interest income amounted to 1 117 million euros in the quarter under review. On a comparable basis, it was relatively stable quarter-on-quarter (-1%), but up year-on-year (+2%). In general, the pressure on commercial loan margins in most core countries, the negative effect of low reinvestment yields and a lower netted positive impact of ALM forex swaps were offset by loan volume growth, lower funding costs, higher repo rates in the Czech Republic and the consolidation of UBB/Interlease (year-on-year). As already mentioned, interest income continued to be supported by loan volume growth: the total volume of customer lending rose by 3% quarter-on-quarter and by 5% year-on-year, with increases in all business units. Customer deposits including debt certificates went up by 3% quarter-on-quarter, and by 2% year-on-year. Excluding debt certificates (which were down year-on-year due to several factors, including the lower level of certificates of deposits and repayment of the contingent capital securities in January), deposits went up by 6% year-on-year, again with increases in all business units. The net interest margin came to 2.00% for the quarter under review, down 1 basis point and up 4 basis points on the level in the previous and year-earlier quarter, respectively.

Our non-life insurance activities did very well, contributing 189 million euros to technical insurance income (earned premiums less technical charges, plus the ceded reinsurance result), 24% more than in the previous quarter and 11% more year-on-year. While the quarter-on-quarter increase was accounted for by the combination of increased premium income in all countries and a decrease in technical charges in Belgium (the figure for the first quarter of 2018 had been impacted by the January storms), the year-on-year increase was due solely to a rise in earned premiums. Consequently, the combined ratio for the first six months of 2018 came to an excellent 88%, in line with the figure recorded for full-year 2017.

Technical insurance income from our life insurance activities stood at 0 million euros, compared to -7 million euros in the previous quarter and -25 million in the year-earlier quarter. Sales of life insurance products (426 million euros) were 14% lower than in the previous quarter (drop mainly in unit-linked products) and were up 3% on the year-earlier quarter (drop in sales of unit-linked products offset by increased sales of guaranteed-interest products). Overall, the share of guaranteed-interest products in total life insurance sales stood at 61% in the second quarter of 2018, with unit-linked products accounting for the remaining 39%.

At 438 million euros, net fee and commission income remained robust, though on a comparable basis, it was down 3% and 4%, respectively, on its level of the previous and year-earlier quarters. Essentially, this was caused in both cases by the lower level of entry fees generated by our asset management activities (due to the more uncertain investment climate in the quarter under review) and lower securities-related fees. This was partly offset by higher payment services-related fees and (year-on-year) the beneficial effect of the inclusion of UBB/Interlease. At the end of June 2018, our total assets under management stood at 214 billion euros, more or less stable quarter-on-quarter and up 1% year-on-year (positive price performance).

All other remaining income items amounted to an aggregate 119 million euros, compared to 189 million euros in the previous quarter and 265 million euros in the year-earlier quarter (on a comparable basis). The figure for the second quarter of 2018 included relatively high dividend income of 34 million euros (the second quarter of the year traditionally includes the bulk of received dividends) and net realised result from debt instruments at fair value of 8 million euros. It also included 23 million euros in other net income, down on the previous quarter on account of a negative one-off item related to the settlement of a legacy legal case (-38 million euros), whereas the previous quarter had benefited from certain positive one-off items, viz. the settlement of another old legal case and the sale of a building (an aggregate 25 million euros). The other remaining income items also included the 54-million-euro net result from financial instruments at fair value (trading and fair value income). This figure was down significantly on both reference quarters, due to the combination of a lower value of derivatives used for asset/liability management purposes, the negative impact of various valuation adjustments and lower dealing room income in the Czech Republic, partly offset by higher realised gains on the sale of shares in the insurance portfolio.

Operating expenses

966 million euros

The comparison of expenses is distorted by the traditional upfront recognition in the first quarter of the year of the bulk of bank taxes for the full year. Excluding these taxes, expenses in the second quarter were up 2% on the previous quarter.

Operating expenses in the second quarter of 2018 stood at 966 million euros. The quarter-on-quarter comparison is distorted by the traditional upfront recognition in the first quarter of most of the bank taxes for the full year (371 million euros in the first quarter of 2018, compared to only 24 million euros in the second quarter of 2018). Excluding bank taxes, costs increased by 2% quarter-on-quarter, caused largely by increased staff expenses (mainly in Belgium and the Czech Republic), and seasonally higher marketing expenses, ICT costs and professional fees. Costs excluding bank taxes rose 6% year-on-year, partly due to the inclusion of UBB/Interlease, with the rest of the increase being accounted for by *inter alia* higher ICT costs (investments in digital transformation) and marketing expenses.

As a result, the cost/income ratio of our banking activities stood at 62% in the first six months of the year. When the bank taxes are spread evenly throughout the year and certain non-operational items are excluded, the cost/income ratio came to 56%, roughly in line with the 55% recorded for full-year 2017.

Loan loss impairments

21-million-euro net release

Another net release of loan loss impairments thanks to Ireland. Very favourable credit cost ratio of -0.10%.

In the second quarter of 2018, we recorded a 21-million-euro net release of loan loss impairments. This compares with a net release of 63 million euros in the previous quarter and 78 million euros in the second quarter of 2017. As was the case in the past few quarters, the net release of loan loss impairments in the second quarter of 2018 was largely attributable to Ireland (39 million euros in the second quarter of 2018), which came about mainly because of the positive effect of increased house prices on the mortgage loan portfolio. This was partly offset by 26 million euros of additional loan loss impairment charges being recorded in Belgium (related to corporate files). In all the other core countries, there was either a small release of loan loss impairments (Czech Republic, Hungary, Bulgaria and the Group Centre) or a generally low level of loan loss impairment charges (Slovakia). Consequently, the credit cost ratio for the entire group amounted to a very favourable -0.10% for the first six months of the year (a negative figure indicates a net release and, hence, has a positive impact on the results), compared to -0.06% in full-year 2017. Excluding Ireland, the credit cost ratio would have come to 0.00% in the first six months of the year (0.09% in full-year 2017).
The impaired loans ratio improved further in all business units. At the end of June 2018, some 5.5% of our total loan book was classified as impaired, compared with 6.0% at year-end 2017. Impaired credits that are more than 90 days past due amounted to 3.2% of the loan book (3.4% at year-end 2017).
The quarter under review also included 20 million euros in impairment on assets other than loans (partly related to the impact of the review of residual values of financial car leases under short-term contracts in the Czech Republic and to a legacy property file in Bulgaria).

Net result by business unit

Belgium	Czech Republic	International Markets	Group Centre
437 million euros	145 million euros	163 million euros	-53 million euros

Belgium: the net result was up 80% quarter-on-quarter, but this was distorted by the upfront booking in the first quarter of 2018 of most of the bank tax for the full year. Excluding bank taxes, the net result was fully in line with the previous quarter, and included a good level of net interest income, a decrease in net fee and commission income (more uncertain investment climate), higher technical insurance income (thanks to a strong performance in the non-life segment), higher trading and fair value income, seasonally higher dividend income and lower net other income (a positive one-off item in the previous quarter). Costs – excluding bank taxes – rose somewhat (mainly staff, ICT and marketing expenses) and loan loss impairment charges remained at a low level.

Czech Republic: disregarding the exchange rate effect, the net result was down 14% on its level for the previous quarter. Excluding bank taxes, the net result fell 24%, due mainly to lower trading and fair value income, and, to a lesser extent, higher costs (mainly staff and marketing expenses).

International Markets: the 163-million-euro net result breaks down as follows: 19 million euros for Slovakia, 62 million euros for Hungary, 26 million euros for Bulgaria and 55 million euros for Ireland. For the business unit as a whole and excluding the impact of the bank tax, the net result was down 6% quarter-on-quarter, due to the fact that the increase in total income (up 13 million euros in total, various income lines) was more than offset by a lower level of net loan loss releases (39 million euros, compared to 61 million euros in the previous quarter).

Group Centre: the net result was down 58 million euros on the level recorded in the previous quarter, due mainly to a negative one-off impact related to the settlement of a legacy legal case (38 million euros), a negative change in the value of derivatives used for asset/liability management purposes and lower releases of loan loss impairments (4 million euros, compared to 16 million euros in the previous quarter).

	Belgium		**Czech Republic**		**International Markets**	
Selected ratios by business unit	**1H2018**	**FY2017**	**1H2018**	**FY2017**	**1H2018**	**FY2017**
Cost/income ratio, banking excluding certain non-operating items and spreading the bank tax evenly throughout the year	57%	53%	45%	43%	62%	72%
Combined ratio, non-life insurance	87%	86%	96%	97%	88%	93%
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 A negative figure indicates a net impairment release (with a positive impact on the results). See 'Details of ratios and terms' in the quarterly report.
2 2018 figures based on a slightly changed definition of the loan portfolio. See 'Credit risk' in the quarterly report.

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

Equity, solvency, liquidity	Total equity	Common equity ratio (fully loaded)	Liquidity coverage ratio	Net stable funding ratio
	19.0 billion euros	15.8%	139%	136%

At the end of June 2018, total equity stood at 19.0 billion euros (16.6 billion euros in parent shareholders' equity and 2.4 billion euros in additional tier-1 instruments), up 1.0 billion euros on its level at the beginning of the year on a like-for-like basis (i.e. after adjustment for the impact of the first-time application of IFRS 9, which led to a drop of 0.7 billion euros). The 'like-for-like' increase of 1.0 billion euros during the first six months of the year resulted from the inclusion of the profit for that period (+1.2 billion euros), the issuance of a new additional tier-1 instrument in April (+1 billion euros), payment of the final dividend for 2017 in May 2018 (-0.8 billion euros), the share buyback (-0.2 billion euros), changes in various revaluation reserves (an aggregate -0.3 billion euros) and a number of minor items. We have provided details of the changes in the 'Consolidated financial statements' section of the quarterly report (under 'Consolidated statement of changes in equity').

At 30 June 2018, our fully loaded common equity ratio (Basel III, under the Danish compromise) stood at a strong 15.8%, compared to 15.9% three months earlier. Note that this ratio includes the effect of the recent share buyback (-0.2%). Our leverage ratio (Basel III, fully loaded) came to 6.0%. The solvency ratio for KBC Insurance under the Solvency II framework was a sound 219% at 30 June 2018. Our liquidity position remained excellent too, as reflected in an LCR ratio of 139% and an NSFR ratio of 136% at the end of June 2018.

Analysis of the year-to-date period (1H2018)

Net result

1 248 million euros

The net result for the first six months of 2018 was down 16% compared to same period of 2017. On a comparable basis, the increase in net interest income, dividend income and technical insurance income was more than offset by the significant drop in trading and fair value income, lower net fee and commission income and other net income, and higher expenses. The first half results for both 2018 and 2017 benefited from net loan loss impairment releases, mainly in KBC Bank Ireland.

Highlights (compared to the first half of 2017, on a comparable basis):

- Somewhat higher net interest income (up 3% to 2 242 million euros), thanks to *inter alia* the consolidation of UBB/Interlease, lower funding costs, rate hikes in the Czech Republic and higher commercial lending volumes, which more than offset overall margin pressure and the negative effects of low reinvestment yields. The volume of deposits increased (+2%, or +6% excluding debt certificates), as did the volume of lending (+5%). The net interest margin in the first half of 2018 came to 2.01%.
- A higher contribution to profit made by the technical insurance result (up 12% to 336 million euros). Life insurance sales (924 million euros) were up by 4%, mainly on account of an increase in the sale of guaranteed-interest products. The non-life insurance technical result was slightly lower than in the year-earlier period (higher premium income offset by higher technical charges and a lower ceded reinsurance result). The year-to-date non-life combined ratio stood at 88% (same level as in full-year 2017).
- Slightly lower net fee and commission income (down 3% to 889 million euros), attributable primarily to our asset management services (lower entry fees) and, to a lesser extent, to lower securities-related fees, partly offset by increased payment services-related fees and the consolidation of UBB/Interlease. At the end of June 2018, total assets under management stood at 214 billion euros, slightly up (+1%) on the level recorded a year earlier (positive price effect).
- A lower level of all other income items combined (down 38% to 308 million euros) caused mainly by a significantly lower trading and fair value result and a decrease in other net income, and slightly offset by higher dividend income.
- Higher operating expenses (up 6% to 2 257 million euros), partly due to the consolidation of UBB/Interlease in the figures for the first half of 2018, as well as increased bank taxes and higher facilities and ICT costs. As a result, the year-to-date cost/income ratio came to 62%, or an adjusted 56% when 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).
- A net release of loan loss impairments (84 million euros in the first half of 2018, compared to 72 million euros in the year-earlier period) thanks largely to the impairment releases on Irish mortgage loans (81 million euros) mainly because of increased house prices. As a result, the annualised credit cost ratio for the whole group stood at an excellent -0.10% (a negative figure indicates a positive impact on the results), compared to -0.06% for full-year 2017.
- The net result for the first half of 2018 breaks down as follows: 680 million euros for the Belgium Business Unit (-13% compared to the year-earlier period), 316 million euros for the Czech Republic Business Unit (-13%), 299 million euros for the International Markets Business Unit (+3%) and -48 million euros for the Group Centre (compared to a positive 45 million in the first half of 2017). The result for the International Markets Business Unit for the first half of 2018 breaks down into 113 million euros for Ireland, 96 million euros for Hungary, 42 million euros for Slovakia and 47 million euros for Bulgaria.

Risk statement, economic views and guidance

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

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

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

Our view on interest rates and foreign exchange rates: 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 25.50 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

- In line with our dividend policy, we will pay an interim dividend of 1 euro per share in November (payment date: 16 November 2018; record date: 15 November 2018; ex-coupon date: 14 November 2018).
- For the rest of 2018, we expect solid returns for all business units.
- For Ireland, our guidance for loan impairment for full-year 2018 is for a net release of 100 to 150 million euros.
- For Belgium, we expect a recurring positive impact on our results from the recent reform of the Belgian income tax system. The negative upfront effect recorded in the last quarter of 2017 should be fully recouped 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), a release of risk-weighted assets of approximately 0.4 billion euros at KBC Group, leading to an improvement of the KBC Group common equity ratio of 7 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 Group (in millions of EUR, unaudited figures)			Pro forma recalculation of 2017 reference figures			
	2Q2018	1Q2018	4Q2017	3Q2017	2Q2017	1Q2017
Net interest income	1 117	1 125	1 029	1 039	1 028	1 025
+ interest accruals on FX derivatives			+108	+75	+66	+56
= pro forma reference figure (used in our results analysis)			=1 137	=1 114	=1 094	=1 081
Net result from financial instruments at fair value through P&L (FIFV)	54	96	235	182	249	191
- interest accruals on FX derivatives			-108	-75	-66	-56
- network income			-26	-25	-24	-24
+ result on equity instruments (‘overlay approach’)			+17	+12	+21	+19
= pro forma reference figure (used in our results analysis)			=118	=94	=180	=130
Net fee and commission income	438	450	430	408	430	439
+ network income			+26	+25	+24	+24
= pro forma reference figure (used in our results analysis)			=456	=433	=454	=463

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

KBC Group

Consolidated financial statements according to IFRS

2Q 2018 and 6M 2018

Section reviewed by the Auditor

Glossary

AC: amortised cost
AFS: Available For Sale (IAS 39)
ALM: Asset Liability Management
ECL: Expected Credit Loss
FA: Financial Assets
FTA: First Time Application/Adoption
FV: Fair Value
FVA: Funding Value Adjustment
FVOCI: Fair Value through Other Comprehensive Income
FVPL: Fair Value through Profit or Loss
FVPL – overlay: Fair Value through Profit or Loss - overlay
GCA: Gross Carrying Amount
HFT: Held For Trading
HTM: Held To Maturity (IAS 39)
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	2Q 2018 IFRS 9	1Q 2018 IFRS 9	2Q 2017 IAS 39
Net interest income	3.1	2 242	2 052	1 117	1 125	1 028
Interest income	3.1	3 394	3 142	1 712	1 682	1 566
Interest expense	3.1	- 1 153	- 1 090	- 595	- 557	- 538
Non-life insurance before reinsurance	3.7	364	366	202	162	179
Earned premiums Non-life	3.7	770	729	392	378	369
Technical charges Non-life	3.7	- 406	- 363	- 190	- 216	- 190
Life insurance before reinsurance	3.7	- 5	- 52	1	- 7	- 24
Earned premiums Life	3.7	651	579	315	336	267
Technical charges Life	3.7	- 656	- 631	- 314	- 343	- 291
Ceded reinsurance result	3.7	- 23	- 13	- 14	- 9	- 10
Dividend income		55	44	34	21	30
Net result from financial instruments at fair value through profit or loss	3.3	150	439	54	96	249
Of which Result on equity instruments (overlay)		52	-	33	19	-
Net realised result from available-for-sale assets		-	97	-	-	52
Net realised result from debt instruments at fair value through OCI		9	-	8	1	-
Net fee and commission income	3.5	889	869	438	450	430
Fee and commission income	3.5	1 247	1 368	600	648	748
Fee and commission expense	3.5	- 359	- 499	- 161	- 197	- 318
Net other income	3.6	94	124	23	71	47
TOTAL INCOME		3 775	3 926	1 863	1 912	1 980
Operating expenses	3.8	- 2 257	- 2 139	- 966	- 1 291	- 910
Staff expenses	3.8	- 1 170	- 1 141	- 587	- 583	- 577
General administrative expenses	3.8	- 951	- 869	- 311	- 640	- 269
Depreciation and amortisation of fixed assets	3.8	- 137	- 129	- 69	- 68	- 65
Impairment	3.10	58	64	1	56	71
On loans and receivables	3.10	-	72	-	-	78
On financial assets at amortised cost and at FV through OCI	3.10	84	-	21	63	-
On available-for-sale assets	3.10	-	- 3	-	-	- 2
On financial assets at fair value through other comprehensive income	3.10	2	-		0	-
On goodwill	3.10	0	0	0	0	0
On other	3.10	- 26	- 5	- 20	- 6	- 5
Share in results of associated companies and joint ventures		10	8	3	6	3
RESULT BEFORE TAX		1 585	1 858	901	683	1 144
Income tax expense		- 337	- 373	- 210	- 127	- 288
RESULT AFTER TAX		1 248	1 485	692	556	855
Attributable to minority interest		0	0	0	0	0
Attributable to equity holders of the parent		**1 248**	**1 485**	**692**	**556**	**855**
Earnings per share (in EUR)						
Basic		2,91	3,49	1,61	1,30	2,01
Diluted		2,91	3,49	1,61	1,30	2,01

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

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

Overview impact of the overlay approach on the consolidated income statement

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

The extra volatility due to IFRS 9, and reclassified out of the net result from financial instruments at fair value through profit or loss to the revaluation reserves of equity instruments (overlay approach) refers to the unrealised fair value fluctuations amounting to -75 million euros in 1H 2018. It can be summarized as the difference between

- IFRS 9 result (without applying the overlay): -22 million euros of realised and unrealised fair value adjustments included in 'net result from financial instruments at fair value through profit or loss'
- IAS 39 result: 52 million euros including net realised result amounting to 64 million euros and impairment loss of 12 million euros.
- The tax impact on this reclassification amounts to -1 million euros.

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

Consolidated statement of comprehensive income (condensed)

(in millions of EUR)	1H 2018 IFRS 9	1H 2017 IAS 39	2Q 2018 IFRS 9	1Q 2018 IFRS 9	2Q 2017 IAS 39
RESULT AFTER TAX	1 248	1 485	692	556	855
Attributable to minority interest	0	0	0	0	0
Attributable to equity holders of the parent	1 248	1 485	692	556	855
Other comprehensive income - to be recycled to P&L	- 241	- 22	- 167	- 75	84
Net change in revaluation reserve AFS equity	-	- 5	-	-	- 42
Net change in revaluation reserve AFS bonds	-	- 169	-	-	45
Net change in revaluation reserve FVOCI debt instruments	- 138	-	- 105	- 33	-
Net change in revaluation reserve (AFS assets) - Other	-	0	-	-	0
Net change in revaluation reserve FVPL equity instruments - overlay approach	- 75	-	12	- 88	-
Net change in hedging reserve - cash flow hedge	17	160	- 31	48	80
Net change in translation differences	- 136	- 5	- 136	0	- 3
Hedge of net investments in foreign operations	97	0	98	- 1	0
Net change related to associated companies & joint ventures	- 7	- 2	- 6	0	5
Other movements	0	- 1	0	- 1	- 1
Other comprehensive income - not to be recycled to P&L	- 12	27	- 12	0	- 11
Net change in revaluation reserve FVOCI equity instruments	5	-	2	3	-
Net change in defined benefit plans	- 19	33	- 16	- 3	- 8
Net change on own credit risk - liabilities designated at FVPL	3	- 5	3	0	- 3
Net change related to associated companies & joint ventures	0	0	0	0	0
TOTAL COMPREHENSIVE INCOME	995	1 490	513	482	928
Attributable to minority interest	0	0	0	0	0
Attributable to equity holders of the parent	994	1 490	513	482	928

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

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

- The revaluation reserve (FV OCI debt instruments) lowered in 1H 2018 by -138 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 -169 million euros +160 million euros, which were both mainly explained by an increase in long-term interest rates.
- Net change in revaluation reserve (FVPL equity instruments – overlay approach): the -75 million euros in 1H 2018 can be explained for the largest part by transfers to net result (gains on disposal) and to a lesser extent by negative fair value movements. In 1H 2017, net change in revaluation reserve (AFS assets) – Equity of -5 million euros was mainly affected by transfers to net result (gains on disposal) partly compensated by positive fair value movements.
- Net change in translation differences in 1H 2018 (-136 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 (+97 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		31 346	29 727	
Financial assets	4.0	262 170	254 753	*253 817*
Held for trading	4.0	-	7 431	-
Designated at fair value through profit or loss	4.0	-	14 484	-
Available for sale	4.0	-	34 156	-
Loans and receivables	4.0	-	167 458	-
Held to maturity	4.0	-	30 979	-
Amortised cost	4.0	220 105	-	*210 865*
Fair value through OCI	4.0	18 451	-	*19 516*
Fair value through profit or loss	4.0	23 359	-	*23 191*
Of which held for trading	4.0	7 580	-	*7 148*
Hedging derivatives	4.0	255	245	*245*
Reinsurers' share in technical provisions		131	131	
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		- 18	- 78	
Tax assets		1 739	1 625	
Current tax assets		189	82	
Deferred tax assets		1 550	1 543	
Non-current assets held for sale and assets associated with disposal groups		13	21	
Investments in associated companies and joint ventures		201	240	
Property, equipment and investment property		3 314	3 207	
Goodwill and other intangible assets		1 228	1 205	
Other assets		1 808	1 512	
TOTAL ASSETS		301 934	292 342	

LIABILITIES AND EQUITY (in millions of EUR)	Note	30-06-2018	31-12-2017	*01-01-2018*
Financial liabilities	4.0	260 962	251 260	*251 260*
Amortised cost	4.0	238 772	227 944	
Fair value through profit or loss	4.0	21 028	22 032	
Of which held for trading	4.0	6 057	6 998	
Hedging derivatives	4.0	1 161	1 284	
Technical provisions, before reinsurance		18 595	18 641	
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		- 127	- 86	
Tax liabilities		409	582	
Current tax liabilities		94	148	
Deferred tax liabilies		315	434	
Liabilities associated with disposal groups		0	0	
Provisions for risks and charges		312	399	
Other liabilities		2 767	2 743	
TOTAL LIABILITIES		282 918	273 540	
Total equity	5.10	19 016	18 803	
Parent shareholders' equity	5.10	16 616	17 403	*16 657*
Additional Tier-1 instruments included in equity	5.10	2 400	1 400	
Minority interests		0	0	
TOTAL LIABILITIES AND EQUITY		301 934	292 342	

Consolidated statement of changes in equity

30-06-2018

In millions of EUR	Issued and paid up share capital	Share premium	Treasury shares	Retained earnings	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)	**1 456**	**5 467**	**- 5**	**10 101**	**383**	**17 403**	**1 400**	**0**	**18 803**
Impact transition to IFRS 9	0	0	0	- 247	- 499	- 746	0	0	- 746
Balance at the beginning of the period (01-01-2018) after impact IFRS 9	**1 456**	**5 467**	**- 5**	**9 854**	**- 116**	**16 657**	**1 400**	**0**	**18 057**
Net result for the period	0	0	0	1 248	0	1 248	0	0	1 248
Other comprehensive income for the period	0	0	0	0	- 253	- 253	0	0	- 253
Subtotal	**0**	**0**	**0**	**1 247**	**- 253**	**994**	**0**	**0**	**995**
Dividends	0	0	0	- 838	0	- 838	0	0	- 838
Coupon additional Tier-1 instruments	0	0	0	- 28	0	- 28	0	0	- 28
Transfer from reserve to retained earnings on realisations	0	0	0	- 7	0	- 7	0	0	- 7
Issue of additional Tier-1 instruments included in equity	0	0	0	- 5	0	- 5	1 000	0	995
Purchases/sales of treasury shares	0	0	- 159	0	0	- 159	0	0	- 159
Total change	**0**	**0**	**- 159**	**371**	**- 253**	**- 41**	**1 000**	**0**	**959**
Balance at the end of the period	**1 456**	**5 467**	**- 163**	**10 225**	**- 369**	**16 616**	**2 400**	**0**	**19 016**
of which relating to equity method					20	20			20

In millions of EUR	Revaluation reserve AFS assets	Revaluation reserve FVOCI debt instruments	Revaluation reserve FVPL equity instruments - overlay approach	Revaluation reserve FVOCI equity instruments	Hedging reserve - cashflow hedges	Translation differences	Hedge of net investments in foreign operations	Remeasurement of defined benefit obligations	Own credit risk (through OCI)	Total revaluation reserves
1H 2018 IFRS 9										
Balance at the end of the period (31-12-2017)	**1 751**	**0**	**0**	**0**	**-1 339**	**- 11**	**45**	**- 52**	**- 10**	**383**
Impact transition to IFRS 9	-1 751	837	387	29	0		0		0	- 499
Balance at the beginning of the period (01-01-2018) after impact IFRS 9	**0**	**837**	**387**	**29**	**-1 339**	**- 11**	**45**	**- 52**	**- 10**	**- 116**
Net result for the period	0	0	0	0	0	0	0	0	0	0
Other comprehensive income for the period	0	- 141	- 75	4	17	- 140	97	- 19	3	- 253
Subtotal	**0**	**- 141**	**- 75**	**4**	**17**	**- 140**	**97**	**- 19**	**3**	**- 253**
Dividends	0	0	0	0	0	0	0	0	0	0
Coupon additional Tier-1 instruments	0	0	0	0	0	0	0	0	0	0
Transfer from reserve to retained earnings on realisations	0	0	0	0	0	0	0	0	0	0
Issue of additional Tier-1 instruments included in equity	0	0	0	0	0	0	0	0	0	0
Purchases/sales of treasury shares	0	0	0	0	0	0	0	0	0	0
Total change	**0**	**- 141**	**- 75**	**4**	**17**	**- 140**	**97**	**- 19**	**3**	**- 253**
Balance at the end of the period	**0**	**696**	**312**	**33**	**-1 321**	**- 151**	**142**	**- 71**	**- 8**	**- 369**
of which relating to equity method	0	7	0	1	0	12	0	0	0	20

30-06-2017	Issued and paid up share capital	Share premium	Treasury shares	Retained earnings	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Translation differences	Remeasurement of defined benefit obligations	Own credit risk (through OCI)	Total revaluation reserves	Parent share-holders' equity	Additional Tier-1 instruments included in equity	Minority interests	Total equity
1H 2017 IAS 39														
Balance at the end of the period (31-12-2016)	**1 455**	**5 453**	**0**	**8 751**	**1 756**	**-1 347**	**31**	**- 138**	**- 4**	**298**	**15 957**	**1 400**	**0**	**17 357**
Net result for the period	0	0	0	1 485	0	0	0	0	0	0	1 485	0	0	1 485
Other comprehensive income for the period	0	0	0	- 1	- 181	160	- 1	33	- 5	6	5	0	0	5
Subtotal	**0**	**0**	**0**	**1 484**	**- 181**	**160**	**- 1**	**33**	**- 5**	**6**	**1 490**	**0**	**0**	**1 490**
Dividends	0	0	0	- 753	0	0	0	0	0	0	- 753	0	0	- 753
Coupon additional Tier-1 instruments	0	0	0	- 26	0	0	0	0	0	0	- 26	0	0	- 26
Purchases of treasury shares	0	0	- 2	0	0	0	0	0	0	0	- 2	0	0	- 2
Total change	**0**	**0**	**- 2**	**705**	**- 181**	**160**	**- 1**	**33**	**- 5**	**6**	**708**	**0**	**0**	**708**
Balance at the end of the period	**1 455**	**5 453**	**- 2**	**9 456**	**1 575**	**-1 187**	**30**	**- 105**	**- 10**	**303**	**16 665**	**1 400**	**0**	**18 065**
of which revaluation reserve for shares					485									
of which revaluation reserve for bonds					1 090									
of which relating to equity method					19	0	11	0	0	30	30			30

Dividend over 2017: in line with our dividend policy, KBC paid an interim dividend of 1 euro per share (418 million euros in total), as an advance payment on the total dividend (deducted from retained earnings in 2017).
Furthermore, for 2017 the board of directors has additionally proposed to the general meeting of shareholders, which was approved on 3 May 2018, a closing dividend of 2 euro per share (a total of 837 million euros is deducted from retained earnings in 2Q 2018).

Also a buy-back of 2.7 million shares (roughly 0.2bn EUR) was proposed to the Annual Meeting which was approved on 3 May 2018 (i.e. a pay-out ratio of 59% including the total dividend, AT1 coupon and share buy-back).
Based on value date end of June, 2 380 929 shares have been bought back for a total amount of 160 million euros under the share buyback program. Until 03-07-2018 a total number of 2.700.000 of own shares were bought for a total amount of 181 million euros.

For more information see note ‘Parent shareholders equity and AT1 instruments‘ (note 5.10) further in this report.

Condensed consolidated cash flow statement

In millions of EUR	1H 2018 IFRS 9	1H 2017 IAS 39
Cash and cash equivalents at the beginning of the period	40 413	26 747
Net cash from (used in) operating activities	2 885	13 451
Net cash from (used in) investing activities	2 314	2 490
Net cash from (used in) financing activities	578	- 337
Effects of exchange rate changes on opening cash and cash equivalents	- 400	330
Cash and cash equivalents at the end of the period	45 791	42 681

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 837 million euros dividend payment,
- but this was more than compensated by the issue of covered bonds for 750 million euros,
- the issue of a green bond for 500 million euros (for more information see 'Financial assets and liabilities: breakdown by portfolio and product' (note 4.1) further in this report) and
- the issue of Additional Tier-1 instruments included in equity for 1 billion euros (for more information see 'Parent shareholders' equity and AT1 instruments' (note 5.10) further in this report).

Notes on statement of compliance and changes in accounting policies

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

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

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

- IFRS 9
    - IFRS 9 (Financial instruments) on the classification and measurement of financial instruments has been implemented as per 1st January 2018 as a replacement of IAS 39 (Financial Instruments: Recognition and Measurement). KBC applies IFRS 9 also to its insurance entities and, therefore, does not make use of the possibility offered by the IAS Board to temporarily defer implementation of IFRS 9 for its insurance entities.
    - Classification and measurement: classification and measurement of financial assets under IFRS 9 depends on the specific business model in place and the assets' contractual cashflow characteristics. For equity instruments not held for trading situated in our insurance activities, KBC applies the overlay approach to eligible equity instruments (reflecting a consistent treatment under IAS 39). This approach has been provided by the IASB to cover the transition period between the implementation of IFRS 9 and IFRS 17, thus ensuring there is a level playing field with other insurers and bank-insurers.
    - Impairment of financial instruments: financial instruments that are subject to impairment are classified into three stages, namely Stage 1: Performing; Stage 2: Underperforming (where lifetime expected credit losses are required to be measured); and Stage 3: Non-performing or impaired. KBC has established policies and processes to assess whether credit risk has increased significantly at the end of each reporting period and, therefore, whether 'staging' is required (i.e. moving from one stage to another). For the loan portfolio, a multi-tier approach has been adopted to staging, based on internal credit ratings, forbearance measures, collective assessment and days past due as a backstop. A similar multi-tier approach is used for the investment portfolio, except that KBC uses the low-credit-risk exemption, meaning that all investment grade bonds in scope are considered to be in 'Stage 1', unless any of the

other triggers indicate otherwise. For 'Stage 1' and 'Stage 2' – under IAS 39 – KBC recorded incurred-but-not-reported (IBNR) impairment losses, which are influenced by emergence periods. Under IFRS 9, impairment of financial assets is calculated on a 12-month expected credit loss (ECL) basis for 'Stage 1' and on a lifetime ECL basis for 'Stage 2'. Forward looking information is incorporated into the staging criteria and measurement of ECL. Different macroeconomic factors are taken into consideration and KBC applies three scenarios to evaluate a range of possible outcomes.

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

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

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

  - A change in presentation was made with regard to 'Network income' which is shifted from 'Net result from financial instruments at fair value through profit or loss' to 'Net fee and commission income'. 'Network income' is income received from margins earned on FX transactions (related to payments, credits, deposits, investments) and performed by the network (branches, online) for clients. The new presentation better reflects the business reality it concerns income received from margins earned on FX transactions carried out by the network for clients. The financial statements have not been restated retroactively according to IAS 8, as the total impact on them is considered to be non-material (a one-off impact of 25 million euros in 1Q 2018 and 24 million euros in 2Q 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). Currently the increase in the balance sheet total at first time application due to KBC acting as a lessee is estimated at 0.4 billion euro. There is no impact expected on equity at first time application and the ongoing P&L impact is expected to be non-material.
- IFRS 17
  - In May 2017, the IASB issued IFRS 17 (Insurance Contracts), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 (Insurance Contracts) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all

relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts. IFRS 17 will become effective for reporting periods beginning on or after 1 January 2021 (subject to EU endorsement), with comparative figures being required. An impact study is an inherent part of the IFRS 17 project that is currently underway at KBC.

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

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

The significant accounting policies were adjusted to take into account IFRS 9 and were re-designed. For an overview of new accounting policies, see the Consolidated financial statements according to IFRS of 1Q 2018 (pages 19 to 34).

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.

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

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

For more information on transition disclosures see the Consolidated financial statements according to IFRS 1Q 2018 (pages 35 to 37).

Notes on segment reporting

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

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

In millions of EUR	Business unit Belgium	Business unit Czech Republic	Business unit International Markets	*of which: Hungary*	*of which: Slovakia*	*of which: Bulgaria*	*of which: Ireland*	Group Centre	KBC Group
1H 2018 IFRS 9									
Net interest income	1 291	489	449	120	104	76	148	13	2 242
Non-life insurance before reinsurance	247	51	57	21	12	25	0	9	364
Earned premiums Non-life	524	119	121	53	19	48	0	7	770
Technical charges Non-life	- 277	- 68	- 63	- 33	- 8	- 23	0	2	- 406
Life insurance before reinsurance	- 49	29	15	5	6	4	0	0	- 5
Earned premiums Life	485	118	49	8	27	13	0	- 1	651
Technical charges Life	- 534	- 89	- 34	- 4	- 21	- 9	0	0	- 656
Ceded reinsurance result	- 12	- 5	- 7	- 1	- 1	- 4	0	1	- 23
Dividend income	50	0	0	0	0	0	0	5	55
Net result from financial instruments at fair value through profit or loss	87	48	42	33	3	6	0	- 27	150
Net realised result from debt instruments at fair value through OCI	0	0	1	0	0	1	0	8	9
Net fee and commission income	620	131	141	97	28	16	- 1	- 3	889
Net other income	108	7	16	14	4	- 1	0	- 37	94
TOTAL INCOME	2 342	751	714	288	156	122	148	- 32	3 775
Operating expenses	- 1 384	- 362	- 462	- 183	- 102	- 77	- 100	- 50	- 2 257
Impairment	- 40	- 16	94	7	0	6	81	20	58
On financial assets at amortised cost and at FV through OCI	- 40	3	100	7	0	12	81	20	84
On goodwill	0	0	0	0	0	0	0	0	0
On other	0	- 19	- 6	0	0	- 6	- 1	0	- 26
Share in results of associated companies and joint ventures	- 5	12	3	0	0	1	0	0	10
RESULT BEFORE TAX	913	385	349	113	54	52	129	- 62	1 585
Income tax expense	- 232	- 69	- 50	- 16	- 12	- 5	- 16	14	- 337
RESULT AFTER TAX	680	316	299	96	42	47	113	- 48	1 248
Attributable to minority interests	0	0	0	0	0	0	0	0	0
NET RESULT	680	316	299	96	42	47	113	- 48	1 248
1H 2017 IAS 39									
Net interest income	1 236	436	384	118	106	24	135	- 3	2 052
Non-life insurance before reinsurance	274	40	48	18	12	18	0	4	366
Earned premiums Non-life	514	101	110	48	17	45	0	4	729
Technical charges Non-life	- 240	- 61	- 62	- 30	- 5	- 27	0	0	- 363
Life insurance before reinsurance	- 87	23	12	3	6	2	0	0	- 52
Earned premiums Life	440	95	44	8	26	10	0	0	579
Technical charges Life	- 527	- 73	- 32	- 5	- 19	- 8	0	1	- 631
Ceded reinsurance result	- 9	- 4	- 2	- 1	- 1	0	0	1	- 13
Dividend income	36	0	0	0	0	0	0	8	44
Net result from financial instruments at fair value through profit or loss	284	115	48	33	9	1	5	- 7	439
Net realised result from available-for-sale assets	55	17	2	2	0	1	0	23	97
Net fee and commission income	677	95	102	77	25	- 3	0	- 4	869
Net other income	85	31	5	0	4	1	0	3	124
TOTAL INCOME	2 550	753	598	251	163	43	139	25	3 926
Operating expenses	- 1 366	- 316	- 395	- 178	- 100	- 29	- 87	- 62	- 2 139
Impairment	- 58	- 10	139	9	- 3	- 4	137	- 7	64
On loans and receivables	- 54	- 6	140	10	- 2	- 4	137	- 7	72
On available-for-sale assets	- 3	0	0	0	0	0	0	0	- 3
On goodwill	0	0	0	0	0	0	0	0	0
On other	- 1	- 3	- 1	- 1	0	0	0	0	- 5
Share in results of associated companies and joint ventures	- 4	10	2	0	0	0	0	0	8
RESULT BEFORE TAX	1 121	437	344	82	60	10	189	- 44	1 858
Income tax expense	- 336	- 73	- 53	- 14	- 14	- 1	- 24	89	- 373
RESULT AFTER TAX	785	364	292	68	47	9	166	45	1 485
Attributable to minority interests	0	0	0	0	0	0	0	0	0
NET RESULT	785	364	292	68	47	9	166	45	1 485

Other notes

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

In millions of EUR	1H 2018 IFRS 9	1H 2017 IAS 39	2Q 2018 IFRS 9	1Q 2018 IFRS 9	2Q 2017 IAS 39
Total	2 242	2 052	1 117	1 125	1 028
Interest income	3 394	3 142	1 712	1 682	1 566
Interest income on financial instruments calculated using effective interest rate method					
Loans and receivables	-	1 878	-	-	957
Held-to-maturity investments	-	438	-	-	203
Financial assets at amortised cost	2 568	-	1 286	1 282	-
Available-for-sale assets	-	327	-	-	161
Financial assets at fair value through OCI	198	-	97	100	-
Derivatives under hedge accounting	171	127	121	50	59
Other assets not at fair value	38	75	19	19	42
Interest income on other financial instruments					
Financial assets mandatorily at fair value other than HFT	4	0	2	2	0
Financial assets held for trading	416	295	187	229	143
of which economic hedge	*403*	*284*	*180*	*223*	*137*
Other financial assets at fair value through profit or loss	0	3	0	0	1
Interest expense	-1 153	-1 090	- 595	- 557	- 538
Interest expense on financial instruments calculated using effective interest rate method					
Financial liabilities measured at amortised cost	- 518	- 465	- 263	- 255	- 237
Derivatives under hedge accounting	- 266	- 232	- 164	- 103	- 107
Other	- 60	- 39	- 31	- 30	- 22
Interest expense on other financial instruments					
Financial liabilities held for trading	- 292	- 334	- 130	- 161	- 163
of which economic hedge	*- 277*	*- 325*	*- 124*	*- 154*	*- 159*
Financial liabilities designated at fair value through profit or loss	- 13	- 16	- 7	- 6	- 8
Net interest expense on defined benefit plans	- 3	- 4	- 1	- 1	- 2

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

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

As of 2018, the financial information is prepared in accordance with IFRS 9. Equity instruments of the insurance companies are accounted for using the overlay approach. For more information see consolidated financial statements according to IFRS 1Q 2018 under ‘Summary of significant accounting policies’ (note 1.2).

The result from financial instruments at fair value through profit or loss in 2Q 2018 is 41 million euros lower compared to 1Q 2018. The quarter-on-quarter decrease is due to:

- Negative MTM ALM derivatives in 2Q 2018 compared to slightly positive MTM ALM derivatives in 1Q 2018
- More negative market value adjustments in 2Q 2018
- A lower dealing room income in Czech Republic
- Partly compensated by higher results of the overlay approach equity instruments insurance.

Compared to 2Q 2017, the result from financial instruments at fair value through profit or loss is 194 million euros lower in 2Q 2018, for a large part explained by:

- Presentation changes :
    - With regard to 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 66 million euros in 2Q 2017 (for more information, see note ‘Statement of compliance’ (note 1.1)).
    - 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 24 million euros in 2Q 2017 (for more information, see note ‘Statement of compliance’ (note 1.1)).

    - With regard to overlay approach equity instruments insurance: as of 2018, the result from financial instruments at fair value through profit or loss includes the net realized result and impairments on equity instruments of the insurers (+21 million euros in 2Q 2017).
- Excluding these items the result from financial instruments at fair value through profit or loss in 2Q 2018 is 126 million euros lower compared to 2Q 2017, mainly explained by:
    - Negative MTM ALM derivatives in 2Q 2018 compared to very high positive MTM ALM derivatives in 2Q 2017 (mainly as a result of CZK/EUR spread tightening)
    - Lower dealing room income in Czech Republic and to a lesser extent in Belgium,
    - Partly compensated by higher results of the overlay approach equity instruments insurance.

The result from financial instruments at fair value through profit or loss in 1H 2018 is 289 million euros lower compared to 1H 2017, for a large part explained by:

- Presentation changes :
    - Shift of interest accruals for FX derivatives (122 million euros in 1H 2017) and network income (48 million euros in 1H 2017) out of the result from financial instruments at fair value through profit or loss, partially compensated by the inclusion of the results of the overlay approach equity instruments insurance in the result from financial instruments at fair value through profit or loss (40 million euros in 1H 2017).
- Excluding these items, the result from financial instruments at fair value through profit or loss in 1H 2018 is 159 million euros lower compared to 1H 2017, 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,
    - partly compensated by higher results of the Overlay approach equity instruments insurance.

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

In millions of EUR	1H 2018	1H 2017	2Q 2018	1Q 2018	2Q 2017
Total	889	869	438	450	430
Income	1 247	1 368	600	648	748
Expense	- 359	- 499	- 161	- 197	- 318
Breakdown by type					
Asset Management Services	580	637	281	299	314
Income	607	664	295	313	331
Expense	- 27	- 28	- 14	- 14	- 18
Banking Services	439	374	223	215	190
Income	606	675	288	318	407
Expense	- 167	- 301	- 65	- 102	- 217
Distribution	- 130	- 141	- 66	- 64	- 73
Income	34	29	17	17	10
Expense	- 164	- 170	- 83	- 81	- 83

A change in presentation was made with regard to 'Network income' which is shifted from 'Net result from financial instruments at fair value through profit or loss' to 'Net fee and commission income'. 'Network income' is income received from margins earned on FX transactions (related to payments, credits, deposits, investments) and performed by the network (branches, online) for clients. The new presentation better reflects the business reality, it concerns income received from margins earned on FX transactions carried out by the network for clients. The financial statements have not been restated retroactively according to IAS 8, as the total impact on them is considered to be non-material (a one-off impact of 25 million euros in 1Q 2018 and 24 million euros in 2Q 2018, before tax. For 1H 2018 network income amounts to 49 million euros, before tax).

The substantial higher amounts in 2Q 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.

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

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

In millions of EUR	1H 2018 IFRS 9	1H 2017 IAS 39	2Q 2018 IFRS 9	1Q 2018 IFRS 9	2Q 2017 IAS 39
Total	94	124	23	71	47
Of which net realised result following					
The sale of loans and receivables	-	2	-	-	0
The sale of held-to-maturity investments	-	2	-	-	- 4
The sale of financial assets at amortised cost	11	-	11	1	-
The repurchase of financial liabilities measured at amortised cost	0	0	0	0	0
Other: of which:	83	120	12	70	51
Income concerning leasing at the KBC Lease-group	35	40	17	17	20
Income from Group VAB	30	36	15	15	18
Settlement of an old legal file	- 20	14	- 38	18	0

Note : settlement of old legal files concerns Group Centre (in 2Q 2018 and 1Q 2018) and Czech Republic (in 1Q 2017 of 14 million euros).

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

In millions of EUR	Life	Non-life	Non-technical account	TOTAL
1H 2018 IFRS 9				
Earned premiums, insurance (before reinsurance)	652	780		1 432
Technical charges, insurance (before reinsurance)	- 657	- 406		- 1 063
Net fee and commission income	- 11	- 151		- 162
Ceded reinsurance result	0	- 23		- 23
Operating expenses	- 82	- 125	- 1	- 209
Internal costs claim paid	- 4	- 29		- 33
Administration costs related to acquisitions	- 17	- 37		- 54
Administration costs	- 61	- 59		- 120
Management costs investments	0	0	- 1	- 1
Technical result	- 99	75	- 1	- 25
Net interest income			252	252
Dividend income			35	35
Net result from financial instruments at fair value			62	62
Net realised result from FVOCI assets			1	1
Net other income			2	2
Impairments			1	1
Allocation to the technical accounts	287	41	- 328	0
Technical-financial result	188	116	24	330
Share in results of associated companies and joint ventures			2	2
RESULT BEFORE TAX	188	116	26	332
Income tax expense				- 75
RESULT AFTER TAX				257
attributable to minority interest				0
attributable to equity holders of the parent				257
1H 2017 IAS 39				
Earned premiums, insurance (before reinsurance)	580	740		1 320
Technical charges, insurance (before reinsurance)	- 632	- 363		- 995
Net fee and commission income	- 3	- 142		- 145
Ceded reinsurance result	- 1	- 13		- 14
Operating expenses	- 77	- 122	- 1	- 201
Internal costs claim paid	- 4	- 28		- 32
Administration costs related to acquisitions	- 16	- 40		- 55
Administration costs	- 57	- 55		- 112
Management costs investments	0	0	- 1	- 1
Technical result	- 132	99	- 1	- 35
Net interest income			284	284
Dividend income			27	27
Net result from financial instruments at fair value			- 6	- 6
Net realised result from AFS assets			47	47
Net other income			- 8	- 8
Impairments			- 4	- 4
Allocation to the technical accounts	276	43	- 319	0
Technical-financial result	143	142	21	306
Share in results of associated companies and joint ventures			2	2
RESULT BEFORE TAX	143	142	23	308
Income tax expense				- 85
RESULT AFTER TAX				223
attributable to minority interest				0
attributable to equity holders of the parent				223

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

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

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

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

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

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

The operating expenses for 2Q 2018 include 24 million euros related to bank (and insurance) levies (371 million euros in 1Q 2018; 19 million euros in 2Q 2017; 395 million euros in 1H 2018 and 380 million euros in 1H 2017). Application of IFRIC 21 (Levies) has as a consequence that certain levies are taken upfront in expense of the first quarter of the year.

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

In millions of EUR	1H 2018 IFRS 9	1H 2017 IAS 39	2Q 2018 IFRS 9	1Q 2018 IFRS 9	2Q 2017 IAS 39
Total	58	64	1	56	71
Impairment on financial assets at amortised cost (IAS 39: loans and receivables)	82	72	19	63	78
Breakdown by product					
Loans and advances	68	99	21	47	73
Debt securities	0	0	0	0	0
Provision for off-balance sheet commitments	13	- 27	- 2	15	5
Breakdown by type					
Loss allowance measured as 12 month ECL - stage 1	- 11	-	- 8	- 3	-
Loss allowance measured as lifetime ECL - stage 2	49	-	15	34	-
Loss allowance measured as lifetime ECL - stage 3	43	-	10	34	-
Purchased or originated credit-impaired (including off-balance-sheet credit commitments)	0	-	2	- 2	-
Specific impairments for on-balance-sheet lending	-	83	-	-	63
Provisions for off-balance-sheet credit commitments (*)	-	- 27	-	-	5
Portfolio-based impairments	-	16	-	-	10
Impairment on financial assets at fair value through OCI (IAS 39: available-for-sale assets)	2	- 3	2	0	- 2
Breakdown by type					
Equity instruments (2017: Shares) (**)	0	- 3	0	-	- 2
Debt securities (2017: Other)	2	0	2	0	0
- Loss allowance measured as 12 month ECL - stage 1	2	-	2	0	-
- Loss allowance measured as lifetime ECL - stage 2	0	-	1	0	-
- Loss allowance measured as lifetime ECL - stage 3	0	-	0	0	-
Impairment on goodwill	0	0	0	0	0
Impairment on other	- 26	- 5	- 20	- 6	- 5
Intangible assets, other than goodwill	0	0	0	0	0
Property and equipment and investment property	- 26	- 4	- 20	- 6	- 4
Held-to-maturity assets (IAS 39)	-	0	-	-	0
Modification gains/losses	0	0	0	0	0
Associated companies and joint ventures	0	0	0	0	0
Other	1	- 1	1	0	- 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 – income statement (note 3.12 in the annual accounts 2017)

In Belgium, the tax rate has decreased from 33,99% in 2017 to 29,58% in 2018 applying to the Belgian group companies, while a 100% exemption for dividends received has been introduced (instead of 95%), partly offset by the negative impact of some offsetting measures. The result of 1H 2018 has been positively impacted by these changes by approximately 65 million euros (about +25 million euros in 1Q 2018 and +40 million euros in 2Q 2018).

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

In millions of EUR	Amortised cost	Fair value through OCI	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	5 057	0	0	1	-	-	-	-	0	5 058
Loans and advances to customers excluding reverse repos	145 246	0	86	0	-	-	-	14	0	145 346
Trade receivables	4 275	0	0	0	-	-	-	0	0	4 275
Consumer credit	4 275	0	0	0	-	-	-	0	0	4 275
Mortgage loans	60 957	0	70	0	-	-	-	0	0	61 026
Term loans	64 244	0	16	0	-	-	-	14	0	64 273
Finance leasing	5 371	0	0	0	-	-	-	0	0	5 371
Current account advances	5 326	0	0	0	-	-	-	0	0	5 326
Other	799	0	0	0	-	-	-	0	0	799
Reverse repos	25 303	0	0	53	-	-	-	0	0	25 355
Reverse repos to credit institutions and investment firms	23 646	0	0	53	-	-	-	0	0	23 699
Reverse repos to customers	1 656	0	0	0	-	-	-	0	0	1 656
Equity instruments	0	283	1 276	502	-	-	-	-	-	2 061
Investment contracts (insurance)	-	-	14 293	-	-	-	-	-	-	14 293
Debt securities issued by	42 349	18 168	110	1 247	-	-	-	0	0	61 875
Public bodies	36 072	11 880	0	1 047	-	-	-	0	0	48 999
Credit institutions and investment firms	3 439	2 624	9	117	-	-	-	0	0	6 189
Corporates	2 838	3 664	102	83	-	-	-	0	0	6 687
Derivatives	-	-	-	5 758	-	-	-	-	255	6 013
Other	2 150	0	0	19	-	-	-	0	0	2 169
Total carrying value	220 105	18 451	15 765	7 580	-	-	-	14	255	262 170
FINANCIAL ASSETS, 31-12-2017										
Loans and advances to credit institutions and investment firms excluding reverse repos	-	-	-	1	0	4 877	-	0	0	4 878
Loans and advances to customers excluding reverse repos	-	-	-	0	0	140 960	-	38	0	140 999
Trade receivables	-	-	-	0	0	3 986	-	0	0	3 986
Consumer credit	-	-	-	0	0	3 857	-	0	0	3 857
Mortgage loans	-	-	-	0	0	60 601	-	23	0	60 625
Term loans	-	-	-	0	0	61 824	-	15	0	61 839
Finance leasing	-	-	-	0	0	5 308	-	0	0	5 308
Current account advances	-	-	-	0	0	4 728	-	0	0	4 728
Other	-	-	-	0	0	656	-	0	0	656
Reverse repos	-	-	-	2	0	20 074	-	0	0	20 076
Reverse repos to credit institutions and investment firms	-	-	-	2	0	19 570	-	0	0	19 572
Reverse repos to customers	-	-	-	0	0	504	-	0	0	504
Equity instruments	-	-	-	508	1 658	-	-	-	-	2 165
Investment contracts (insurance)	-	-	-	-	-	-	-	14 421	-	14 421
Debt securities issued by	-	-	-	1 156	32 498	921	30 979	24	0	65 578
Public bodies	-	-	-	955	22 307	52	29 096	0	0	52 410
Credit institutions and investment firms	-	-	-	121	4 468	125	1 177	0	0	5 891
Corporates	-	-	-	80	5 723	744	706	24	0	7 277
Derivatives	-	-	-	5 765	-	-	-	-	245	6 010
Other	-	-	-	0	0	626 -		0	0	626
Total carrying value	-	-	-	7 431	34 156	167 458	30 979	14 484	245	254 753

In millions of EUR	Amortised cost	Held for trading	Designated at fair value through profit and loss	Hedging derivatives	Total
FINANCIAL LIABILITIES, 30-06-2018					
Deposits from credit institutions and investment firms excluding repos	28 723	0	1	0	28 724
Deposits from customers and debt certificates excluding repos	191 203	206	1 542	0	192 951
Demand deposits	79 939	0	0	0	79 939
Time deposits	17 814	23	324	0	18 161
Saving accounts	58 899	0	0	0	58 899
Special deposits	2 426	0	0	0	2 426
Other deposits	493	0	0	0	493
Certificates of deposit	13 813	0	7	0	13 820
Customer savings certificates	1 695	0	0	0	1 695
Convertible bonds	0	0	0	0	0
Non-convertible bonds	13 695	182	1 027	0	14 904
Convertible subordinated liabilities	0	0	0	0	0
Non-convertible subordinated liabilities	2 429	0	184	0	2 612
Repos	14 821	91	0	0	14 912
Repos from credit institutions	11 678	91	0	0	11 769
Repos from customers	3 144	0	0	0	3 144
Liabilities under investment contracts	0	0	13 428	0	13 428
Derivatives	0	5 191	0	1 161	6 352
Short positions	0	563	0	0	563
in equity instruments	0	22	0	0	22
in debt instruments	0	540	0	0	540
Other	4 025	6	0	0	4 031
Total carrying value	238 772	6 057	14 971	1 161	260 962

FINANCIAL LIABILITIES, 31-12-2017					
Deposits from credit institutions and investment firms excluding repos	27 746	3	12	0	27 761
Deposits from customers and debt certificates excluding repos	192 019	219	1 470	0	193 708
Demand deposits	73 606	0	0	0	73 606
Time deposits	18 983	11	403	0	19 397
Saving accounts	56 692	0	0	0	56 692
Special deposits	2 235	0	0	0	2 235
Other deposits	549	0	0	0	549
Certificates of deposit	22 579	0	14	0	22 593
Customer savings certificates	1 721	0	0	0	1 721
Convertible bonds	0	0	0	0	0
Non-convertible bonds	12 323	208	866	0	13 397
Convertible subordinated liabilities	0	0	0	0	0
Non-convertible subordinated liabilities	3 330	0	186	0	3 516
Repos	5 835	0	0	0	5 836
Repos from credit institutions	5 575	0	0	0	5 575
Repos from customers	260	0	0	0	260
Liabilities under investment contracts	0	0	13 552	0	13 552
Derivatives	0	5 868	0	1 284	7 152
Short positions	0	905	0	0	905
in equity instruments	0	13	0	0	13
in debt instruments	0	892	0	0	892
Other	2 344	3	0	0	2 347
Total carrying value	227 944	6 998	15 034	1 284	251 260

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

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

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 at a margin of 72 basis points above benchmark rate. KBC is the first Belgian financial institution to bring its own green bond into the market.

Impaired financial assets (note 4.2.1 in the annual accounts 2017)

in millions of EUR Financial assets at Amortised cost	30-06-2018 Gross carrying amount	Impairment	carrying amount	31-03-2018 Gross carrying amount	Impairment	Carrying amount
Loans and advances	180 217	- 4 611	175 606	180 211	- 4 669	175 542
- Subject to 12month ECL - performing (Stage 1)	155 487	- 107	155 380	154 721	- 102	154 618
- Subject to Lifetime ECL - underperforming (Stage 2)	15 909	- 306	15 602	16 344	- 329	16 015
- Subject to Lifetime ECL - non-performing (Stage 3)	8 652	- 4 144	4 508	8 989	- 4 188	4 801
- Purchased or originated credit-impaired	168	- 53	115	158	- 50	108
Debt Securities	42 362	- 13	42 349	43 736	- 14	43 722
- Subject to 12month ECL - performing (Stage 1)	42 118	- 5	42 113	43 594	- 5	43 589
- Subject to Lifetime ECL - underperforming (Stage 2)	236	- 2	234	132	- 2	131
- Subject to Lifetime ECL - non-performing (Stage 3)	9	- 6	2	10	- 8	2
- Purchased or originated credit-impaired	0	0	0	0	0	0
Financial instruments at FV through OCI						
Debt Securities	18 175	- 6	18 168	18 420	- 9	18 411
- Subject to 12month ECL - performing (Stage 1)	17 971	- 4	17 967	18 202	- 6	18 196
- Subject to Lifetime ECL - underperforming (Stage 2)	204	- 2	202	218	- 3	216
- Subject to Lifetime ECL - non-performing (Stage 3)	0	0	0	0	0	0
- Purchased or originated credit-impaired	0	0	0	0	0	0

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

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

Fair value hierarchy In millions of EUR	Level 1	Level 2	Level 3	30-06-2018 Total	Level 1	Level 2	Level 3	31-12-2017 Total
Financial assets measured at fair value								
Mandatorily at fair value other than held for trading	15 136	415	214	15 765	-	-	-	-
Held for trading	1 404	4 703	1 473	7 580	1 122	4 402	1 907	7 431
Designated at fair value	0	14	0	14	13 949	525	10	14 484
Fair value through OCI	14 234	3 817	400	18 451	-	-	-	-
Available for sale	-	-	-	-	26 374	6 812	970	34 156
Hedging derivatives	0	255	0	255	0	245	0	245
Total	30 774	9 203	2 088	42 065	41 445	11 984	2 887	56 316
Financial liabilities measured at fair value								
Held for trading	551	3 524	1 982	6 057	909	3 872	2 218	6 998
Designated at fair value	13 416	863	692	14 971	13 544	904	585	15 034
Hedging derivatives	0	1 161	0	1 161	0	1 284	0	1 284
Total	13 967	5 549	2 674	22 190	14 453	6 060	2 803	23 316

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

In the first 6 months of 2018, a total amount of 138 million euros in financial instruments at fair value was transferred from level 1 to level 2. KBC also transferred 1 002 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 2017)

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

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

In the first 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 414 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 decreased by 436 million euros, which is mainly due to a decrease in debt securities
    - The fair value of debt securities in FVOCI decreased by 432 million euro, largely due to a transfer out of level 3 (net amount of 383 million euros). The majority of the transfers is due to changed liquidity of bonds. This decrease is enhanced by maturing deals, sales and fair value movements (-48 million) and slightly offset by purchases (+6 million).
    - The fair value of unquoted equity instruments 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 419 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 183 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 and AT1 instruments (note 5.10 in the annual accounts 2017)

in number of shares	30-06-2018 IFRS 9	31-12-2017 IAS 39
Ordinary shares	**418 597 567**	**418 597 567**
of which ordinary shares that entitle the holder to a dividend payment	*416 216 638*	*418 597 567*
of which treasury shares	*2 438 402*	*64 847*
Other information		
Par value per ordinary share (in EUR)	3,48	3,48
Number of shares issued but not fully paid up	0	0

The ordinary shares of KBC Group NV have no nominal value and are quoted on NYSE Euronext (Brussels).

On April 17, 2018 KBC Group NV placed 1 billion euros in Additional Tier-1 (AT1) instruments. 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 semiannual. 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. This transaction had no impact on the number of ordinary shares.

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

On May 17, 2018 KBC Group NV announced a share buyback programme for the purpose of cancelling the shares.
The shares were bought back under the conditions specified in the authorisation granted by the Extraordinary General Meeting of 3 May 2018. A total number of 2.700.000 of own shares were bought between 22-05-2018 and 03-07-2018 inclusive (of which (based on value date) 2 380 929 shares on 30 June 2018) , for a total amount of 181 million euros.

The treasury shares at YE 2017 almost fully relate to positions in shares of KBC Group to hedge outstanding equity derivatives.

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

In 1H 2018:

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

In 2017:

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

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

Significant non-adjusting events between the balance sheet date (30 June 2018) and the publication of this report (9 August 2018):

- By virtue of the authorisation granted by the Extraordinary General Meeting of 3 May 2018, the Board of Directors of KBC Group NV decided on 8 August 2018 to cancel 2 700 000 own shares that had been repurchased under the share buyback programme completed on 3 July 2018.
  As a result, the total number of shares carrying voting rights and the total number of voting rights with respect to KBC Group NV has fallen from 418 597 567 to 415 897 567. The capital remains unchanged at 1 456 074 585.67 euros.

- The Board of Directors of KBC Group of 8 August 2018 has decided an interim dividend of 1 euro per share (416 million euros in total), payable on 16 November 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), a release of risk-weighted assets of approximately 0.4 billion euros at KBC Group, leading to an improvement of the KBC Group common equity ratio of 7 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 GROUP 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 Group 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 301.934 million and a consolidated profit (share of the Group) for the six-month period then ended of EUR 1.248 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, 8 August 2018

The statutory auditor
PwC Bedrijfsrevisoren bcvba
represented by

Roland Jeanquart
Accredited auditor

Tom Meuleman
Accredited auditor

KBC Group

Additional Information 2Q 2018 and 6M 2018

Section not reviewed by the Auditor

Credit risk

Snapshot of the loan portfolio (banking activities)

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

Credit risk: loan portfolio overview

Total loan portfolio (in billions of EUR)	30-06-2018	31-12-2017
Portfolio outstanding + undrawn [1]	207	191
Portfolio 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%
Total outstanding loan portfolio sector breakdown		
Private persons	39.4%	42.1%
Finance and insurance	7.8%	5.2%
Authorities	4.2%	2.8%
Corporates	48.6%	49.8%
services	11.1%	11.6%
distribution	7.3%	7.6%
real estate	6.7%	7.0%
building & construction	4.1%	4.2%
agriculture, farming, fishing	2.6%	2.8%
automotive	2.3%	2.3%
electricity	1.6%	1.7%
food producers	1.5%	1.5%
metals	1.5%	1.4%
chemicals	1.2%	1.2%
machinery & heavy equipment	1.1%	1.1%
shipping	1.0%	1.2%
traders	1.0%	1.0%
hotels, bars & restaurants	0.8%	0.8%
oil, gas & other fuels	0.7%	0.7%
textile & apparel	0.6%	0.5%
electrotechnics	0.6%	0.6%
other [2]	3.1%	2.6%
Total outstanding loan portfolio geographical breakdown		
Home countries	86.0%	88.5%
Belgium	54.0%	56.5%
Czech Republic	14.8%	14.8%
Ireland	7.4%	7.8%
Slovakia	4.8%	4.9%
Hungary	3.0%	3.3%
Bulgaria	2.0%	2.1%
Rest of Western Europe	8.4%	7.4%
France	2.3%	1.9%
Netherlands	1.6%	1.6%
Great Britain	1.2%	1.1%
Spain	0.5%	0.5%
Luxemburg	0.8%	0.6%
Germany	0.7%	0.6%
other	1.3%	1.1%
Rest of Central Europe	0.6%	0.4%
Russia	0.2%	0.1%
other	0.4%	0.4%
North America	1.5%	1.4%
USA	1.2%	1.1%
Canada	0.3%	0.3%
Asia	1.6%	0.8%
China	0.8%	0.3%
Hong Kong	0.2%	0.2%
Singapore	0.2%	0.2%
other	0.4%	0.1%
Rest of the world	1.9%	1.4%

	30-06-2018	31-12-2017
Loan portfolio by IFRS-9 ECL [3] stage (part of portfolio, as % of the portfolio of credit outstanding)		
Stage 1 (credit risk has not increased significantly since initial recognition)	83%	
of which: PD 1 - 4	63%	
of which: PD 5 - 9 including unrated	20%	
Stage 2 (credit risk has increased significantly since initial recognition – not credit impaired) incl. POCI [4]	11%	
of which: PD 1 - 4	4%	
of which: PD 5 - 9 including unrated	8%	
Stage 3 (credit risk has increased significantly since initial recognition – credit impaired) incl. POCI [4]	5%	
of which: PD 10 – 12 (impaired loans)	5%	
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 portfolio 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; 31-12-2017 amounts are measured in the old definition of drawn principal (i.e. excluding reserved and accrued interests)
[2] Other includes corporate sectors not exceeding 0.5% concentration and unidentified sectors
[3] Under IFRS 9 financial instruments that are subject to impairment are classified into three stages, namely Stage 1: Performing; Stage 2: Underperforming (where lifetime expected credit losses are required to be measured); and Stage 3: Non-performing or impaired; More information on these IFRS 9 stages can be found under Notes on statement of compliance and changes in accounting policies
[4] Purchased or originated credit impaired assets

Impaired loans are loans for which full (re)payment of the contractual cash flows is deemed unlikely. This coincides with KBC's Probability-of-Default-classes 10, 11 and 12 (see annual accounts FY 2017 - section on credit risk for more information on PD classification). These impaired loans are equal to 'non-performing loans' under the (new) definition used by EBA. Since 1Q18 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 loan portfolio is restated to the extended scope:

Credit risk: loan portfolio overview

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

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

Loan portfolio per business unit (banking activities)

Legend:

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

Loan portfolio Business Unit Belgium
30-06-2018, in millions of EUR

	Belgium [1]			Foreign branches			Total Business Unit Belgium		
Total portfolio outstanding	**101 573**			**7 150**			**108 724**		
Counterparty break down		% outst.			% outst.			% outst.	
SME / corporate	36 074	35.5%		7 150	100.0%		43 225	39.8%	
retail	65 499	64.5%		0	0.0%		65 499	60.2%	
o/w private	35 307	34.8%		0	0.0%		35 307	32.5%	
o/w companies	30 192	29.7%		0	0.0%		30 192	27.8%	
Mortgage loans [2]		% outst.	ind. LTV		% outst.	ind. LTV		% outst.	
total	33 680	33.2%	57%	0	0.0%	-	33 680	31.0%	
o/w FX mortgages	0	0.0%	-	0	0.0%	-	0	0.0%	
o/w ind. LTV > 100%	861	0.8%	-	0	0.0%	-	861	0.8%	
Probability of default (PD)		% outst.			% outst.			% outst.	
low risk (PD 1-4; 0.00%-0.80%)	77 788	76.6%		4 638	64.9%		82 427	75.8%	
medium risk (PD 5-7; 0.80%-6.40%)	18 343	18.1%		2 111	29.5%		20 453	18.8%	
high risk (PD 8-9; 6.40%-100.00%)	2 733	2.7%		97	1.4%		2 830	2.6%	
impaired loans (PD 10 - 12)	2 335	2.3%		299	4.2%		2 634	2.4%	
unrated	374	0.4%		5	0.1%		379	0.3%	
Overall risk indicators		stage 3 imp.	% cover		stage 3 imp.	% cover		stage 3 imp.	% cover
outstanding impaired loans	2 335	1 056	45.2%	299	154	51.6%	2 634	1 210	45.9%
o/w PD 10 impaired loans	1 101	239	21.7%	194	82	42.1%	1 295	321	24.8%
o/w more than 90 days past due (PD 11+12)	1 234	817	66.2%	104	72	69.2%	1 339	889	66.4%
all impairments (stage 1+2+3)	n.a.			n.a.			1 381		
o/w stage 1+2 impairments (incl. POCI)	n.a.			n.a.			172		
o/w stage 3 impairments (incl. POCI)	1 056			154			1 210		
2017 Credit cost ratio (CCR)	0.08%			0.19%			0.09%		
YTD 2018 CCR	0.09%			-0.14%			0.08%		

Remarks

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

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

Loan portfolio Business Unit Czech Republic

30-06-2018, in millions of EUR				For information: ČMSS [3] (consolidated via equity-method)		
Total portfolio outstanding	**25 796**			**2 431**		
Counterparty break down		% outst.			% outst.	
SME / corporate	8 695	33.7%		0	0.0%	
retail	17 101	66.3%		2 431	100.0%	
o/w private	12 269	47.6%		2 419	99.5%	
o/w companies	4 832	18.7%		12	0.5%	
Mortgage loans [1]		% outst.	ind. LTV		% outst.	ind. LTV
total	11 058	42.9%	64%	1 895	77.9%	62%
o/w FX mortgages	0	0.0%	-	0	0.0%	-
o/w ind. LTV > 100%	248	1.0%	-	64	2.7%	-
Probability of default (PD)		% outst.			% outst.	
low risk (PD 1-4; 0.00%-0.80%)	16 641	64.5%		1 585	65.2%	
medium risk (PD 5-7; 0.80%-6.40%)	7 235	28.0%		617	25.4%	
high risk (PD 8-9; 6.40%-100.00%)	969	3.8%		114	4.7%	
impaired loans (PD 10 - 12)	550	2.1%		115	4.7%	
unrated	401	1.6%		0	0.0%	
Overall risk indicators [2]		stage 3 imp.	% cover		stage 3 imp.	% cover
outstanding impaired loans	550	292	53.0%	115	43	37.1%
o/w PD 10 impaired loans	170	37	22.0%	19	3	15.1%
o/w more than 90 days past due (PD 11+12)	380	254	66.9%	97	40	41.3%
all impairments (stage 1+2+3)	377			49		
o/w stage 1+2 impairments (incl. POCI)	85			7		
o/w stage 3 impairments (incl. POCI)	292			43		
2017 Credit cost ratio (CCR)	0.02%			0.16%		
YTD 2018 CCR	-0.03%			-0.05%		

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

Loan portfolio Business Unit International Markets
30-06-2018, in millions of EUR

	Ireland			Slovakia			Hungary			Bulgaria			Total Int Markets		
Total portfolio outstanding	**12 374**			**7 631**			**4 957**			**3 377**			**28 339**		
Counterparty break down		% outst.			% outst.			% outst.			% outst.			% outst.	
SME / corporate	1 140	9.2%		2 935	38.5%		2 965	59.8%		1 076	31.9%		8 117	28.6%	
retail	11 233	90.8%		4 696	61.5%		1 992	40.2%		2 301	68.1%		20 222	71.4%	
o/w private	11 222	90.7%		3 802	49.8%		1 828	36.9%		1 292	38.3%		18 145	64.0%	
o/w companies	11	0.1%		894	11.7%		164	3.3%		1 009	29.9%		2 077	7.3%	
Mortgage loans [1]		% outst.	ind. LTV		% outst.	ind. LTV		% outst.	ind. LTV		% outst.	ind. LTV		% outst.	
total	11 172	90.3%	74%	3 297	43.2%	65%	1 656	33.4%	64%	682	20.2%	69%	16 807	59.3%	
o/w FX mortgages	0	0.0%	-	0	0.0%	-	11	0.2%	119%	113	3.3%	61%	124	0.4%	
o/w ind. LTV > 100%	1 606	13.0%	-	19	0.2%	-	230	4.6%	-	59	1.8%	-	1 914	6.8%	
Probability of default (PD)		% outst.			% outst.			% outst.			% outst.			% outst.	
low risk (PD 1-4; 0.00%-0.80%)	879	7.1%		4 718	61.8%		2 617	52.8%		889	26.3%		9 103	32.1%	
medium risk (PD 5-7; 0.80%-6.40%)	6 005	48.5%		2 181	28.6%		1 831	36.9%		1 510	44.7%		11 526	40.7%	
high risk (PD 8-9; 6.40%-100.00%)	1 095	8.9%		483	6.3%		202	4.1%		317	9.4%		2 097	7.4%	
impaired loans (PD 10 - 12)	4 395	35.5%		193	2.5%		306	6.2%		630	18.7%		5 524	19.5%	
unrated	0	0.0%		57	0.7%		1	0.0%		31	0.9%		88	0.3%	
Overall risk indicators [2]		spec. imp.	% cover		spec. imp.	% cover		spec. imp.	% cover		spec. imp.	% cover		spec. imp.	% cover
outstanding impaired loans	4 395	1 820	41.4%	193	144	74.9%	306	202	65.9%	630	374	59.4%	5 524	2 541	46.0%
o/w PD 10 impaired loans	2 120	355	16.8%	23	12	52.3%	45	17	38.3%	71	18	24.9%	2 259	402	17.8%
o/w more than 90 days past due (PD 11+12)	2 275	1 465	64.4%	169	132	78.0%	262	185	70.6%	559	357	63.7%	3 265	2 139	65.5%
all impairments (stage 1+2+3)	1 864			192			226			403			2 685		
o/w stage 1+2 impairments (incl. POCI)	44			47			24			29			144		
o/w stage 3 impairments (incl. POCI)	1 820			144			202			374			2 541		
2017 Credit cost ratio (CCR)	-1.70%			0.16%			-0.22%			0.83%			-0.74%		
YTD 2018 CCR	-1.30%			0.01%			-0.28%			-0.71%			-0.71%		

Remarks

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

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

[2] CCR at country level in local currency

Loan portfolio Group Centre
30-06-2018, in millions of EUR

	Total Group Centre [1]		
Total portfolio outstanding	**4 090**		
Counterparty break down		% outst.	
SME / corporate	4 090	100.0%	
retail	0	0.0%	
o/w private	0	0.0%	
o/w companies	0	0.0%	
Mortgage loans [2]		% outst.	ind. LTV
total	0	0.0%	-
o/w FX mortgages	0	0.0%	-
o/w ind. LTV > 100%	0	0.0%	-
Probability of default (PD)		% outst.	
low risk (PD 1-4; 0.00%-0.80%)	3 106	75.9%	
medium risk (PD 5-7; 0.80%-6.40%)	431	10.5%	
high risk (PD 8-9; 6.40%-100.00%)	86	2.1%	
impaired loans (PD 10 - 12)	467	11.4%	
unrated	0	0.0%	
Overall risk indicators		stage 3 imp.	% cover
outstanding impaired loans	467	361	77.3%
o/w PD 10 impaired loans	103	21	20.8%
o/w more than 90 days past due (PD 11+12)	364	340	93.3%
all impairments (stage 1+2+3)	405		
o/w stage 1+2 impairments (incl. POCI)	44		
o/w stage 3 impairments (incl. POCI)	361		
2017 Credit cost ratio (CCR)	0.40%		
YTD 2018 CCR	-0.93%		

Remarks

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

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

Solvency

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

Solvency KBC Group

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

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

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

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

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

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

Overview of KBC Group's capital ratios - In millions of EUR - 30-06-2018

		numerator (common equity)	denominator (total weighted risk volume)	ratio (%)
CRDIV, Common Equity ratio				
Danish Compromise	Fully loaded	14 715	92 931	15,83%
Deduction Method	Fully loaded	13 721	87 484	15,68%
Financial Conglomerates Directive	Fully loaded	15 826	105 764	14,96%

Danish Compromise

In millions of EUR	30-06-2018 Fully loaded	31-03-2018 Fully loaded	31-12-2017 Fully loaded	*Pro forma (**) 01-01-2018 Fully loaded*
Total regulatory capital (after profit appropriation)	19 336	18 332	18 706	*18 348*
Tier-1 capital	17 115	16 193	16 504	*16 099*
Common equity	14 715	14 793	15 104	*14 699*
Parent shareholders' equity (after deconsolidating KBC Insurance)	16 104	16 707	16 841	*16 244*
Intangible fixed assets (incl deferred tax impact) (-)	- 507	- 492	- 475	*- 475*
Goodwill on consolidation (incl deferred tax impact) (-)	- 595	- 604	- 604	*- 604*
Minority interests	0	0	0	
Hedging reserve (cash flow hedges) (-)	1 321	1 291	1 339	*1 339*
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	- 12	- 5	- 1	*- 1*
Value adjustment due to the requirements for prudent valuation (-)	- 75	- 76	- 124	*- 77*
Dividend payout (-)	- 608	- 1 108	- 837	*- 837*
Share buyback (part not yet executed) (-)	- 21			
Renumeration of AT1 instruments (-)	- 7	- 2	- 2	*- 2*
Deduction re. financing provided to shareholders (-)	- 91	- 91	- 91	*- 91*
Deduction re. Irrevocable payment commitments (-)	- 32	- 20		
IRB provision shortfall (-)	- 89	- 88	- 268	*- 84*
Deferred tax assets on losses carried forward (-)	- 672	- 719	- 672	*- 712*
Limit on deferred tax assets from timing differences relying on future profitability and significant participations in financial sector entities (-)	0	0	0	
Additional going concern capital	2 400	1 400	1 400	*1 400*
Grandfathered innovative hybrid tier-1 instruments	0	0	0	*0*
CRR compliant AT1 instruments (***)	2 400	1 400	1 400	*1 400*
Minority interests to be included in additional going concern capital	0	0	0	*0*
Tier 2 capital	2 221	2 138	2 202	*2 249*
IRB provision excess (+)	360	257	316	*363*
Subordinated liabilities	1 861	1 881	1 886	*1 886*
Subordinated loans non-consolidated financial sector entities (-)	0	0	0	*0*
Minority interests to be included in tier 2 capital	0	0	0	*0*
Total weighted risk volume	92 931	93 173	92 410	*92 276*
Banking	83 624	83 873	83 117	
Insurance	9 133	9 133	9 133	
Holding activities	219	213	202	
Elimination of intercompany transactions	- 46	- 47	- 43	
Solvency ratios				
Common equity ratio	15,83%	15,88%	16,34%	*15,93%*
Tier-1 ratio	18,42%	17,38%	17,86%	*17,45%*
Total capital ratio (*)	20,81%	19,68%	20,24%	*19,88%*

(*) We have called the USD contingent convertible note (CoCo) the 25th of January 2018. The capital value of the CoCo has already been excluded from Tier-2 at year-end 2017. The impact of the CoCo call is largely offset by the successful issue of a Tier 2 benchmark issue in September 2017.
(**) Including first time application of IFRS 9
(***) On April 17, 2018 KBC Group NV placed 1 billion euros in Additional Tier-1 (AT1) instruments

Leverage ratio KBC Group

Leverage ratio KBC Group (Basel III fully loaded)

In millions of EUR	31-06-2018	31-03-2018	31-12-2017
Tier-1 capital (Danish compromise)	17 115	16 193	16 504
Total exposures	284 108	285 110	272 373
Total Assets	301 934	304 022	292 342
Deconsolidation KBC Insurance	-32 158	-32 044	-32 802
Adjustment for derivatives	-3 925	-3 059	-3 908
Adjustment for regulatory corrections in determining Basel III Tier-1 capital	-2 061	-2 070	-2 235
Adjustment for securities financing transaction exposures	2 500	749	816
Off-balance sheet exposures	17 817	17 511	18 160
Leverage ratio	6,02%	5,68%	6,06%

Solvency banking and insurance activities separately

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

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

KBC Bank consolidated - CRDIV/CRR In millions of EUR	30/06/2018 Fully loaded	31-03-2018 Fully loaded	31-12-2017 Fully loaded
Total regulatory capital, after profit appropriation	16 617	15 391	15 756
Tier-1 capital	14 319	13 192	13 484
Of which common equity	11 913	11 786	12 077
Tier-2 capital	2 298	2 199	2 273
Total weighted risks	83 624	83 873	83 117
Credit risk	69 652	69 677	68 842
Market risk	3 059	3 283	3 361
Operational risk	10 913	10 913	10 913
Solvency ratios			
Common equity ratio	14,2%	14,1%	14,5%
Tier-1 ratio	17,1%	15,7%	16,2%
CAD ratio	19,9%	18,4%	19,0%

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

Solvency II, KBC Insurance consolidated In millions of EUR	30-06-2018	31-03-2018	31-12-2017
Own Funds	3 855	3 894	3 865
Tier 1	3 355	3 394	3 365
IFRS Parent shareholders equity	2 993	2 892	3 051
Dividend payout	- 236	- 96	- 8
Deduction intangible assets and goodwill (after tax)	- 129	- 128	- 128
Valuation differences (after tax)	603	689	403
Volatility adjustment	131	42	43
Other	- 7	- 5	3
Tier 2	500	500	500
Subordinated liabilities	500	500	500
Solvency Capital Requirement (SCR)	1 757	1 783	1 823
Market risk	1 516	1 542	1 602
Non-life	535	536	535
Life	655	652	630
Health	169	169	178
Counterparty	117	126	107
Diversification	- 908	- 915	- 905
Other	- 326	- 327	- 324
Solvency II ratio	219%	218%	212%
Solvency surplus vs 100%	2 097	2 111	2 042

Minimum requirement for own funds and eligible liabilities (MREL)

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

MREL measures the amount of own funds and eligible liabilities that can be credibly and feasibly bailed-in. At 30-06-2018, the MREL ratio based on instruments issued by KBC Group NV ('HoldCo MREL') stood at 25.1% of risk weighted assets. Based on the broader SRB definition including also eligible OpCo instruments, the MREL ratio amounts to 26.4%. SRB requires KBC to achieve 25.9% by 01-05-2019 using both HoldCo and eligible OpCo instruments.

Income statement, volumes and ratio's per business unit

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

Business Unit Belgium

Breakdown P&L (in millions of EUR)	IFRS 9 2Q 2018	IFRS 9 1Q 2018	IAS 39 4Q 2017	IAS 39 3Q 2017	IAS 39 2Q 2017
Net interest income	642	649	569	589	611
Non-life insurance before reinsurance	144	103	100	153	131
Earned premiums Non-life	265	259	265	263	258
Technical charges Non-life	-121	-156	-165	-111	-127
Life insurance before reinsurance	-22	-27	-24	-21	-43
Earned premiums Life	234	251	292	195	199
Technical charges Life	-257	-278	-316	-216	-242
Ceded reinsurance result	-8	-4	-9	4	-7
Dividend income	29	21	7	9	24
Net result from financial instruments at fair value through profit or loss	54	34	150	106	127
Net realised result from available-for-sale assets			34	34	32
Net realised result from debt instr FV through OCI	0	0			
Net fee and commission income	302	318	313	301	331
Net other income	49	59	38	51	40
TOTAL INCOME	1 189	1 153	1 178	1 225	1 245
Operating expenses	-562	-822	-566	-520	-544
Impairment	-26	-13	-24	-34	2
on loans and receivable			-12	-21	4
on impairment on FA at AC	-27	-14			
on available-for-sale			-3	-5	-2
on impairment on FA at FV though OCI	1	1			
on other	0	0	-9	-8	-1
Share in results of associated companies and joint ventures	-4	-1	-9	0	-4
RESULT BEFORE TAX	597	316	579	672	698
Income tax expense	-159	-73	-243	-217	-215
RESULT AFTER TAX	437	243	335	455	484
Attributable to minority interest	0	0	0	0	0
Attributable to equity holders of the parent	437	243	336	455	483
Banking	302	165	271	336	385
Insurance	135	78	65	119	98
Breakdown Loans and deposits					
Total customer loans excluding reverse repo (end of period)	98 258	95 710	94 495	93 512	93 494
Mortgage loans (end of period)	34 627	34 548	34 468	34 222	34 079
Customer deposits and debt certificates excl. repos (end of period)	131 013	126 694	132 881	128 895	129 825
Technial provisions plus unit-linked, life insurance					
Interest Guaranteed	13 382	13 496	13 649	13 775	13 940
Unit-Linked	13 269	13 160	13 370	13 115	13 161
Performance Indicators					
Risk-weighted assets, banking (end of period, Basel III fully loaded)	46 848	46 553	44 611	43 988	43 329
Required capital, insurance (end of period)	1 560	1 570	1 627	1 503	1 444
Allocated capital (end of period)	6 526	6 505	6 267	6 078	5 950
Return on allocated capital (ROAC)	27%	15%	22%	30%	32%
Cost/income ratio, banking	51%	76%	49%	46%	45%
Combined ratio, non-life insurance	83%	93%	104%	78%	86%
Net interest margin, banking	1,72%	1,73%	1,48%	1,51%	1,61%

Business Unit Czech Republic

Breakdown P&L (in millions of EUR)	IFRS 9 2Q 2018	iFRS 9 1Q 2018	IAS 39 4Q 2017	IAS 39 3Q 2017	IAS 39 2Q 2017	IAS 39 1Q 2017	IAS 39 FY 2016
Net interest income	241	248	234	218	220	216	849
Non-life insurance before reinsurance	24	27	21	25	22	18	78
Earned premiums Non-life	62	57	59	56	53	49	190
Technical charges Non-life	-38	-30	-38	-31	-31	-30	-112
Life insurance before reinsurance	15	15	14	12	12	11	-346
Earned premiums Life	58	60	96	68	47	48	271
Technical charges Life	-43	-46	-83	-56	-35	-38	-234
Ceded reinsurance result	-2	-3	2	-2	-2	-1	-4
Dividend income	0	0	0	0	0	0	0
Net result from financial instruments at fair value through profit or loss	8	40	54	53	65	50	117
Net realised result from available-for-sale assets			0	-1	6	11	48
Net realised result from debt instr FV through OCI	0	0					
Net fee and commission income	64	67	53	43	47	47	191
Net other income	3	4	4	5	5	26	18
TOTAL INCOME	353	398	383	354	375	378	1 333
Operating expenses	-173	-189	-177	-153	-151	-165	-608
Impairment	-9	-7	-11	-3	-11	1	-24
on loans and receivable			2	-1	-7	1	-23
on impairment on FA at AC	4	-1					
on available-for-sale			-1	0	0	0	3
on impairment on FA at FV though OCI	0	0					
on other	-13	-6	-12	-2	-3	0	-4
Share in results of associated companies and joint ventures	6	6	5	6	6	4	23
RESULT BEFORE TAX	177	207	200	205	219	218	724
Income tax expense	-33	-36	-33	-34	-37	-37	-128
RESULT AFTER TAX	145	171	167	170	183	181	596
Attributable to minority interest	0	0	0	0	0	0	0
Attributable to equity holders of the parent	145	171	167	170	183	181	596
Banking	137	160	157	162	176	174	564
Insurance	7	12	10	9	7	7	32
Breakdown Loans and deposits							
Total customer loans excluding reverse repo (end of period)	22 751	22 656	22 303	22 155	21 520	20 253	19 552
Mortgage loans (end of period)	10 784	10 837	10 653	10 245	9 867	9 273	9 077
Customer deposits and debt certificates excl. repos (end of period)	30 868	30 552	30 246	29 529	28 925	27 770	26 183
Technial provisions plus unit-linked, life insurance							
Interest Guaranteed	603	617	613	601	594	576	575
Unit-Linked	623	623	622	556	549	525	525
Performance Indicators							
Risk-weighted assets, banking (end of period, Basel III fully loaded)	14 717	14 683	15 397	14 855	15 039	14 386	13 748
Required capital, insurance (end of period)	122	127	114	118	116	110	103
Allocated capital (end of period)	1 682	1 683	1 716	1 662	1 680	1 606	1 504
Return on allocated capital (ROAC)	34%	40%	40%	42%	47%	48%	37%
Cost/income ratio, banking	48%	47%	45%	42%	39%	43%	45%
Combined ratio, non-life insurance	99%	92%	96%	95%	97%	100%	96%
Net interest margin, banking	2,97%	3,02%	3,06%	2,85%	3,01%	3,06%	2,94%

Business Unit International Markets

Breakdown P&L (in millions of EUR)	IFRS 9 2Q 2018	IFRS 9 1Q 2018	IAS 39 2017	IAS 39 4Q 2017	IAS 39 3Q 2017	IAS 39 2Q 2017
Net interest income	222	226	837	228	226	194
Non-life insurance before reinsurance	31	26	83	27	8	23
Earned premiums Non-life	62	58	224	57	56	57
Technical charges Non-life	-31	-32	-141	-31	-48	-34
Life insurance before reinsurance	9	6	-201	7	6	6
Earned premiums Life	24	25	85	23	18	21
Technical charges Life	-15	-19	-60	-16	-12	-15
Ceded reinsurance result	-5	-2	9	-2	13	0
Dividend income	0	0	1	0	0	0
Net result from financial instruments at fair value through profit or loss	24	18	95	23	25	19
Net realised result from available-for-sale assets			3	0	1	0
Net realised result from debt instr FV through OCI	0	1				
Net fee and commission income	73	68	232	65	65	54
Net other income	8	8	-112	-60	-57	1
TOTAL INCOME	364	350	1 173	288	287	297
Operating expenses	-209	-252	-837	-236	-206	-183
Impairment	33	61	190	39	11	92
on loans and receivable			197	45	12	92
on impairment on FA at AC	39	61				
on available-for-sale			-1	0	-1	0
on impairment on FA at FV though OCI	0	0				
on other	-6	0	-7	-5	-1	-1
Share in results of associated companies and joint ventures	1	2	4	0	2	1
RESULT BEFORE TAX	189	160	529	91	94	207
Income tax expense	-26	-24	-85	-17	-15	-30
RESULT AFTER TAX	163	137	444	74	78	177
Attributable to minority interest	0	0	0	0	0	0
Attributable to equity holders of the parent	163	137	444	74	78	177
Banking	153	127	415	68	71	171
Insurance	10	9	29	6	7	6
Breakdown Loans and deposits						
Total customer loans excluding reverse repo (end of period)	24 336	24 146	24 201	24 201	23 871	23 508
Mortgage loans (end of period)	15 616	15 559	15 503	15 503	14 850	14 661
Customer deposits and debt certificates excl. repos (end of period)	22 693	22 957	22 663	22 663	22 056	21 714
Technial provisions plus unit-linked, life insurance						
Interest Guaranteed	247	248	212	212	212	215
Unit-Linked	402	423	429	429	422	419
Performance Indicators						
Risk-weighted assets, banking (end of period, Basel III fully loaded)	19 402	19 506	19 790	19 790	19 923	19 991
Required capital, insurance (end of period)	98	100	104	104	97	94
Allocated capital (end of period)	2 155	2 167	2 162	2 162	2 169	2 173
Return on allocated capital (ROAC)	30%	25%	18%	14%	16%	36%
Cost/income ratio, banking	58%	73%	72%	83%	72%	61%
Combined ratio, non-life insurance	90%	86%	93%	94%	98%	93%
Net interest margin, banking	2,81%	2,88%	2,77%	2,84%	2,83%	2,72%

Hungary

Breakdown P&L (in millions of EUR)	IFRS 9 2Q 2018	IFRS 9 1Q 2018	IAS 39 4Q 2017	IAS 39 3Q 2017	IAS 39 2Q 2017
Net interest income	60	61	63	63	60
Non-life insurance before reinsurance	10	11	8	9	9
Earned premiums Non-life	27	26	26	26	25
Technical charges Non-life	-17	-15	-17	-17	-15
Life insurance before reinsurance	3	1	2	2	2
Earned premiums Life	4	4	4	4	4
Technical charges Life	-1	-3	-2	-2	-2
Ceded reinsurance result	-1	-1	0	0	-1
Dividend income	0	0	0	0	0
Net result from financial instruments at fair value through profit or loss	20	14	15	14	14
Net realised result from available-for-sale assets			0	0	0
Net realised result from debt instr FV through OCI	0	0			
Net fee and commission income	51	46	43	41	41
Net other income	6	7	3	1	-1
TOTAL INCOME	150	139	134	129	124
Operating expenses	-80	-103	-86	-81	-77
Impairment	2	6	-1	-1	8
on loans and receivable			1	0	9
on impairment on FA at AC	2	6			
on available-for-sale			0	0	0
on impairment on FA at FV though OCI	0	0			
on other	0	0	-2	0	0
Share in results of associated companies and joint ventures	0	0	0	0	0
RESULT BEFORE TAX	71	41	47	47	55
Income tax expense	-10	-7	-7	-8	-8
RESULT AFTER TAX	62	34	39	40	47
Attributable to minority interest	0	0	0	0	0
Attributable to equity holders of the parent	62	34	**39**	**40**	**47**
Banking	58	31	37	37	46
Insurance	4	3	3	2	2
Breakdown Loans and deposits					
Total customer loans excluding reverse repo (end of period)	4 112	4 173	4 217	4 073	3 893
Mortgage loans (end of period)	1 481	1 543	1 556	1 532	1 494
Customer deposits and debt certificates excl. repos (end of period)	6 972	7 053	7 302	6 980	6 663
Technial provisions plus unit-linked, life insurance					
Interest Guaranteed	54	56	55	55	55
Unit-Linked	269	289	298	291	290
Performance Indicators					
Risk-weighted assets, banking (end of period, Basel III fully loaded)	5 938	6 103	5 799	5 671	5 379
Required capital, insurance (end of period)	35	36	37	36	34
Allocated capital (end of period)	665	683	640	626	593
Return on allocated capital (ROAC)	37%	21%	26%	25%	30%
Cost/income ratio, banking	53%	76%	64%	63%	62%
Combined ratio, non-life insurance	93%	84%	101%	99%	92%

Slovakia

Breakdown P&L (in millions of EUR)	IFRS 9 2Q 2018	IFRS 9 1Q 2018	IAS 39 4Q 2017	IAS 39 3Q 2017	IAS 39 2Q 2017
Net interest income	52	52	53	52	53
Non-life insurance before reinsurance	6	6	7	6	6
Earned premiums Non-life	10	10	10	9	9
Technical charges Non-life	-3	-4	-3	-3	-3
Life insurance before reinsurance	3	3	3	3	3
Earned premiums Life	13	14	13	10	13
Technical charges Life	-10	-11	-10	-7	-10
Ceded reinsurance result	-1	-1	-1	0	0
Dividend income	0	0	0	0	0
Net result from financial instruments at fair value through profit or loss	0	3	3	3	5
Net realised result from available-for-sale assets			0	0	0
Net realised result from debt instr FV through OCI	0	0			
Net fee and commission income	15	14	13	12	13
Net other income	2	1	2	2	2
TOTAL INCOME	78	78	80	77	82
Operating expenses	-50	-52	-56	-48	-49
Impairment	-4	4	-3	-7	-1
on loans and receivable			-2	-7	-1
on impairment on FA at AC	-4	4			
on available-for-sale			0	0	0
on impairment on FA at FV though OCI	0	0			
on other	0	0	-1	0	0
Share in results of associated companies and joint ventures	0	0	0	0	0
RESULT BEFORE TAX	24	29	21	22	32
Income tax expense	-6	-6	-5	-5	-7
RESULT AFTER TAX	19	23	16	16	25
Attributable to minority interest	0	0	0	0	0
Attributable to equity holders of the parent	19	23	16	16	25
Banking	16	21	14	14	22
Insurance	3	2	2	3	3
Breakdown Loans and deposits					
Total customer loans excluding reverse repo (end of period)	6 861	6 640	6 574	6 434	6 284
Mortgage loans (end of period)	3 123	3 021	2 943	2 861	2 770
Customer deposits and debt certificates excl. repos (end of period)	6 205	6 259	6 066	5 714	5 820
Technial provisions plus unit-linked, life insurance					
Interest Guaranteed	114	114	114	113	113
Unit-Linked	116	121	124	126	125
Performance Indicators					
Risk-weighted assets, banking (end of period, Basel III fully loaded)	4 922	4 911	4 908	4 826	4 910
Required capital, insurance (end of period)	25	27	26	23	23
Allocated capital (end of period)	546	548	537	525	534
Return on allocated capital (ROAC)	14%	17%	12%	13%	19%
Cost/income ratio, banking	64%	67%	70%	64%	60%
Combined ratio, non-life insurance	82%	87%	88%	85%	82%

Bulgaria

Breakdown P&L (in millions of EUR)	IFRS 9 2Q 2018	IFRS 9 1Q 2018	IAS 39 4Q 2017	IAS 39 3Q 2017	IAS 39 2Q 2017
Net interest income	37	39	39	40	12
Non-life insurance before reinsurance	15	10	12	-7	8
Earned premiums Non-life	25	23	22	21	24
Technical charges Non-life	-11	-13	-10	-28	-16
Life insurance before reinsurance	3	1	2	1	1
Earned premiums Life	7	6	6	4	4
Technical charges Life	-4	-5	-4	-2	-3
Ceded reinsurance result	-4	-1	-1	14	0
Dividend income	0	0	0	0	0
Net result from financial instruments at fair value through profit or loss	3	2	5	7	1
Net realised result from available-for-sale assets			0	1	0
Net realised result from debt instr FV through OCI	0	1			
Net fee and commission income	8	9	10	11	-1
Net other income	0	-1	0	-4	1
TOTAL INCOME	62	60	65	64	22
Operating expenses	-31	-46	-35	-33	-13
Impairment	-3	9	-9	-7	-3
on loans and receivable			-7	-7	-3
on impairment on FA at AC	3	9			
on available-for-sale			0	-1	0
on impairment on FA at FV though OCI	0	0			
on other	-6	0	-2	0	0
Share in results of associated companies and joint ventures	0	1	-1	1	0
RESULT BEFORE TAX	29	23	21	25	6
Income tax expense	-3	-2	-2	-3	0
RESULT AFTER TAX	26	21	19	22	5
Attributable to minority interest	0	0	0	0	0
Attributable to equity holders of the parent	26	21	18	22	5
Banking	23	18	17	21	4
Insurance	3	3	2	1	1
Breakdown Loans and deposits					
Total customer loans excluding reverse repo (end of period)	2 772	2 739	2 716	2 695	2 684
Mortgage loans (end of period)	1 102	1 113	1 100	660	657
Customer deposits and debt certificates excl. repos (end of period)	3 976	4 009	3 903	3 998	3 846
Technial provisions plus unit-linked, life insurance					
Interest Guaranteed	79	78	43	44	47
Unit-Linked	17	13	7	5	4
Performance Indicators					
Risk-weighted assets, banking (end of period, Basel III fully loaded)	3 045	2 990	2 933	2 886	3 037
Required capital, insurance (end of period)	38	37	41	38	37
Allocated capital (end of period)	361	354	347	338	353
Return on allocated capital (ROAC)	29%	24%	31%	49%	16%
Cost/income ratio, banking	48%	80%	52%	49%	56%
Combined ratio, non-life insurance	88%	93%	88%	102%	98%

Ireland

Breakdown P&L (in millions of EUR)	IFRS 9 2Q 2018	IFRS 9 1Q 2018	IAS 39 4Q 2017	IAS 39 3Q 2017	IAS 39 2Q 2017
Net interest income	73	75	73	70	69
Non-life insurance before reinsurance	0	0	0	0	0
Earned premiums Non-life	0	0	0	0	0
Technical charges Non-life	0	0	0	0	0
Life insurance before reinsurance	0	0	0	0	0
Earned premiums Life	0	0	0	0	0
Technical charges Life	0	0	0	0	0
Ceded reinsurance result	0	0	0	0	0
Dividend income	0	0	0	0	0
Net result from financial instruments at fair value through profit or loss	1	-1	1	0	0
Net realised result from available-for-sale assets			0	0	0
Net realised result from debt instr FV through OCI	0	0			
Net fee and commission income	0	0	0	0	0
Net other income	0	0	-61	-55	0
TOTAL INCOME	74	74	12	16	69
Operating expenses	-49	-51	-59	-43	-42
Impairment	38	43	52	26	87
on loans and receivable			52	26	87
on impairment on FA at AC	39	43			
on available-for-sale			0	0	0
on impairment on FA at FV though OCI	0	0			
on other	-1	0	0	0	0
Share in results of associated companies and joint ventures	0	0	0	0	0
RESULT BEFORE TAX	63	66	5	-1	113
Income tax expense	-8	-8	-3	0	-14
RESULT AFTER TAX	55	57	3	-1	99
Attributable to minority interest	0	0	0	0	0
Attributable to equity holders of the parent	55	57	3	-1	99
Banking	55	57	3	-1	99
Insurance	0	0	0	0	0
Breakdown Loans and deposits					
Total customer loans excluding reverse repo (end of period)	10 592	10 595	10 694	10 669	10 648
Mortgage loans (end of period)	9 910	9 883	9 905	9 797	9 740
Customer deposits and debt certificates excl. repos (end of period)	5 540	5 636	5 392	5 364	5 385
Performance Indicators					
Risk-weighted assets, banking (end of period, Basel III fully loaded)	5 491	5 496	6 144	6 525	6 652
Allocated capital (end of period)	582	583	639	679	692
Return on allocated capital (ROAC)	36%	37%	2%	-1%	57%
Cost/income ratio, banking	66%	69%	495%	271%	62%

Group centre - Breakdown net result

(in millions of EUR)	IFRS 9 2Q 2018	IFRS 9 1Q 2018	IAS 39 4Q 2017	IAS 39 3Q 2017	IAS 39 2Q 2017
Operational costs of the Group activities	-15	-17	-25	-20	-14
Capital and treasury management	8	-4	-5	5	17
Capital and treasury management APC	3	1	18	-13	-13
Results companies in rundown	10	23	-22	19	11
Other	-59	3	-144	-3	10
Total net result for the Group centre	-53	5	-179	-12	12

Group Centre

Breakdown P&L (in millions of EUR)	IFRS 9 2Q 2018	IFRS 9 1Q 2018	IAS 39 4Q 2017	IAS 39 3Q 2017	IAS 39 2Q 2017
Net interest income	11	2	-2	7	2
Non-life insurance before reinsurance	4	5	4	3	3
Earned premiums Non-life	3	3	2	2	2
Technical charges Non-life	0	2	2	0	1
Life insurance before reinsurance	0	0	0	0	2
Earned premiums Life	-1	0	0	0	0
Technical charges Life	0	0	1	0	1
Ceded reinsurance result	1	0	-1	1	0
Dividend income	4	1	1	1	6
Net result from financial instruments at fair value through profit or loss	-31	4	8	-2	37
Net realised result from available-for-sale assets			16	16	14
Net realised result from debt instr FV through OCI	8	0			
Net fee and commission income	-1	-2	-1	-1	-1
Net other income	-37	1	3	5	2
TOTAL INCOME	-43	11	29	30	63
Operating expenses	-23	-27	-43	-35	-33
Impairment	4	16	-6	-6	-11
on loans and receivable			-4	-6	-11
on impairment on FA at AC	3	17			
on available-for-sale			0	0	0
on impairment on FA at FV though OCI	1	-1			
on other	0	0	-2	0	0
Share in results of associated companies and joint ventures	0	0	0	0	0
RESULT BEFORE TAX	-61	0	-20	-11	18
Income tax expense	8	6	-159	-1	-7
RESULT AFTER TAX	-53	5	-179	-12	12
Attributable to minority interest	0	0	0	0	0
Attributable to equity holders of the parent	-53	5	-179	-12	12
Of which banking	-18	9	-166	6	17
Of which holding	-38	-7	-10	-20	-7
Of which insurance	3	3	-3	2	1
Breakdown Loans and deposits					
Total customer loans excluding reverse repo (end of period)	0	0	0	0	0
Mortgage loans (end of period)	0	0	0	0	0
Customer deposits and debt certificates excl. repos (end of period)	8 376	7 832	7 918	8 481	8 244
Performance Indicators					
Risk-weighted assets, banking (end of period, Basel III fully loaded)	2 831	3 298	3 478	3 636	4 058
Risk-weighted assets, insurance (end of period, Basel III fully loaded)	9 133	9 133	9 133	9 133	9 133
Required capital, insurance (end of period)	-23	-13	-23	-9	10
Allocated capital (end of period)	277	336	339	369	432

Details of ratios and terms on KBC Group level

Basic and diluted earnings per share

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

Calculation (in millions of EUR)	Reference	1H 2018	2017	1H 2017
Result after tax, attributable to equity holders of the parent (A)	'Consolidated income statement'	1 248	2 575	1 485
-				
Coupon on the additional tier-1 instruments included in equity (B)	'Consolidated statement of changes in equity'	- 33	- 52	- 26
/				
Average number of ordinary shares less treasury shares (in millions) in the period (C)	Note 5.10	418	418	418
or				
Average number of ordinary shares plus dilutive options less treasury shares in the period (D)		418	418	418
Basic = (A-B) / (C) (in EUR)		2,91	6,03	3,49
Diluted = (A-B) / (D) (in EUR)		2,91	6,03	3,49

Combined ratio (non-life insurance)

Gives an insight into the technical profitability (i.e. after eliminating investment returns, among other items) of the non-life insurance business, more particularly the extent to which insurance premiums adequately cover claim payments and expenses. The combined ratio takes ceded reinsurance into account.

Calculation (in millions of EUR or %)	Reference	1H 2018	2017	1H 2017
Net technical insurance charges, including the internal cost of settling claims (A)	Note 3.7.1	436	813	386
/				
Net earned insurance premiums (B)	Note 3.7.1	756	1 465	718
+				
Operating expenses (C)	Note 3.7.1	256	482	244
/				
Net written insurance premiums (D)	Note 3.7.1	858	1 493	814
= (A/B)+(C/D)		87,6%	87,8%	83,8%

Common equity ratio

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

Calculation (in millions of EUR or %)	1H 2018	2017	1H 2017
'Detailed calculation 'Danish compromise' table in the 'Solvency KBC Group' section.'			
Fully loaded	15,8%	16,3%	15,7%

Cost/income ratio

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

Calculation (in millions of EUR or %)	Reference	1H 2018	2017	1H 2017
Operating expenses of the banking activities (A)	'Consolidated income statement': component of 'Operating expenses'	2 001	3 570	1 893
/				
Total income of the banking activities (B)	'Consolidated income statement': component of 'Total income'	3 233	6 587	3 367
=(A) / (B)		61,9%	54,2%	56,2%

Where relevant, we also estimate exceptional and/or non-operating items when calculating the cost/income ratio. The adjustments include: MTM ALM derivatives (fully excluded), bank taxes (including contributions to European Single Resolution Fund) are included pro rata and hence spread over all quarters of the year instead of being recognised for the most part upfront (as required by IFRIC 21) and one-off items. The Cost/Income ratio adjusted for specific items is 56,4% in 1H 2018 (versus 54,9% in FY 2017 and 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. 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	(*) 1H 2018	2017	1H 2017
Specific impairment on loans (A)	'Credit risk: loan portfolio overview' table in the 'Credit risk' section	4 403	4 039	4 968
/				
Outstanding impaired loans (B)	'Credit risk: loan portfolio overview' table in the 'Credit risk' section	9 175	9 186	10 505
= (A) / (B)		48,0%	44,0%	47,3%

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

Credit cost ratio

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

Calculation (in millions of EUR or %)	Reference	1H 2018	2017	1H 2017
Net changes in impairment for credit risks (A)	'Consolidated income statement': component of 'Impairment'	- 82	- 87	- 72
/				
Average outstanding loan portfolio (B)	'Credit risk: loan portfolio overview' table in the 'Credit risk' section	164 455	151 681	149 793
= (A) (annualised) / (B)		-0,10%	-0,06%	-0,10%

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	(*)1H 2018	2017	1H 2017
Amount outstanding of impaired loans (A)	'Credit risk: loan portfolio overview' table in the 'Credit risk' section	9 175	9 186	10 505
/				
Total outstanding loan portfolio (B)	'Credit risk: loan portfolio overview in the 'Credit risk' section	166 949	154 160	152 864
= (A) / (B)		5,5%	6,0%	6,9%

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

Leverage ratio

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

Calculation (in millions of EUR or %)	Reference	1H 2018	2017	1H 2017
Regulatory available tier-1 capital (A)	'Leverage ratio KBC Group (Basel III fully loaded' table in the 'Leverage KBC Group' section	17 115	16 504	15 731
/				
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)	284 108	272 373	275 275
= (A) / (B)		6,0%	6,1%	5,7%

Liquidity coverage ratio (LCR)

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

Calculation (in millions of EUR or %)	Reference	1H 2018	2017	1H 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%

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

Loan Portfolio

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

Calculation (in millions of EUR or %)	Reference	1H 2018	2017	1H 2017
Loans and advances to customers (related to the group's banking activities) (A)	Note 4.1, component of 'Loans and advances to customers'	145 346	140 999	137 175
+				
Corporate bonds in investment books (banking) (B)	Note 4.1 component of 'debt securities - corporates'	2 472	-	
-				
Reverse repos with customers (C)	Note 4.1	0	-	-
+				
Reverse repos excl Central Banks (D)	Note 4.1, component of 'Reverse repos with credit institutions'	2 562	-	-
+				
Bank bonds in investment books (banking) (E)	Note 4.1 component of 'debt securities - Credit institutions'	3 607	-	-
+				
Exposures on Credit institutions (incl nostro accounts) (F)		4 839	-	-
+				
Debt instruments issued by corporates and by credit institutions and investment firms (related to the group's banking activities) (G)	Note 4.1, component of 'Debt instruments issued by corporates and by credit institutions and investment firms'	0	6 243	7 124
+				
Loans and advances to credit institutions and investment firms (related to the group's banking activities, excluding dealing room activities) (H)	Note 4.1, component of 'Loans and advances to credit institutions and investment firms '	0	881	1 062
+				
Financial guarantees granted to clients (I)	Note 6.1, component of 'Financial guarantees	8 200	8 235	8 135
+				
Impairment on loans (J)	Note 4.2, component of 'Impairment'	4 623	4 058	5 028
-				
Insurance companies (K)	Note 4.1, component of 'Loans and advances to customers'	- 2 118	- 2 458	- 828
+				
Non-loan related receivables (L)		- 710	-	-
+				
Other (including accrued interest before 2018) (M)	Component of Note 4.1	- 1 871	- 3 797	- 4 832
= Gross carrying amount (A)+(B)-(C)+(D)+(E)+(F)+(G)+(H)+(I)+(J)-(K)+(L)+(M)		166 949	154 160	152 864

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

Minimum requirement for own funds and eligible liabilities (MREL)

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

Calculation (in millions of EUR or %)	Reference	1H 2018	2017	1H 2017
Own funds* and eligible liabilities (issued from KBC Group NV) (A)	Based on BRRD	24 571	22 207	20 912
/				
Risk weighted assets (consolidated, Danish compromise method) (B)	'Consolidated balance sheet'	92 931	92 410	91 549
= (A) / (B)		26,4%	24,0%	22,8%

* after deconsolidation of KBC Insurance

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

Net interest margin

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

Calculation (in millions of EUR or %)	Reference	1H 2018	2017	1H 2017
Net interest income of the banking activities (A) (annualised)	'Consolidated income statement': component of 'Net interest income'	1 893	3 513	1 744
/				
Average interest-bearing assets of the banking activities (B)	'Consolidated balance sheet': component of 'Total assets'	187 526	187 216	185 640
= (A) (annualised) / (B)		2,01%	1,85%	1,87%

From 1Q 2018 the definition of NIM has been updated, it concerns banking group NII excluding dealing room and the net positive impact of ALM FX swaps & repos.

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	1H 2018	2017	1H 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)		136,1%	134,5%	130,1%

Parent shareholders' equity per share

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

Calculation (in millions of EUR or %)	Reference	1H 2018	2017	1H 2017
Parent shareholders' equity (A)	'Consolidated balance sheet'	16 616	17 403	16 665
/				
Number of ordinary shares less treasury shares (at period-end) (B)	Note 5.10	416,2	418,5	418,4
= (A) / (B) (in EUR)		39,93	41,58	39,83

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

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

Calculation (in millions of EUR or %)	Reference	1H 2018	2017	1H 2017
BELGIUM BUSINESS UNIT				
Result after tax (including minority interests) of the business unit (A)	Note 2.1: Segment reporting based on the management structure	680	1 575	785
/				
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency II) (B)		6 462	6 040	6 071
= (A) annualised / (B)		21,0%	26,1%	25,9%
CZECH REPUBLIC BUSINESS UNIT				
Result after tax (including minority interests) of the business unit (A)	Note 2.1: Segment reporting based on the management structure	316	702	364
/				
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency II) (B)		1 704	1 620	1 547
= (A) annualised / (B)		36,9%	43,0%	46,7%
INTERNATIONAL MARKETS BUSINESS UNIT				
Result after tax (including minority interests) of the business unit (A)	Note 2.1: Segment reporting based on the management structure	299	444	292
/				
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency II) (B)		2 175	2 054	1 963
= (A) annualised / (B)		27,5%	21,6%	29,7%

Return on equity

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

Calculation (in millions of EUR or %)	Reference	1H 2018	2017	1H 2017
Result after tax, attributable to equity holders of the parent (A) (annualised)	'Consolidated income statement'	1 248	2 575	1 485
-				
Coupon on the additional tier-1 instruments included in equity (B) (annualised)	'Consolidated statement of changes in equity'	- 33	- 52	- 26
/				
Average parent shareholders' equity, excluding the revaluation reserve for available-for-sale / FV OCI assets / Overlay (C)	'Consolidated statement of changes in equity'	15 490	14 926	14 646
= (A-B) (annualised) / (C)		15,7%	16,9%	19,9%

Solvency ratio (insurance)

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

Calculation	Reference	1H 2018	2017	1H 2017
Detailed calculation under 'Solvency II, KBC Insurance consolidated' table in the Solvency banking and insurance activities separately section		219%	212%	217%

Total assets under management

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

Calculation (in billions of EUR or quantity)	Reference	1H 2018	2017	1H 2017
Belgium Business Unit (A)	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 AuM figures were reduced due to a roughly 2 billion euro adjustment in Institutional Mandates.

Total capital ratio

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

Calculation	1H 2018	2017	1H 2017
Detailed calculation in the table 'Danish Compromise' under 'Solvency KBC Group' section			
Fully loaded	20,8%	20,2%	19,8%

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