



KBC INSURANCE

Annual report of the Board of Directors
for financial year 2018 to the General
Meeting of 24 April 2019

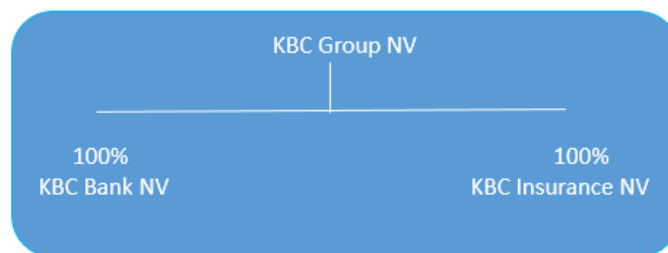
To the reader

Company name

'KBC', 'the group' or 'KBC Insurance' as used in this annual report refer the consolidated insurance entity, i.e. KBC Insurance NV including all its subsidiaries and sub-subsidiaries. 'KBC Insurance NV' refers solely to the non-consolidated entity.

Difference between KBC Insurance and KBC Group

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



Forward-looking statements

The expectations, forecasts and statements regarding future developments that are contained in this annual report are based on assumptions and assessments made when drawing up this report. By their nature, forward-looking statements involve uncertainty. Various factors could cause actual results and developments to differ from the initial statements. As regards the macroeconomic outlook, our baseline scenario rests on the assumption of a 'softish' but not a 'smooth' Brexit, with negotiations resulting in an agreement that is acceptable to both the UK and the EU, without it derailing the economy.

Translation

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

Ratios used

A list of the most important ratios and terms used in the chapter 'Additional information'.

Articles 96 and 119 of the Belgian Companies Code

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

Non-financial information statement

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

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Report of the Board of Directors

Brief presentation of KBC Insurance (year-end 2018)

Our area of operation

KBC Insurance is an insurance group catering mainly for retail, SME and mid-cap clients. It concentrates on its home markets of Belgium and four countries in Central and Eastern Europe, namely the Czech Republic, Slovakia, Hungary and Bulgaria

Main group companies

Belgium	KBC Insurance NV
Czech Republic	ČSOB Pojišťovna a.s.
Slovakia	ČSOB Poist'ovňa a.s.
Hungary	K&H Biztosító
Bulgaria	DZI Insurance
Luxembourg	KBC Group Re

Our shareholders

All KBC Insurance NV shares are owned (directly and indirectly) by KBC Group NV. KBC Group NV is a listed company.

Our clients, staff and network

Clients (estimate)	4 million
Number of staff (2018 average in FTEs)	4 202
Insurance network	372 agencies in Belgium, various distribution channels in Central and Eastern Europe

Our long-term credit ratings (14 March 2019)

	Standard & Poor's
KBC Insurance NV	A

Management

CEO	Johan Thijs
Chairman of the Board of Directors	Thomas Leysen

More information

Website	www.kbc.com
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Data relates to year-end 2018, unless otherwise indicated. For definitions and comments, please see the detailed tables and analyses in this report.

Business model and strategy

Our business model

KBC Insurance's business model is embedded in that of the KBC group. A [summary is given below of the business model of the KBC group](#), where KBC Bank is essentially responsible for the banking business and KBC Insurance for the insurance business.

For more detailed information, please see the KBC Group annual report for 2018.

How do we create sustainable value? (KBC Group)

We want to be able to meet the expectations of all our stakeholders in our core countries and to live up to our commitments. Integrating sustainability in our day-to-day activities is, in our view, the best guarantee for the creation of long-term value for all these stakeholders.

As a banker, for instance, we see to it that our clients are able to save and invest in a well-informed manner and that we actively offer them sustainable investment products. In this way, every client can grow their assets in keeping with their personal wishes and risk profile, and call on the expertise of our staff to assist them. We use the money from the deposits our clients entrust to us to provide loans to individuals, businesses and public authorities, thereby putting that money to productive use in the local society and economy. As a lender, we enable people to build a house or buy a car, for instance, and businesses to be created or to grow. We also hold a portfolio of investments, which means we invest in the economy indirectly too. In all these activities, we seek to take account of the impact on society and the environment, which we translate into targets for SRI funds, lending to renewable energy projects and similar initiatives. Besides providing finance to individuals and businesses, we fund specific sectors and projects, such as the social profit sector and infrastructure projects that have a major impact on the domestic economy. The role we play as a deposit-taker and a lender ultimately means that we assume our clients' risks for them. Our highly developed risk and capital management know-how allows us to manage those risks.

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

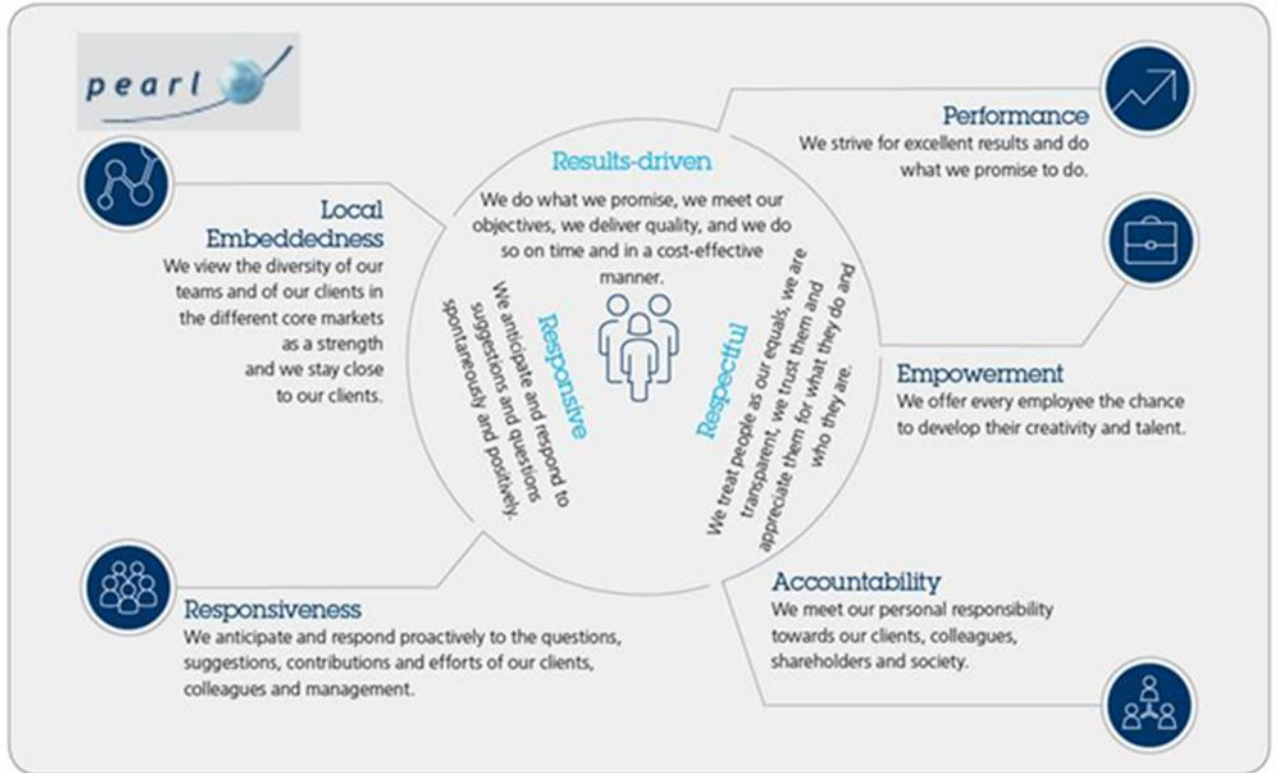
We also offer our clients a variety of other services that are important to them in their everyday lives, including payments, cash management, trade finance, leasing, corporate finance, and money and capital market products. In this way too, we contribute to the economic system.

At the same time, we have made a conscious choice to enhance our positive impact on society – where possible – by focusing on areas where we can make a difference as a bank-insurer. The areas in question include financial education, environmental awareness, entrepreneurship and the issue of demographic ageing and health. We likewise support social projects that are closely aligned with our business operations and through which we can play our role in society.

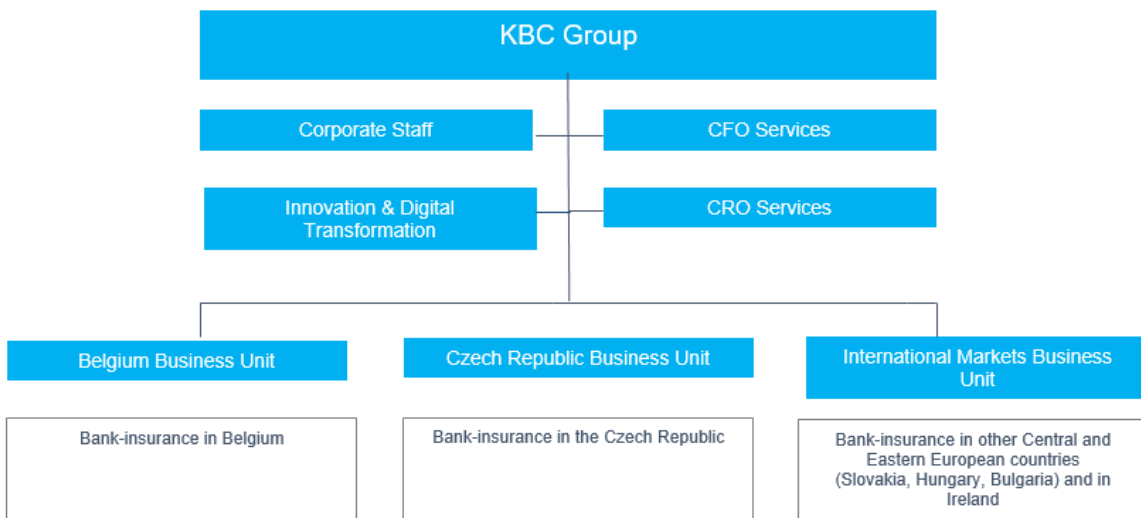
What makes us who we are? (KBC Group)

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

PEARL is a mindset, a working culture, shared by all our staff. We have appointed a dedicated PEARL manager to make sure that all our employees are thoroughly imbued with these values. The PEARL manager reports to our CEO. To embed this culture across the entire group and to ensure its success, we adopt not only a top-down approach, but also a bottom-up approach to its implementation. This includes appointing hundreds of PEARL ambassadors in the workplace, who give concrete shape to PEARL and help other colleagues to apply it.



The Board of Directors is responsible for defining our group's strategy, general policy and risk appetite. It is supported by several specialised committees, namely the Audit Committee, the Risk & Compliance Committee, the Nomination Committee and the Remuneration Committee. Our Executive Committee provides the operational management of the group within the confines of the general strategy approved by the board. Besides the CEO, the Executive Committee includes the Chief Financial Officer (CFO), the Chief Risk Officer (CRO) and the Chief Innovation Officer (CIO) of the group, as well as the CEOs of the three business units.



What differentiates us from our peers? (KBC Group)

Our integrated bank-insurance model

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

Our strong geographical focus

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

Our focus on local responsiveness

We want to build sustainable local relationships with private individuals, SMEs and mid-caps in our core countries. Local responsiveness is very important to us in that regard. It means that we know and understand our local clients better, that we pick up signals effectively and respond to them proactively, that we offer products and services tailored to these local needs, and that we focus on the sustainable development of the different communities in which we operate. Where relevant, we facilitate collaboration among core countries to avoid duplicating our efforts and to offer our clients the best solutions.

Our approach to sustainability

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

Our shareholder structure

A special feature of the KBC Group shareholder structure is the core shareholder syndicate consisting of Cera, KBC Ancora, MRBB and the other core shareholders, which together held roughly 40% of the shares at the end of 2018. These shareholders act in concert, thereby ensuring shareholder stability in our group.

Our strengths

A well-developed multichannel bank-insurance and digital strategy, which enables us to respond immediately to our clients' needs

Strong commercial banking and insurance franchises

Turnaround achieved in the International Markets Business Unit and position in Bulgaria considerably strengthened

Successful track record of underlying business results

Solid capital position and strong liquidity

Firmly embedded in the local economies of our core countries

Our challenges

Macroeconomic environment characterised by low interest rates, demographic ageing, increased nervousness on the financial markets, and geopolitical and climate-related challenges

Stricter regulation in areas like client protection and solvency

Changing client behaviour, competition and new players in the market

New technologies and cyber crime

In what environment do we operate? (KBC Group)

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



The world economy, geopolitical challenges and the environment

The world economy, the financial markets and demographic developments can strongly influence our results. This relates to matters like growth, interest rates, inflation, employment, population structure, bankruptcies, household income, financial market liquidity, exchange rate movements, availability of funding, investor and consumer confidence, credit spreads and asset bubbles.

Persistently low interest rates have become an important factor in recent years, exerting significant pressure on the income of banks and insurers and prompting a search for yield. Demographic ageing is also a challenge for our life insurance business, for instance, where it can lead to a changing product offering due to the shift in the structure of the insurance population, and because it drives up demand for rate products with longer maturities. There is a risk, moreover, of corrections in markets where disequilibrium may have built up (asset bubbles).

Recent geopolitical developments (such as Brexit, political tensions and military threats) could also have significant implications for the economy and hence our results. The same goes for climate change and the transition to a low-carbon society.

How are we addressing them?

- ✓ We ensure in our long-term planning/scenario that our capital and liquidity position is capable of withstanding a negative scenario.
- ✓ We take proactive measures. Examples include adjusting our offering to take account of demographic ageing (more insurance policies relating to health care, investment products linked to financial planning, etc.) and of demand for sustainable products like green bonds and sustainable pension saving (see elsewhere in this report).
- ✓ We calculate the potential impact of changes in key parameters and estimate the impact of material events as effectively as possible.
- ✓ We intend to diversify our income sources further to include more fee business, for example, alongside interest income.
- ✓ Limiting our negative impact on the environment (both direct and indirect) is an important strand of our sustainability strategy.



Shifting client behaviour and competition

We carry out our activities in a highly competitive environment. Our competitors too are being affected by technological change (e.g., online services, artificial intelligence) and shifting client behaviour. Besides the traditional players, there is also intensifying competition from online banks, fintechs and e-commerce in general. Intensifying competition and technological change are exerting potential pressure on cross-selling opportunities and influencing client expectations. Clients are placing ever more importance on things like speed, the possibility of digital interaction and simple solutions. All this is increasing the significance of digitalisation and an effective framework for it and creating the need for a resilient, responsive organisation capable of continuously adapting its processes and systems.

How are we addressing them?

- ✓ The creative input and training of our employees is highly important when it comes to equipping ourselves to deal with competition and technological change.
- ✓ As an integrated financial institution, we can draw on an immense volume of data, which enables us to understand more clearly what clients really want. What's more, our integrated model allows us to offer our clients more comprehensive solutions than pure banks or insurers can.
- ✓ We have a specific process in place to ensure that the business side receives approval efficiently for new product launches. The process also includes a thorough examination of the potential risks. We regularly review all our existing products, so that they can be adapted to take account of evolving client needs or changing circumstances.
- ✓ Research and development have been performed at a variety of group companies as part of a programme to develop new and innovative financial products and services. Over the past few years, we have launched numerous successful mobile and other innovative apps (examples are provided in the section dealing with the business units).
- ✓ We are open to partnerships with fintech firms or even sector peers.
- ✓ We have committed ourselves in Ireland to implementing a 'Digital First' strategy. Cooperation with other group entities is being increased to speed up digitalisation and innovation.
- ✓ In addition to digitalisation, we are working hard to simplify products and processes.
- ✓ We are investing 1.5 billion euros throughout the group in digital transformation between 2017 and the end of 2020.



Regulation

Increasing regulation is an issue for the financial sector as a whole. In addition to legislation already in force, such as the General Data Protection Regulation (GDPR), Markets in Financial Instruments Directive II (MiFID II and MiFIR) and Payment Services Directive II (PSD2), it includes the following in the years ahead:

- EU measures to mobilise financial resources for sustainable growth (including disclosure requirements for environmental, social and governance (ESG) matters).
- The Shareholder Rights Directive (SRD II), which will, amongst other things, affect the way banks, as security custodians, communicate certain information to their investor clients.
- Planned reforms to the European Market Infrastructure Regulation (EMIR) to enhance the functioning of the derivatives market in the EU, the new Prospectus Regulation (PR3) and the new Securitisation Regulation for simple, transparent and standardised (STS) securitisation. We also expect a European Regulation on crowdfunding.
- The ePrivacy Regulation (ePR), which will supplement the GDPR to improve privacy in electronic communication.
- The ECB is working on a regulatory framework to cover the outsourcing of activities and services by banks, with the emphasis on internal governance, risk management and reporting.
- Initiatives with regard to solvency, including the calculation of risk-weighted assets (Basel IV) and the further streamlining of legislation to ensure that shareholders and creditors absorb losses at banks rather than the government (bail-in and MREL).
- New IFRS, including IFRS 17, which applies to insurance activities and will probably become effective as from 2022.

How are we addressing them?

- ✓ We are making thorough preparations for the new regulations. Specialised teams (group legal, capital management, group risk and compliance) keep close track of the rules and propose the necessary responses in terms, for instance, of the group's capital planning.
- ✓ We study the impact of regulations like PSD2 and MiFID on client behaviour and, where appropriate, adjust our products and processes to take account of shifts in that behaviour.
- ✓ We participate in working groups at sector organisations, where we analyse draft texts.
- ✓ A special team focuses on contacts with government and regulators.
- ✓ We produce memorandums and provide training courses for the business side.



Cyber risk and information security

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

How are we addressing them?

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

Market conditions in our most important countries in 2018 (KBC Group)

Belgium



Market environment

- The Belgian economy remained on the path of steady but very modest growth, with GDP expanding by 1.4%
- The economic situation in Belgium remained favourable all in all, supported by both domestic demand and net exports
- Mortgage lending continued to grow vigorously, while business lending increased sharply until May, after which it slowed but was still robust. Deposits continued to rise at a healthy pace
- At 2.3%, inflation was slightly higher than in 2017
- Forecast real GDP growth in 2019 of 1.2%

KBC Group in Belgium

- Main brands: KBC, KBC Brussels and CBC
- 374 insurance agencies, electronic channels
- Estimated 13% share of the market for life insurance and 9% for non-life insurance
- 3.5 million clients (insurance alone: 0.8 million)
- 28.7 billion euros in technical provisions and liabilities under investment contracts

Czech Republic



Market environment

- Real GDP growth eased to 2.9%
- Consumer spending was supported by wage increases and job creation.
- The central bank tightened monetary policy, raising its key rate from 0.50% at year-end 2017 to 1.75 % at year-end 2018
- Average inflation was 2.0%
- Growth in lending to businesses was extremely volatile, suffering a dip in April-May and peaking in October, whereas growth in lending to other segments remained robust. Client deposits increased at a slower rate than in 2017, but still remained at a healthy level
- Forecast real GDP growth in 2019 of 2.6%

KBC Group in the Czech Republic

- Main brand: ČSOB
- Various distribution channels for insurance, electronic channels
- Estimated 8% share of the market for life insurance and 8% for non-life insurance
- 3.6 million clients (insurance alone: 1.1 million)
- 1.6 billion euros in technical provisions and liabilities under investment contracts

Slovakia



Market environment

- At 4.1%, GDP grew at a faster pace than in 2017 and was much higher than the EMU
- Inflation continued to rise, with the average annual increase in consumer prices coming to 2.5%
- Even though lending increased at a slower rate than in 2017, it still remained robust. Deposits also grew sharply for the year as a whole
- Forecast real GDP growth in 2019 of 3.7%

KBC Group in Slovakia

- Main brand: ČSOB
- Various distribution channels for insurance, electronic channels
- Estimated 4% share of the markets for life insurance and 3% for non-life insurance
- 0.6 million clients (insurance alone: 0.3 million)
- 0.3 billion euros in technical provisions and liabilities under investment contracts

The world economy in 2018

Having performed very strongly in 2017, the world economy had a somewhat tougher time in 2018. US protectionism triggered trade disputes and put a damper on global economic sentiment. The drawn-out Brexit negotiations and the resultant uncertainty put a brake on economic growth in the UK and in Europe. On the other hand, domestic consumer spending continued to contribute substantially to growth in most regions, thanks primarily to improving labour markets and healthy consumer confidence. Euro area inflation rose in 2018, due in particular to volatile components like the oil price. However, underlying inflation remained limited. Even so, the ECB decided to scale back its quantitative easing programme, which it ended in December 2018. Interest rates – especially at the longer end – and rate spreads within the EMU remained very low, since the above risks and uncertainties prompted investors to seek refuge in ‘safe haven’ debt securities. Consequently, the yield on ten-year German and US government paper fell once again towards the end of 2018, having risen tentatively a few months earlier. The American economy was the principal exception to global trends in 2018, recording a very strong rate of growth on the back of expansive government measures and tax reforms. Monetary policy was further tightened in the meantime, with the Federal Reserve hiking the key rate four times and continuing to scale back its balance sheet as planned.

Hungary



Market environment

- Real GDP growth picked up slightly to 4.5%, much higher than the EMU average
- Inflation rose further to 2.9%, virtually in the middle of the one-percentage-point band either side of the 3% target set by the Hungarian National Bank. Monetary policy remained accommodative
- Business loans and home loans grew sharply, as did deposits
- Forecast real GDP growth in 2019 of 3.5%

KBC in Hungary

- Main brand: K&H
- Various distribution channels for insurance, electronic channels
- Estimated 3% share of the market for life insurance and 7% for non-life insurance
- 1.6 million clients (insurance alone: 1.1 million)
- 0.5 billion euros in technical provisions and liabilities under investment contracts

Bulgaria



Market environment

- Bulgarian real GDP growth eased to 3.5%, but remained well above the euro-area average
- The average annual increase in Bulgarian consumer prices shot up to 2.6%, due in part to strong wage growth caused by the increasingly tighter labour market
- Lending continued to gather pace, as did deposits
- Forecast real GDP growth in 2019 of 3.4%

KBC in Bulgaria

- Main brands: UBB and DZI Insurance.
- Various distribution channels for insurance, electronic channels
- Estimated 24% share of the market for life insurance and 11% for non-life insurance
- 1.3 million clients (insurance alone: 0.6 million)
- 0.3 billion euros in technical provisions and liabilities under investment contracts

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

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

Our employees

Our HR policy is based on our PEARL business culture and it is our employees who give it tangible shape each day in all our group's core countries. The 'E' in PEARL stands for 'Empowerment', referring to our commitment to give every employee the space they need to develop their talent and creativity. It is on this basis that we can achieve success and develop innovative concepts.

We create a motivating working environment where our employees are given the opportunity to develop their talents and skills – and to put them to work in implementing our business strategy – not only by learning, but also by communicating their ideas and taking responsibility. We view self-development as key to professional growth, along with KBC. Our staff can choose among a wide range of training methods, including e-learning, workplace coaching and traditional courses. In Hungary, for example, K&H gave tangible shape in 2018 to the new learning culture using digital possibilities through the Retail Network Starter Course. Commercial trainees complete an online

learning journey through videos, Skype training sessions and gamification to build up knowledge of their future job and to put that knowledge into practice.

Our staff increasingly collaborate in multidisciplinary teams on both long-term projects and short-term assignments, encouraging them to think creatively and to take on new roles. This opens up the prospect of a richer career path, which is fully aligned with the employee's individual talents and KBC's goals. We understand that it is the flexibility of our staff themselves that enables us as an organisation to respond proactively to our clients' wishes. The increasingly digital character of our work is having a substantial impact on jobs at KBC. We are approaching this transformation in such a way that our employees can evolve with it. To achieve this, we have opted to continue investing in lifelong learning, internal redeployment and retraining.

We realise that good managers are key when it comes to enabling employees to bring out the best in themselves. That's why we are committed to intensive leadership tracks. In the Czech Republic, for instance, we have combined these activities in the 'Leaders World' programme, which aims to help managers grow on all levels.

HR policy features individual focuses in each country, so that we can respond in an optimum way to the local labour market. For instance, to address the challenge of the rising retirement age in Belgium, we have introduced an updated age-independent pay policy and operate an innovative late-career policy (Minerva), in which employees can spend the final years of their career working at an external, socially relevant organisation. At UBB in Bulgaria, the focus in 2018 following the merger of CIBANK and UBB has been on harmonious team work to ensure that the needs of clients are met as much as possible. We also introduced a unified remuneration and benefits package there.

We take the well-being of our employees very seriously a vision that has long been embedded in our organisation. 'Healthy' employees feel at ease with themselves and are strong enough to use their own creativity in pursuit of client-focused solutions. To that end, we aim to keep our staff as fit and deployable as possible in the long term, both mentally and physically. An intensive project on well-being is underway in Slovakia, for example, with specific prevention initiatives in which employees can – in addition to a medical examination every three years – receive a quick check-up on regular 'Health Days'. Particular attention is paid in Belgium to mental health, including presentations and interactive sessions with managers, so that stress and burn-out can be discussed openly within their teams.

We do not make any distinction on the grounds of gender, religion, ethnic background or sexual orientation in our HR, recruitment and promotion policies or remuneration systems. Equal treatment of employees is also enshrined in the KBC Code of Conduct and in the various manifestos and charters we have endorsed. As an employer, we want to give a clear signal to society: we treat our employees in a socially responsible manner and that relationship is grounded in mutual trust and respect. We also raise diversity awareness among our employees.

We encourage our employees to develop ideas as a team. 'Team Blue' is KBC's way of uniting employees from different countries and departments, to make them proud of their team and their company, so that they can draw on each other's experience and engage in 'smart copying'. This collective awareness is also promoted in a light-hearted way, including our 'Team Blue Challenges', in which the group CEO sets the company a task to complete. One such challenge last year led to us breaking the world record for the biggest online quiz. Another challenge that Team Blue took on was to 'accumulate kilometres' through sporting activities with colleagues, friends and family. The final score was over 770 000 kilometres and 500 000 euros raised for charity.

Senior managers from across the group take part in the 'KBC University' to enable them to pursue a common vision. This ambitious development programme offers different speakers and modules focusing on bank-insurance, leadership and client-centricity. At the same time, KBC is actively working on a separate policy for top talent management, in which we identify future senior managers and fast-track them to face tomorrow's challenges.

We use an operational risk framework to perform an annual review of key risks in the HR process. The implementation and monitoring of legislation forms an important part of this process and we ensure that it is applied strictly in the area of HR. Examples in this regard include EBA guidelines on remuneration policy (including the variable wage component) and the General Data Protection Regulation (privacy legislation). We also raise risk-awareness among our staff through targeted information campaigns and training. Individual local focuses and initiatives are pursued in each country too. At KBC Ireland, for instance, 800 employees were required to participate in the 'Regulatory Fitness and Probity' programme, which concentrates on the local rules of the Irish regulator.

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

The application of our HR policy is closely monitored, not only by means of high-quality surveys, but also on the basis of accumulated HR data. Information on reward components, hours of training and lost working days, for instance, is taken into account. And we continuously test our policy against market indicators. We also monitor

staff numbers group-wide and country by country, and present these figures every quarter to the Executive Committee.

KBC invests in good social dialogue with employee representatives. This consultation covers a very wide range of themes, such as pay and employment conditions, reorganisation and well-being. It is organised primarily on an individual country and company basis to take account of the local legal and business-specific situations. The process also resulted in collective agreements being concluded in the different countries in 2018. Meanwhile, an annual meeting of the European Works Council has been held at group level for over 20 years now. It brings together employee representatives from the various countries, senior KBC management and a broad, international HR delegation to deal with topics of cross-border importance, so ensuring that there is a forum for discussing the impact of decision-making at group level too.

We closely monitor employee satisfaction and engagement and consult our staff every two years by means of the Group Employee Survey. The most recent survey was held in 2017, with a response rate of over 87%. The survey revealed an engagement level for the group as a whole that was up on the previous year, putting it a percentage point ahead of the European financial sector average. The engagement index rose in the Czech Republic, Hungary and Ireland, but was down slightly on its year-earlier level in Slovakia and Bulgaria. The index was stable in Belgium, but still four percentage points ahead of the national benchmark.

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

Our capital

Our activities are only possible if we have a solid capital base. At year-end 2018, KBC Group's total equity came to 19.6 billion euros and chiefly comprised own share capital, share premiums, reserves and additional tier-1 instruments. KBC Group's capital was represented by 416 155 676 shares at year-end 2018, a decline of 2 441 891 shares on the previous year, due to the share buyback programme (-2.7 million shares), partially offset by the capital increase reserved for staff in December each year (+258 109 shares). At year-end 2018, KBC Insurance's total equity was 2.7 billion euros.

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

The KBC Insurance share is not traded on the stock market.

Our network and our relationships

Alongside staff and capital, our network and relationships are especially important to our activities. An overview of our network can be found under 'Market conditions in our most important countries in 2018'.

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

Our strategy

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

For more detailed information, please see the KBC Group annual report for 2018.

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

Our strategy rests on four principles:

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

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



To us, corporate sustainability means the ability to live up to the expectations of all our stakeholders and to meet our obligations, not just today but also in the future. Our sustainability strategy consists of financial resilience and three cornerstones:

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

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

We have to earn our clients' trust every day. We work hard to offer them complete, accessible and relevant solutions at a fair price and do our utmost to achieve an optimum client experience. That means taking their needs rather than our banking or insurance products as our starting point.

We have to adapt constantly to a highly dynamic environment, the changing behaviour and expectations of our clients and new technologies. For that reason, we listen to our clients all the time and keep our finger on the pulse when launching new products. But we also like to have our clients on board as we develop those products. At the same time, we're aware of current issues and developments in society. The insights we gain in this way are vital if we are to grow in line with our clients and community.

Everyone knows that the digital dimension has assumed overwhelming importance in the financial world in recent years. This has had a powerful effect on client behaviour too. Today's clients expect even faster, not to say immediate service. They dislike complexity, want as much convenience as possible and are much better informed than they used to be in all sorts of areas, thanks to the Internet, which allows them to readily compare different service providers. This makes it essential to keep earning our clients' confidence.

We continue to provide an integrated response to our clients' banking and insurance needs in this more digital world too, in the shape of a comprehensive, one-stop financial service, in which they can choose from a wider, complementary and optimised offering. We are investing around 1.5 billion euros throughout the group in digital transformation between 2017 and year-end 2020.

Digitalisation is a means for us, however, not an end. Our ambition is to further strengthen our human approach through appropriate deployment of digitalisation and artificial intelligence. Each client gets to decide their own degree of digitalisation and where the boundaries of their privacy lie. Human contact will continue to play a crucial role, but backed up with digital possibilities: face-to-face contact, for instance, supported by robot advice or

chatbots, as in the K'Ching app in Belgium. Examples of new digital products and services in our core countries can be found in the section dealing with the business units.

This approach also entails further internal simplification of processes, systems and products. To this end, we will continue to enhance the efficiency and effectiveness of our processes and our data management, so that we act swiftly and decisively to offer our clients a convenient and pleasant experience.

We are ensuring, moreover, that ideas are exchanged within our group and that apps are copied and reused as much as possible in other core countries. In this way, we create additional synergies and leverage the talent, entrepreneurship and resources available within our organisation.

Privacy and data protection are an integral part of our profession as a bank-insurer, making them extremely important to both our internal and external stakeholders. Digitalisation provides us with a multiplicity of data, which means we know our clients better and can advise them more effectively. But it goes without saying that clients only accept us analysing their data once they already trust us, which is why we have drawn up a carefully thought-out privacy policy. Privacy and data protection are not only objective concepts, defined by law, they are highly subjective ones too. For that reason, we want to let clients themselves choose what we can do with their data. In the process, we aim to communicate in a transparent way and offer our clients a clear privacy overview, in which they can adjust their choices at any moment. We view smart data analysis allied with effective privacy protection as the ideal opportunity to enhance our clients' trust.

We expect our employees to communicate in an accessible, clear, understandable and transparent way with our clients. This is not easy given the duties imposed on us by the legislator, such as sending out letters on risks, costs and fees. A few years ago, therefore, we launched a project in Belgium to simplify and improve our client communication.

We also provide our commercial staff with constant training to ensure that they pay sufficient attention to evaluating the risks associated with the different products and services.

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

Since putting the interests of our clients at the heart of everything we do is the cornerstone of our strategy, we keep a close eye on their situation. We continuously survey our clients and organise regular debates with client panels. A specific dialogue is likewise maintained with NGOs, and a stakeholder debate also organised each year. We closely monitor our reputation and communicate this analysis to all the departments and individuals concerned, so they can take appropriate action.

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

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

As a bank-insurer, we put our clients at the heart of what we do by offering them an integrated product range. We advise them based on needs that transcend pure banking or insurance, including family, the home and mobility. After all, our clients don't dream about loans or insurance policies, but about a car, a house, a holiday or a business of their own – things for which they need money. And when they have them, they want to protect them, so they look for insurance too. Thanks to our integrated bank-insurance model, we can proactively offer them a comprehensive range of banking and insurance products.

Our integrated model offers the client the benefit of a comprehensive, one-stop service that allows them to choose from a wider, complementary and optimised range of products and services.

It offers the group benefits in terms of income and risk diversification, additional sales potential through intensive co-operation between the bank and insurance distribution channels, and significant cost-savings and synergies.

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

We have developed a unique bank-insurance co-operation concept within our group, the roll-out of which varies from one country to another. We are furthest advanced in this area in Belgium, where our bank-insurance business operates as a single unit that is achieving both commercial and non-commercial synergies. An important feature of

our model in Belgium is the unique co-operation between our bank branches and insurance agencies in micro markets. The branches sell bank and standard insurance products, and refer clients to the insurance agency in the same micro market for other insurance products. The insurance agencies sell the full range of insurance products and handle all claims, including those relating to policies taken out at a bank branch. We have not yet gone so far as in Belgium in our other core countries, but we want to create an integrated distribution model as swiftly as possible, which will allow commercial synergies. In Ireland, our focus is on working together with third parties.

Our bank-insurance model also enables us to achieve various commercial synergies. In Belgium, for instance, roughly eight out of ten clients who agreed home loans with KBC Bank in 2018 also took out mortgage protection cover with KBC Insurance, while eight to nine out of ten purchased home insurance. At ČSOB in the Czech Republic, six out of ten clients who took out home loans in 2018 also purchased home insurance from the group. To give another example, roughly half of households in Belgium that bank with KBC Bank hold at least one KBC Insurance product. About one in five of these households actually held three banking and three insurance products from KBC. The number of clients holding both banking and insurance products from our group rose again in 2018.

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

We focus on sustainable and profitable growth (KBC Group)

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

Sustainable and long-term thinking also means concentrating on the local economies of the core markets in which we operate and that we invest only to a very limited extent in projects outside these markets. Our geographical footprint remains firmly focused on our core countries. We view our presence in these countries as a long-term commitment and want to consolidate our presence there by means of organic growth or attractive acquisitions, in line with clear and strict strategic and financial criteria.

Our takeover activity was limited in 2018. In Bulgaria, we acquired the remaining 40% stake in UBB Life, the life-insurance joint venture of our subsidiary United Bulgarian Bank, and integrated UBB Life into DZI. The deal means that we can distribute DZI's life and non-life products through UBB's branches and fully roll out our bank-insurance model in Bulgaria, which is one of our core markets. As a result, DZI and UBB Life's aggregate share of the Bulgarian life insurance market is now over 20%.

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

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

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

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

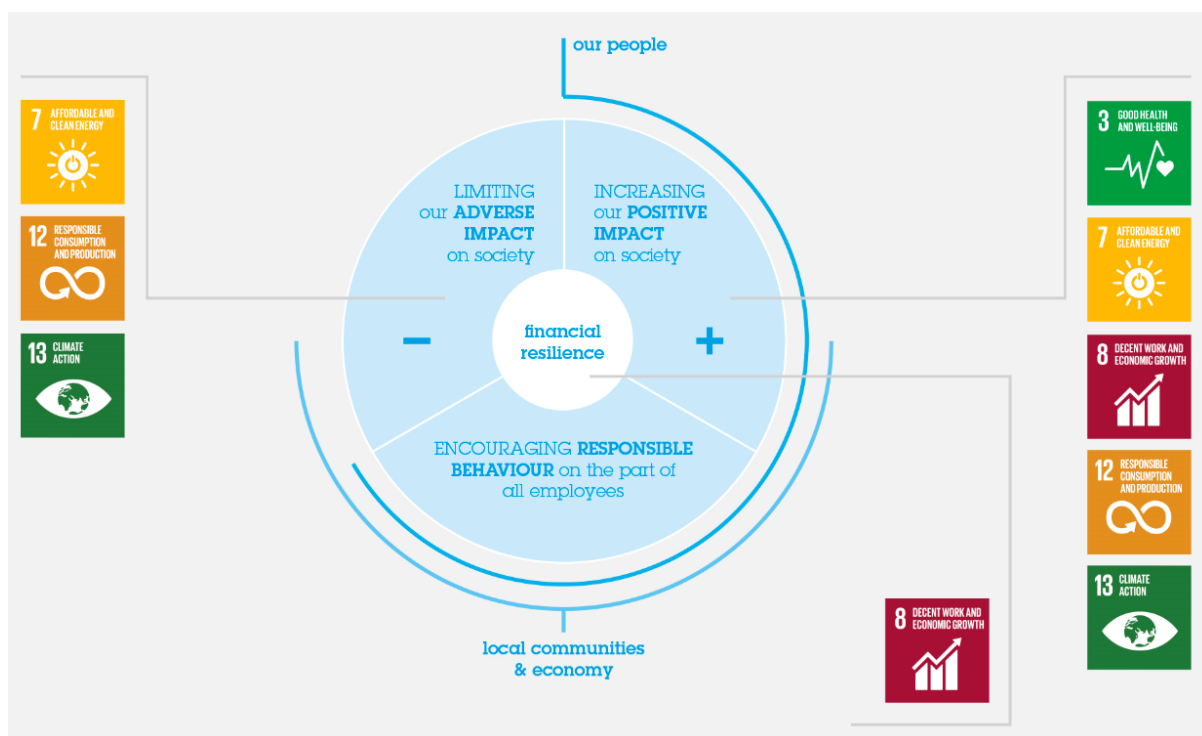
As a sustainable bank-insurer, we aim primarily to live up to the expectations of all our stakeholders. We also want to meet our obligations, so that we can deliver sustainable services not just today but also in the future. When engaging in this core business, we take full account of its ethical, social and environmental aspects, as we are convinced that this is the best guarantee of long-term value creation for all our stakeholders.

We believe that by steadily increasing the sustainability of our core activities, we can make a real difference to the local economy and society. In our view, it is also very important that sustainability is integrated throughout our business operations and is supported by all our employees. And we can only achieve this if we have the necessary financial resilience. For that reason, we constantly pursue a balance between healthy profitability and fulfilling our role as a socially responsible business by encouraging responsible behaviour on the part of our employees, enhancing our positive impact on society and limiting any adverse impact we might have on society.

Sustainable Development Goals

In 2015, UN member states signed a development plan to improve the world by 2030. The ambitious action plan comprised 17 Sustainable Development Goals (SDGs). Meeting these SDGs requires an effort on the part of every element of society, including the business world.

As a financial institution, KBC wants to contribute to the economic well-being of companies, private individuals and governments and to support them in achieving better social outcomes. We develop sustainable banking and insurance products and services that meet social and environmental challenges, and so have geared our sustainability strategy towards the SDGs. Although the 17 SDGs are all interconnected and relevant, we have selected the particular goals on which we can have the greatest impact through our core business. The diagram illustrates the connections between our sustainability strategy and the SDGs.





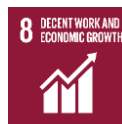
Good health and well-being

We aim to develop banking and insurance products that focus on health, health care and improving quality of life. Our social projects focus on themes like health and road safety. We promote a good work-life balance among our employees.



Affordable and clean energy

We actively contribute to raising the share of renewables in the energy mix. We invest in initiatives in the field of renewable energy and energy efficiency through our banking and insurance activities and have drawn up an exit programme for the financing of non-sustainable energy solutions.



Decent work and economic growth

Our banking and insurance business supports entrepreneurship and job creation and contributes to sustainable economic growth. We support new businesses and invest in innovation and technology through alliances with start-ups and fintechs. We play an important role in protecting basic labour rights, fair pay, equal opportunities and training and development opportunities for all our employees.



Responsible consumption and production

We support the transition to a low-carbon and circular economy. We develop sustainable banking and insurance products and services that meet a range of social and environmental challenges. Sustainable investments are offered as a fully fledged alternative to conventional funds. We endeavour to mitigate our own negative impact on the environment by dealing sustainably with energy, paper, water, mobility and waste and by reducing our greenhouse gas emissions.



Climate action

We apply a strict environmental policy to our loan, investment and insurance portfolios. We develop business solutions that help clients reduce their greenhouse gas emissions and make the transition to a low-carbon economy. We limit our own environmental impact and communicate on that. We seek to address climate-related risks and focus on related opportunities in that area.

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

If we want to retain and grow our stakeholders' trust, it is extremely important that we behave responsibly in everything we do. For that reason, this theme comes high on our agenda. A considerable amount of work went into responsible behaviour once again in 2018, more specifically on promoting the right mindset. Behaving responsibly is not just about regulations and compliance, it's an attitude. It's the duty of everyone at every level of the organisation to act in an appropriate way, day in, day out.

Responsible behaviour is tricky to define and so we have specifically decided not to draw up detailed guidelines for it, but to set out the underlying principles. These are presented in 'Compass for Responsible Behaviour'. It is not an all-embracing document listing every situation with which employees might be confronted in their everyday work, as there needs to be room for common sense and a professional, multidimensional awareness that goes beyond statistics. The basis of responsible behaviour is integrity, which requires honesty, fairness, transparency and confidentiality, as well as a healthy awareness of risk. Integrity and ethical values are also reflected in our Code of Conduct for KBC Group Employees.

Responsible behaviour is especially relevant for a bank-insurer when it comes to appropriate advice and sales. We pay particular attention, therefore, to training and awareness. For that reason, responsible behaviour is also a theme at KBC University, our senior management training programme, in which the theory is taught and practised using concrete situations. Senior managers are then tasked with disseminating it throughout the organisation. In Belgium, for instance, we also publish a monthly dilemma on our Intranet. Employees are invited to discuss the dilemma collectively and to consider it from various different angles.

We communicate transparently on our rules and policy guidelines, which are published at www.kbc.com/en/policies. More information on our Integrity Policy and its application is provided in the 'Corporate governance statement' section.

Aiming to enhance our positive impact on society

Besides contributing to the real economy, we want to increase our positive impact on society. We look to address global challenges by developing innovative financial and insurance solutions in response to local social themes. Bearing in mind the local context in our different core markets, we have prioritised the following focus areas: 'financial literacy', 'entrepreneurship', 'environmental awareness' and 'demographic ageing and/or health'. These areas are used to incorporate the SDGs into our sustainability strategy and everyday activities.

We believe that by actively helping to increase the sustainability of the financial markets, we can create leverage in the transition to a low-carbon economy. In June, we duly became the first Belgian financial institution to issue a

green bond (worth 500 million euros and with a term of five years, the issue was reserved for institutional and professional investors). A bond of this kind is one that complies with the Green Bond Principles, a set of guidelines produced by the International Capital Markets Association, under which the proceeds of the bond issue can only be used to finance or refinance sustainable projects.

We also continue to back sustainable investment funds by offering our clients a wide range of SRI funds, varying from traditional best-in-class funds and funds with sustainable themes to the more recent impact investing funds. Thorough screening is applied to determine which companies and countries belong to the investment universe for sustainable and socially responsible investment solutions. The target we have set ourselves for SRI funds is 10 billion euros of sustainable investments (under management) by 2020. At year-end 2018, that figure had already reached 9 billion euros.

In May 2018, KBC – as promoter – became the first in the Belgian market to launch an SRI pension savings fund that is fully compliant with BEAMA sustainability criteria. Managed by KBC Asset Management, Pricos SRI – which is open-ended and does not offer capital protection – is an actively managed pension savings fund that invests exclusively in companies and issuers that come through KBC Asset Management's sustainability screening. This requires the firms in question to achieve a high score in terms of environment, social policy and corporate governance.

Focus areas	Description	How? A few recent examples:
Financial literacy	<ul style="list-style-type: none"> Helping clients make the right choices through good and transparent advice, and clear communication. Improving general public knowledge of financial concepts and products. 	<ul style="list-style-type: none"> Launching financial education initiatives in all countries, including seminars, various master's programmes, a range of digital learning packs and internships. ČSOB staff have been providing lessons on financial themes at various schools in the Czech Republic since 2016. Organising projects to simplify and improve our client communication. Running the 'Get-a-teacher' initiative at KBC Belgium to give schools the opportunity to extend financial knowledge by 'ordering' a teacher from KBC.
Environmental awareness	<ul style="list-style-type: none"> Reducing our environmental footprint through a diverse range of initiatives and objectives. Developing products and services that can make a positive contribution to the environment. 	<ul style="list-style-type: none"> Issuing the first green bond and SRI pension savings fund in Belgium. Expanding multi-mobility at KBC Autolease, including the development of bicycle leasing for companies. Providing the Home Energy Checker in Belgium, an online tool that generates an overview of appropriate energy-saving measures for homes. Collaboration between the insurer DZI in Bulgaria and SPARK, the first car-share firm with electric vehicles in Sofia.
Entrepreneurship	<ul style="list-style-type: none"> Contributing to economic growth by supporting innovative ideas and projects. 	<ul style="list-style-type: none"> Setting up the KBC Trade Club, a matchmaking community and library with market information for entrepreneurs, providing access to thousands of companies in different countries via the Trade Club Alliance. Expanding Start it @KBC to include a focus on diversity (women business founders), corporate ventures and internationalisation. Setting up Start it @K&H in Hungary. Supporting local initiatives through the Bolero crowdfunding platform. Encouraging clients to take the step to e-commerce via Storesquare, FarmCafe and similar initiatives.
Demographic ageing and health	<ul style="list-style-type: none"> We have opted for 'demographic ageing' as our fourth pillar in Belgium and the Czech Republic. This requires us to adapt our policy and our range of products and services to the fact that people are living longer and to make a positive contribution to the issues surrounding an ageing population by offering specific solutions through our core activities. We chose 'health' as the fourth pillar in Bulgaria, Slovakia, Hungary and Ireland. These core countries will develop products, services and projects geared towards improving general health, healthcare and quality of life. 	<ul style="list-style-type: none"> Organising Digi Tuesday, a range of free courses that familiarise clients with digital trends and make them aware of their convenience and possibilities. Launch by ČSOB in the Czech Republic of the online portal 'Don't get lost in old age' in collaboration with the Sue Ryder Home advisory centre. Launch of FitBit Pay in Ireland, a payment solution for health-conscious clients that can connect with fitness and other devices. Providing financial and material assistance to sick children through the 'K&H MediMagic Programme' in Hungary.

Limiting any negative impact we might have on society

Climate change is one of the 21st century's biggest challenges worldwide. KBC has committed itself to contributing to the transition to a low(er)-carbon economy and society. We are pursuing this in three ways, namely by investing more in renewable energy and less in fossil fuels, by encouraging energy-saving and by limiting our own environmental footprint.

Our direct impact:

We limit our own environmental footprint by:

- Setting targets for our carbon emissions. We aim to cut our greenhouse gas emissions by 50% between 2015 and 2030 (currently already -38%).
- Increasing the proportion of green energy in KBC buildings and pursuing energy efficiency.
- Obtaining ISO 14001 certification in all our core countries.
- Also working towards a low(er)-carbon society through our HR policy. We seek to reduce commuting and business travel through teleworking and Skype meetings, promoting the use of public transport, providing bike leasing opportunities and giving car-leasers a 'green nudge'.

Carbon emission data and calculations are verified by Vinçotte in accordance with ISO 14064-3. More detailed information on our environmental footprint can be found in KBC Group's sustainability report.

2018 (KBC Group)

595 thousand
GJ of electricity used

314 thousand
GJ of gas and heating oil
used

377 million km in
commuter and business
travel

3 391 tonnes of
paper used

86 thousand
tonnes of CO₂e emissions

Own environmental footprint (greenhouse gas emissions in tonnes of CO ₂ e), KBC group*	2018	2017
Scope 1 emissions are those from direct energy consumption and own-fleet emissions from business and commuter travel	37 629	41 730
Scope 2 emissions are those from indirect energy consumption (electricity, district heating, cooling and steam)	22 955	27 551
Scope 3 emissions are those from business and commuter travel (excluding those from our own fleet, which are counted under Scope 1 emissions), emissions relating to paper and water consumption and to waste-processing	25 004	24 903
Total	85 588	94 183
Total per FTE	2,3	2,5
Covered by the reduction target	64 101	73 029
Covered by the reduction target per FTE	1,7	1,9
ISO 14001 in each core country	✓	✓

* See our Sustainability Report for details of the methodology used.

Our indirect impact:

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

We limit this indirect impact through measures such as encouraging energy-saving. KBC offers its clients plenty of opportunities to contribute to a low-carbon society themselves. These include numerous finance and insurance products and services, and we also work closely with various partners. In 2018, KBC Group also became the first Belgian financial institution to issue a green bond for institutional investors.

We invest in renewable energy and less so in fossil fuels. For some years now, KBC has been scaling back its funding of polluting energy sources and we refuse to finance large-scale biomass operations, oil and gas extraction, and oil and coal-fired power generation. The Czech Republic is the sole exception to this. We amended our policy in this regard in 2018, deciding that ČSOB will withdraw from the coal sector in that country and that the current exposure to coal-fired power generation would be phased out by 2023 at the latest. This means no funding will be provided to any new or existing coal-fired power stations or coal mines from mid-2018 on (with one exception: existing coal-fired plants for centrally controlled heating systems can continue to be funded until 2035 to allow further ecological improvements to be made to them). At year-end 2018, coal funding by KBC/ČSOB totalled less than 40 million euros, compared to 252 million euros two years previously. We are not only ceasing to fund polluting energy companies, we will no longer insure them either. KBC has set itself the target of providing 50% of its energy

loans to renewable energy by 2030 (44% at year-end 2018). KBC already accounts for a significant proportion of the financing of wind energy in Flanders, both on land and offshore. We have also signed the 'Green Deal for Circular Procurement' to help achieve a more circular economy in Flanders.

We apply strict sustainability rules to our business activities in respect of human rights, the environment, business ethics and sensitive or controversial social themes. The table sets out the most important, recently updated sustainability policies.

Important KBC sustainability policies		Applies to
Blacklist of companies and activities	We place businesses on this list that are involved with controversial weapons systems (including nuclear weapons with effect from 2018) or which commit serious breaches of UN Global Compact Principles. No entity belonging to our group is permitted to do business with such enterprises. For KBC Group NV, speculative, soft commodity transactions are also blacklisted.	Lending, insurance, own investments, SRI and traditional funds, suppliers
Human rights	We have updated our human rights policy to bring us in line with the UN Guiding Principles on Business and Human Rights and UN Global Compact Principles. See also the separate section below.	Lending, insurance, own investments, SRI and traditional funds, suppliers, personnel
Controversial regimes	We do not wish to be involved in financial activities with controversial regimes that fundamentally violate human rights and lack any form of good governance, rule of law or economic freedom. We do, however, make an exception for humanitarian goods. Based on reputable external sources, we decide each year what countries are to be included on our list of controversial regimes.	Lending, insurance, own investments, SRI and traditional funds, suppliers
Sustainable and responsible banking and insurance policy	We have imposed restrictions on providing loans and insurance to controversial socially sensitive sectors and activities such as: the energy sector, project finance, arms-related activities, narcotic crops, gambling, fur, palm oil production, mining, deforestation, land acquisition and involuntary resettlement of indigenous populations, and prostitution. We recently updated our Energy Credit & Insurance Policy for coal funding in the Czech Republic, the Policy on Arms-Related Activities and the Policy on the Tobacco Industry, and also introduced a new Mining Policy and an Animal Welfare Statement.	Lending, insurance
KBC Asset Management SRI exclusions	In the case of traditional funds, we apply the minimum exclusions based on the blacklist of businesses that are involved with controversial weapons systems or which commit serious breaches of UN Global Compact Principles, and the policies on human rights and controversial regimes. What's more, investment products involving food-price speculation are entirely excluded. For SRI funds, we go even further in the exclusion and restriction of controversial activities like gambling, tobacco, aerospace and defence, fur, etc.	SRI funds

Human rights

We are fully committed to meeting our responsibility to respect human rights throughout the group. It goes without saying that we comply with the laws, rules and regulations of every country in which our group operates. With specific reference to human rights, we implement the UN Protect, Respect and Remedy Framework for businesses and human rights. These form the global standard for avoiding and addressing the risk of business operations negatively impacting human rights. We are committed in particular to respecting the letter and the spirit of the United Nations Universal Declaration of Human Rights; the principles concerning fundamental rights in the eight International Labour Organisation core conventions as set out in the Declaration on Fundamental Principles and Rights at Work; the UN Declaration on the Rights of Indigenous Peoples; the UK Modern Slavery Act and other international and regional human rights treaties containing internationally recognised standards by which the business sector must abide. We have also signed the UN Global Compact principles, which we have incorporated into our policies to ensure that they are applied throughout our operations.

KBC acknowledges that financial institutions, like all businesses, can encounter practices that harm human rights. We also acknowledge that businesses, including financial services providers, can encounter human rights violations in three ways. As set out in the UN Guiding Principles Reporting Framework, businesses can: (i) have a negative impact; (ii) contribute to a negative impact; or (iii) pursue operations that can be directly linked to a negative impact caused by a company with which they have a business relationship.

We have therefore implemented the KBC Human Rights Policy in our relationships with stakeholders, including our clients, suppliers and employees.

We expect our clients to at least comply with local and international laws and regulations, and our Compliance department ensures that this is the case. Our day-to-day operations are all performed subject to the KBC Group Policy on Blacklisted Companies and the KBC Group Policy on Controversial Regimes. These exclude companies or countries that are involved in a serious infringement of human rights. The Equator Principles apply in the case of international project finance. Where relevant, we ask our clients to demonstrate their compliance with particular industry standards. We have developed a specific due diligence process for lending and insurance activities (Credit Risk Standards on Sustainable and Responsible Lending and the KBC Sustainable and Responsible Insurance Policy). This likewise incorporates procedures to deal with any infringements that are detected. For instance, businesses can be excluded from all our activities, an exit strategy can be launched or special conditions imposed on existing loans and insurance cover. Our investment activities (asset management and own investments) are also subject to internal screening. SRI funds, moreover, have to undergo additional controls (KBC Asset Management Exclusions List for Sustainable Investments).

We are fully committed to respecting and upholding our employees' human rights. More information in this regard (including various KPIs relating to gender, engagement, sick leave and staff turnover, training, etc.) can be found in the 'Our employees, capital, network and relationships' section. We likewise expect our employees to apply and respect human rights in the course of their work. These principles are dealt with in more detail in the Code of Conduct for KBC Group Employees (available at www.kbc.com). Strict national and international laws and regulations are in place in all our core countries to protect human rights. We expect our employees to act in accordance with the regulations and to behave responsibly in everything they do (see 'Aiming to encourage responsible behaviour on the part of all our employees'). Specific procedures are in place, moreover, to guarantee compliance and to deal with complaints, including the 'Policy for the Protection of Whistleblowers in the KBC group'.

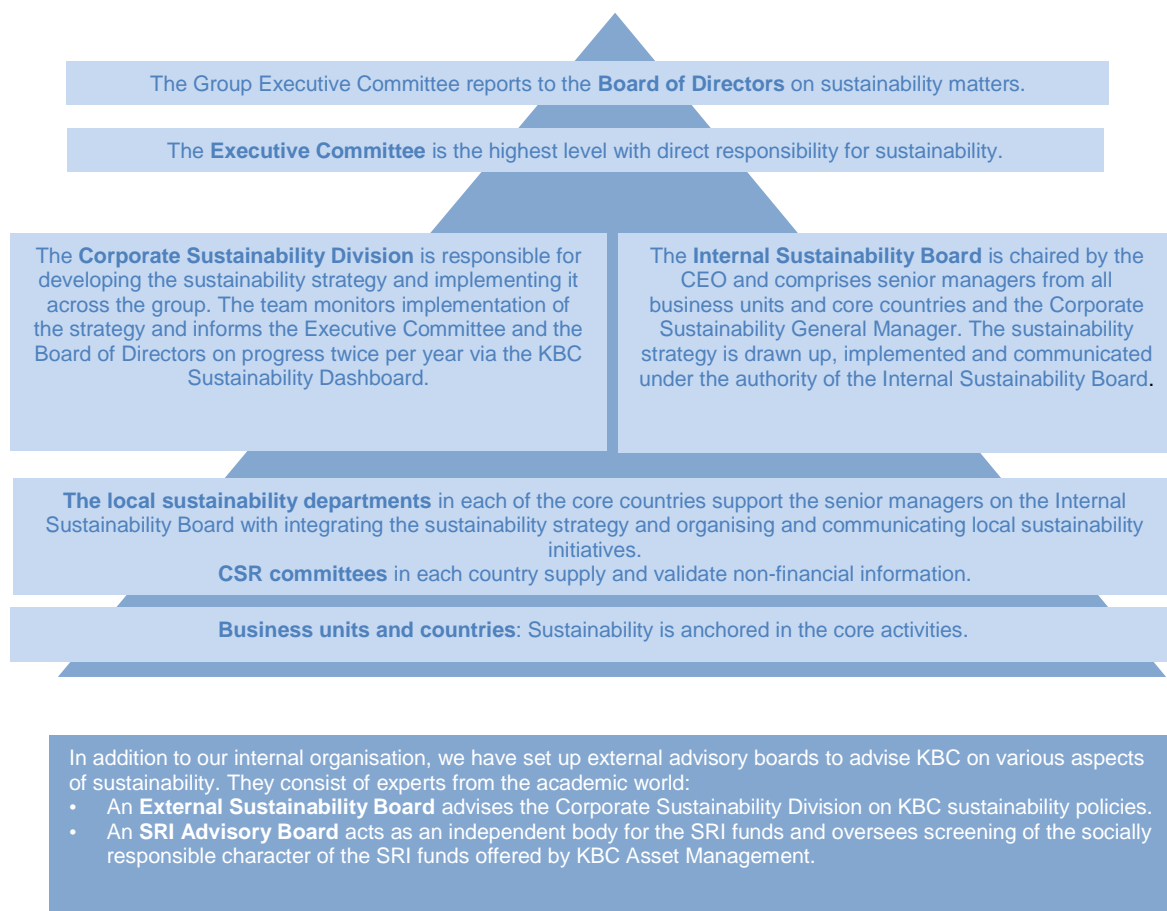
As a bank-insurer, we also work closely with external partners such as suppliers. Strict rules and frameworks therefore apply to purchase, sale and outsourcing activities, and we evaluate the associated environmental, social and ethical matters, including respect for human rights. All the suppliers we work with are screened against the KBC Blacklist and any firms on it are excluded from doing business with us. Our Compliance and Corporate Sustainability departments thoroughly investigate any hits on WorldCheck. We also apply a standard questionnaire when screening key suppliers. Suppliers that come through the screening with a positive evaluation are required to sign the 'KBC Sustainability Code of Conduct for Suppliers'. Any infringements that are detected and which cannot be put right fundamentally within an appropriate period result in the termination of our business relationship.

Strict application of these sustainability rules enables us to oversee the reputational and financial risks arising from potential breaches of human rights and other controversial developments in our core activities. For more information, see 'Business and strategic risks' in the 'Risk management' section.

Our human rights guidelines, blacklists and other relevant documentation are available at www.kbc.com. We report on the application of the Equator Principles in our Sustainability Report.

Our sustainability governance

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









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

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

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

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

Although the activities of a large financial group are exposed to risks that only become apparent in retrospect, we can currently identify a number of major challenges for our group. These are set out under 'In what environment do we operate?' in the 'Our business model' section. As a bank-insurer, we are also exposed to the typical risks for the sector, such as credit risk, market risk, technical insurance risk, liquidity risk, solvency risk and non-financial risk, including operational risk. A list of these risks can be found in the table.

Our 'Three Lines of Defence' model	
1	The business operations side is responsible for managing its risks
2	The second line of defence comprises the control functions, i.e. the Group risk function and Compliance, which ensure that risks are identified and managed by the business side
3	As independent third line of defence, Internal Audit provides support to the Executive Committee, the Board of Directors, the Audit Committee and the Risk & Compliance Committee in monitoring the effectiveness and efficiency of the internal control and risk management system
Sector-specific risks	How are we addressing them?
Credit risk  The potential negative deviation from the expected value of a financial instrument caused by default on the part of a party to a contract, due to the inability or unwillingness of that party to pay or perform, or due to particular measures on the part of political or monetary authorities in a particular country.	<ul style="list-style-type: none"> • Existence of a robust management framework • Recording impairment charges, taking risk-mitigating measures, optimising the overall credit risk profile, reporting, stress testing, etc. • Limit systems to manage concentration risk in the loan portfolio.
Market risk in trading activities  The potential negative deviation from the expected value of a financial instrument caused by fluctuations in the level or volatility of market prices, such as interest rates, exchange rates, and share and commodity prices.	<ul style="list-style-type: none"> • Existence of a robust management framework • Historical VaR method, BPV and basis risk limits, 'greeks' and scenario limits for products with options, stress tests, etc.
Operational and other non-financial risks  Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems, human error or sudden external events, whether man-made or natural. Other non-financial risks include reputational risk, business risk and strategic risks, including climate-change-related risks.	<ul style="list-style-type: none"> • Existence of a robust management framework • Group key controls, risk scans, Key Risk Indicators (KRIs), etc.
Market risk in non-trading activities  Structural market risks, such as interest risk, equity risk, real estate risk, spread risk, currency risk and inflation risk. Structural risks are risks inherent to the commercial activity or long-term positions.	<ul style="list-style-type: none"> • Existence of a robust management framework • Basis Point Value (BPV), sensitivity of net interest income, sensitivity per risk type, stress tests, limit tracking for crucial indicators, etc.
Liquidity risk  The risk that an organisation will be unable to meet its obligations on time, without incurring higher-than-anticipated costs.	<ul style="list-style-type: none"> • Existence of a robust management framework • Drawing up and testing emergency plans for managing a liquidity crisis • Liquidity stress tests, management of funding structure, etc.
Technical insurance risks  Risks stemming from uncertainty as to how often insured events will occur and how extensive they will be.	<ul style="list-style-type: none"> • Existence of a robust management framework • Underwriting, pricing, claims reserving, reinsurance and claims handling policies, etc.

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

Review of the consolidated financial statements under IFRS

- We review the consolidated results in this section of the annual report. The non-consolidated financial statements and balance sheet can be found in the 'Company annual accounts' section.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was insignificant.
- KBC Insurance and KBC Bank use the same consolidated financial statement and balance sheet layouts as KBC Group, their parent company, reflecting the integrated bank-insurer character of the KBC group.
- For information on significant post-balance-sheet events, see Note 6.8 of the 'Consolidated financial statements'.
- We have started applying IFRS 9 with effect from 2018, which means that the classification of financial assets and liabilities and the impairment methodology have changed considerably. Consequently, some of the income statement 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). More detailed information can be found in Note 1.1 of the 'Consolidated financial statements'.
- Overview of the impact of the 'overlay' approach on the consolidated income statement: this approach has been applied to most of the equity instruments held by the group's insurance companies. These equity instruments, which have mainly been classified as 'Available for sale' under IAS 39, would be measured at FVPL under IFRS 9. For as long as IFRS 17 is not effective – i.e. until 1 January 2022 (subject to EU endorsement) – the overlay approach allows for increased volatility reported in the income statement as a result of applying IFRS 9 to be removed from the income statement to OCI. This increased volatility, which was reclassified out of 'Net result from financial instruments at FVPL' to 'Revaluation reserve (FVPL equity instruments) – overlay approach', relates to -228 million euros in unrealised changes in fair value. That is the difference between (i) the result under IFRS 9 (without applying the overlay), i.e. -177 million euros in realised and unrealised changes in fair value recognised in 'Net result from financial instruments at FVPL' and (ii) the result under IAS 39, i.e. 51 million euros, comprising a net realised result of 110 million euros and an impairment of 58 million euros. More details are provided in Note 1.2.

Consolidated income statement

The consolidated income statement of the KBC Insurance group is as follows:

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)	Change	Change
			in amount	in %
Net interest income	507	564	- 57	-10%
Interest income	559	610	- 52	-9%
Interest expense	- 52	- 47	- 5	11%
Non-life insurance (before reinsurance)	775	722	53	7%
Earned premiums	1 601	1 510	91	6%
Technical charges	- 826	- 788	- 38	5%
Life insurance (before reinsurance)	- 20	- 60	40	-67%
Earned premiums	1 361	1 273	88	7%
Technical charges	- 1 382	- 1 334	- 48	4%
Ceded reinsurance result	- 41	- 8	- 33	435%
Dividend income	53	58	- 5	-8%
Net result from financial instruments at fair value through profit or loss	63	- 2	65	-2824%
of which result on equity instruments (overlay approach)	51	-	51	0%
Net realised result from available-for-sale assets	-	84	- 84	-100%
Net realised result from debt instruments at fair value through OCI	1	-	1	0%
Net fee and commission income	- 341	- 312	- 29	9%
Fee and commission income	142	165	- 24	-14%
Fee and commission expense	- 483	- 477	- 5	1%
Other net income	78	63	14	23%
TOTAL INCOME	1 074	1 108	- 34	-3%
Operating expenses	- 476	- 463	- 13	3%
Staff expenses	- 232	- 231	- 1	1%
General administrative expenses	- 230	- 215	- 14	7%
Depreciation and amortisation of fixed assets	- 14	- 17	3	-18%
Impairment	- 2	- 12	11	-87%
on loans and receivables	-	0	0	-100%
on financial assets at AC and at FVOCI	3	-	3	0%
on available-for-sale assets	-	- 11	11	-100%
on goodwill	0	0	0	0%
other	- 5	- 2	- 3	202%
Share in results of associated companies and joint ventures	19	19	- 1	-3%
RESULT BEFORE TAX	615	652	- 37	-6%
Income tax expense	- 145	- 187	41	-22%
RESULT AFTER TAX	470	465	4	1%
attributable to minority interests	0	0	0	-350%
of which relating to discontinued operations	0	0	0	0%
attributable to equity holders of the parent	469	465	4	1%

Net result

The consolidated result of the KBC Insurance group came to 469 million euros in 2018, as opposed to a year-earlier figure of 465 million euros.

This 4-million-euro increase came about primarily because of a higher technical result in both the life and non-life businesses and lower taxes, largely offset by lower net interest income, a decline in net fee and commission income, higher impairment on shares and a lower reinsurance result:

- Overall, earned premiums in non-life insurance went up by 6%, with all entities recording an increase. Technical charges rose in line with premiums but remained at a low level, due to the absence of any major natural disasters and limited large claims. In addition, the ceded reinsurance result was more negative than in 2017 (fewer recoveries due to fewer large claims). These items were instrumental in achieving the healthy combined ratio of 88.2% (87.8% for financial year 2017).
- Earned premiums in life insurance amounted to 1 361 million euros in 2018. However, in compliance with IFRS, certain types of life insurance (i.e. unit-linked products) have been excluded from this figure. If the premium income from such products is included, premium income from the life insurance business totalled over 1.8 billion euros, 3% lower than in 2017. Broadly speaking, guaranteed-rate products went up by 8%, with all countries recording an increase. Unit-linked products fell sharply on their 2017 level (-18%) mainly on account of persistent turbulence on the markets, which kept the number of placements low.

The rise in claims incurred was attributable primarily to higher life insurance provisions being set aside as a result of the increase in premiums collected for guaranteed-rate products, offset in part by lower 'uprenting' costs due to scaling back the Life Capital portfolio in Belgium.

- Investment income was down on its level for 2017, which reflected primarily the decline in interest income (falling return on bonds linked to the general financial climate of low interest rates, combined with the lower volume of bonds on the balance sheet) and higher impairment on shares stemming from the negative trend on the stock markets.
- Operating expenses were up 3% on their 2017 level, due to the increase in general administrative expenses (including for strategic and regulatory projects and the integration of UBB Life) and, to a lesser extent, to higher staff expenses (including indexation and additional staff required for strategic and regulatory projects).

Review of the technical and non-technical results

(in millions of EUR)	Life	Non-life	Non-technical account	TOTAL
2018 (IFRS 9)				
Earned premiums, insurance (before reinsurance)	1 361	1 601		2 962
Technical charges, insurance (before reinsurance)	- 1 382	- 826		- 2 208
Net fee and commission income	- 30	- 311		- 341
Ceded reinsurance result	- 2	- 39		- 41
General administrative expenses	- 147	- 249	- 3	- 399
Internal claims settlement expenses	- 9	- 59		- 67
Indirect acquisition costs	- 31	- 70		- 100
Administrative expenses	- 108	- 120		- 228
Investment management fees	0	0	- 3	- 3
Technical result	- 199	176	- 3	- 26
Net interest income			507	507
Net dividend income			53	53
Net result from financial instruments at fair value through profit or loss			63	63
Net realised result from debt instruments at fair value through OCI			1	1
Other net income			0	0
Impairment			- 2	- 2
Allocation to the technical accounts	508	79	- 586	0
Technical-financial result	308	255	33	596
Share in results of associated companies and joint ventures			19	19
RESULT BEFORE TAX	308	255	51	615
Income tax expense				- 145
RESULT AFTER TAX				470
Attributable to minority interest				0
Attributable to equity holders of the parent				469
2017 (IAS 39)				
Earned premiums, insurance (before reinsurance)	1 273	1 510		2 784
Technical charges, insurance (before reinsurance)	- 1 334	- 788		- 2 122
Net fee and commission income	- 20	- 292		- 312
Ceded reinsurance result	1	- 9		- 8
General administrative expenses	- 140	- 247	- 3	- 389
Internal claims settlement expenses	- 8	- 56		- 65
Indirect acquisition costs	- 31	- 73		- 103
Administrative expenses	- 100	- 118		- 218
Investment management fees	0	0	- 3	- 3
Technical result	- 219	175	- 3	- 47
Net interest income			564	564
Net dividend income			58	58
Net result from financial instruments at fair value through profit or loss			- 2	- 2
Net realised result from available-for-sale assets			84	84
Other net income			- 10	- 10
Impairment			- 12	- 12
Allocation to the technical accounts	536	87	- 623	0
Technical-financial result	317	262	54	634
Share in results of associated companies and joint ventures			19	19
RESULT BEFORE TAX	317	262	73	652
Income tax expense				- 187
RESULT AFTER TAX				465
Attributable to minority interest				0
Attributable to equity holders of the parent				465

Results from the non-life insurance business

At 255 million euros, the results generated by the non-life insurance business were in line with those posted in 2017 (262 million euros).

In 2018, earned premiums in non-life insurance totalled 1 601 million euros, a considerable increase of 6% on the year-earlier figure. They grew by 3% in Belgium, by 15% in the Czech Republic, and by 14% in the three other Central and Eastern European markets combined. The increase was recorded primarily in (both third-party and comprehensive) 'car insurance' and in 'fire insurance'. These classes of insurance – along with 'general third-party liability', 'accident' and 'health' – accounted for 86% of earned non-life premiums.

Technical charges in the non-life business came to -826 million euros in 2018, rising in line with the increase in premiums but still remaining at a low level, due to the absence of any major natural disasters and limited large claims. Moreover, 2017 had been characterised by a number of reversals of provisions, including the release of the indexation provision (26 million euros) due to a change in accounting policy.

General administrative expenses went up by 1%.

Thanks to higher earned premiums and the limited increases in technical charges, the combined ratio at group level came to an excellent 88.2% (as opposed to 87.8% in 2017). The combined ratio in all markets was well below 100%.

Non-life in %	2018	2017
Net claim ratio	56,6%	55,5%
Net cost ratio (vs written premium)	31,6%	32,3%
Net combined ratio	88,2%	87,8%

Results from the life insurance business

At 308 million euros, the results generated by the life insurance business were 3% lower than those posted for 2017 (317 million euros).

In 2018, earned premiums in life insurance totalled 1 361 million euros, up 7% on the year-earlier figure.

Sales of life insurance (including unit-linked products) were down 3% on the previous year, with guaranteed-rate products rising by 8% (despite less-attractive guaranteed interest rates and thanks to the integration of UBB Life), but unit-linked products falling by 18%. This trend was observed mainly in Belgium (guaranteed-rate products up 8%, unit-linked products down 27%) and to a lesser extent in the Czech Republic (guaranteed-rate products up 5%, unit-linked products down 1%), whereas there was a more mixed picture in our other Central and Eastern European markets, with sales of unit-linked products in Hungary down on their year-earlier level, but up in Slovakia and Bulgaria. Overall, products offering guaranteed rates accounted for just over 61% of sales in 2018 and unit-linked life insurance for 39% (whereas the share was 54% guaranteed-rate and 46% unit-linked in 2017).

The rise in claims incurred was attributable primarily to higher life insurance provisions being set aside as a result of the increase in premiums collected for guaranteed-rate products, offset in part by lower 'uprenting' costs due to scaling back the Life Capital portfolio in Belgium.

Investment income was down on its level for 2017, which reflected primarily the decline in interest income (falling return on bonds linked to the general financial climate of low interest rates, combined with the lower volume of bonds on the balance sheet) and higher impairment on shares arising from the negative trend on the stock markets.

Non-technical result

The non-technical result (51 million euros) in 2018 was down on its year-earlier level and did not include any exceptional items.

Income tax expense

The income tax expense for 2018 totalled -145 million euros, or almost 24%, down on its year-earlier level (almost 29% in 2017) thanks to a tax reform in Belgium. This reform also had a one-off impact on deferred taxes in 2017 (-7 million euros).

Consolidated balance sheet

(in millions of EUR)	31-12-2018 (IFRS 9)	31-12-2017 (IAS 39)	Change in amount	Change in %
ASSETS				
Cash, cash balances with central banks and other demand deposits with credit institutions	246	312	- 65	-20,9%
Financial assets	35 026	36 735	-1 709	-4,7%
Held for trading	-	11	- 11	-100,0%
Designated at fair value through profit or loss	-	14 421	-14 421	-100,0%
Available for sale	-	14 563	-14 563	-100,0%
Loans and receivables	-	2 553	-2 553	-100,0%
Held to maturity	-	5 185	-5 185	-100,0%
Amortised cost	7 481	-	7 481	-
Fair value through OCI	12 418	-	12 418	-
Fair value through profit or loss	15 125	-	15 125	-
of which held for trading	11	-	11	-
Hedging derivatives	3	2	1	29,2%
Reinsurers' share in technical provisions, insurance	120	131	- 11	-8,4%
Tax assets	43	33	10	29,1%
Current tax assets	32	28	4	14,9%
Deferred tax assets	10	5	5	113,3%
Investments in associated companies and joint ventures	46	47	- 2	-3,3%
Property, equipment and investment property	300	274	26	9,5%
Goodwill and other intangible assets	143	130	13	9,7%
Other assets	663	733	- 70	-9,6%
TOTAL ASSETS	36 586	38 395	-1 809	-4,7%
LIABILITIES AND EQUITY				
Financial liabilities	14 532	15 571	-1 039	-6,7%
Amortised cost	1 535	1 950	- 415	-21,3%
Fair value through profit or loss	12 965	13 585	- 620	-4,6%
of which held for trading	17	34	- 17	-50,6%
Hedging derivatives	33	36	- 3	-9,3%
Technical provisions, before reinsurance	18 388	18 721	- 332	-1,8%
Tax liabilities	277	358	- 82	-22,8%
Current tax liabilities	76	65	11	16,6%
Deferred tax liabilities	201	293	- 92	-31,5%
Provisions for risks and charges	6	5	0	4,4%
Other liabilities	655	688	- 32	-4,7%
TOTAL LIABILITIES	33 858	35 343	-1 485	-4,2%
Total equity	2 728	3 051	- 323	-10,6%
Parent shareholders' equity	2 728	3 052	- 324	-10,6%
Minority interests	0	- 1	0	-66,9%
TOTAL LIABILITIES AND EQUITY	36 586	38 395	-1 809	-4,7%

At the end of 2018, the consolidated total assets of KBC Insurance came to 36 586 million euros, down 4.7% year-on-year.

Investments related to unit-linked products and the securities portfolio (bonds and shares) together made up almost 90% of the assets.

Loans and advances

Mortgage loans rose by 397 million euros year-on-year (because of the purchase of loans granted to private individuals by KBC Bank NV). This movement was partly offset by the lower level of amounts receivable from credit institutions.

Securities portfolio (excluding investments related to unit-linked products)

In millions of EUR	31-12-2018	31-12-2017
Available for sales		14 563
Held to Maturity		5 185
Amortised cost	4 679	
OCI	12 418	
Fair value through profit or loss	1 277	
Total	18 374	19 747
Shares	7,2%	7,3%
Bonds	92,8%	92,7%

The securities portfolio (excluding investments related to unit-linked products) fell by 1.4 billion euros year-on-year, due primarily to bonds reaching maturity. Most of the securities portfolio continues to be invested in bonds.

Technical provisions and financial liabilities for unit-linked products

Financial liabilities related to unit-linked products fell by just over 4% (or 603 million euros), primarily because of negative price trends.

Technical provisions for the life insurance business fell by almost 3% (-424 million euros year-on-year) due to the high volumes that had reached the end of the guaranteed-rate period. Only some of this figure was reinvested in other products (including unit-linked ones).

In millions of EUR	31-12-2018	31-12-2017	Change in amount	Change in %
Liabilities Unit Linked	12 949	13 552	-603	-4,4%
Technical provisions, before reinsurance (other than Unit Linked)	18 388	18 721	-332	-1,8%
Provisions Non Life	3 414	3 323	91	2,7%
Provisions Life	14 974	15 398	-424	-2,8%
TOTAL	31 337	32 273	- 936	-2,9%

The reinsurers' share in the technical provisions fell by -11 million euros.

Other financial liabilities

The decline in financial liabilities measured at amortised cost concerned repo-related liabilities that have now been settled with KBC Bank NV.

Tax liabilities

Deferred tax liabilities fell by -92 million euros, mainly because of the decline in the market value of financial liabilities measured at fair value through OCI and the impact of the first time adoption of IFRS 9.

Equity

In millions of EUR	31-12-2018	31-12-2017
Total parent shareholders' equity	2 728	3 051

Consolidated equity fell by 323 million euros, with a number of items offsetting each other, as shown in the table below.

In millions of EUR	31-12-2018
Total	
Impact of the first-time adoption of IFRS 9	- 149
Share of the group in profit for the period	469
Dividends paid	- 243
Unrealized gains and losses	- 401
Capital reduction	0

These items were:

- A one-off impact resulting from the implementation of IFRS 9 (-149 million euros).
- A payment of an interim dividend for 2018 in the amount of 235 million euros and a final dividend of 8 million euros in relation to the previous financial year.
- A 401-million-euro decline in the revaluation reserves, primarily relating to bonds (-168 million euros) and shares (-228 million euros).
- The share of the group in the profit of 469 million euros for the financial year.

A detailed overview of changes in equity is provided under 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section.

Solvency (according to Solvency II)

In millions of EUR	31-12-2018	31-12-2017
Available capital	3 590	3 865
Solvency Capital Requirement (SCR)	1 651	1 823
Solvency II ratio	217%	212%
Solvency surplus	1 939	2 042

The main factors behind the increase in the solvency ratio from 212% at year-end 2017 to 217% at year-end 2018 were:

- The falling stock markets (the Eurostoxx 600 lost 18%), which reduces the amount of capital available but also means that there is less risk of the stock markets falling further, with the result that less capital is required to be held. On balance, therefore, the impact on the ratio was a positive one.
- Higher volatility adjustment caused by wider European spreads, which had a positive effect.
- Offset in part by a flatter yield curve (rising short-term interest rates and falling long-term rates).

Appropriation of the results of KBC Insurance NV for 2018

The result available for appropriation came to +371 million euros for financial year 2018 (based on the company annual accounts). The Board of Directors will propose to the General Meeting that 368 million euros be paid out in dividends and 3 million euros in the form of an employee profit-sharing bonus. In this regard, an interim dividend of 235 million euros was already paid in the fourth quarter of 2018.

Circumstances that could significantly affect the company's development

Conducting insurance business involves typical risks such as credit risk, market risk, liquidity risk, insurance technical risks and operating risk. Managing those risks is one of management's key tasks. For more information on managing risk, see the 'Risk management' section.

Research & development

We must continue to respond as a group to the shifting needs of our clients and to constantly changing market conditions. The commercial relationship with our clients is increasingly shaped by a strict legal framework that aims to protect them and defend their interests. Compliance with these rules is naturally the minimum requirement. However, trust in KBC will be determined chiefly by client experience and how they perceive KBC's service.

Research and development has been performed at a variety of group companies as part of a programme to develop new and innovative financial products and services. Over the past few years, we have launched numerous successful mobile and other innovative apps.

Information on branch offices

KBC Insurance does not have any branch offices.

Additional information

Information on financial instruments, hedge accounting and the use thereof is provided in the 'Consolidated financial statements' section (Notes 1.2, 3.3, and 4.0 among others) and in the 'Risk management' section.

Risk Management and capital adequacy

KBC Insurance is exposed to a number of typical industry-specific risks such as movements in interest rates and exchange rates, insurance underwriting risk, credit risk & operational risks, etc.

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

More detailed information can be found in the Solvency and Financial Condition Report (SFCR), that will be available end of May 2019 and in KBC's Risk Report, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor).



Specific information on the insurance activities of the group can be found in Notes 3.7 and 5.6 in the 'Consolidated financial statements' section.

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

- the 'Risk governance' section;
- the 'Solvency KBC Insurance table (the audited parts are indicated in a footnote to the table), ORSA' and 'Stress testing'
- the 'Technical insurance risk' section.
- parts of the 'Market risk in non-trading activities' section: the introduction, 'Managing market risk in non-trading activities', 'Interest rate risk' (except for the 'Impact of a parallel 10-basis-point increase in the yield curve for the KBC Insurance' table and the 'Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities' table, 'Foreign exchange risk' and Overview of exposure to sovereign Bonds.
- certain parts of the 'Credit risk' section: namely the introduction, the 'Investment portfolio of KBC insurance' table and the 'Credit exposure to (re)insurance companies by risk class' table;

Risk governance

Risk governance in KBC Insurance is fully embedded in the risk governance of KBC Group. Below, the risk governance model of KBC Group is highlighted.

Main elements in our risk governance model:

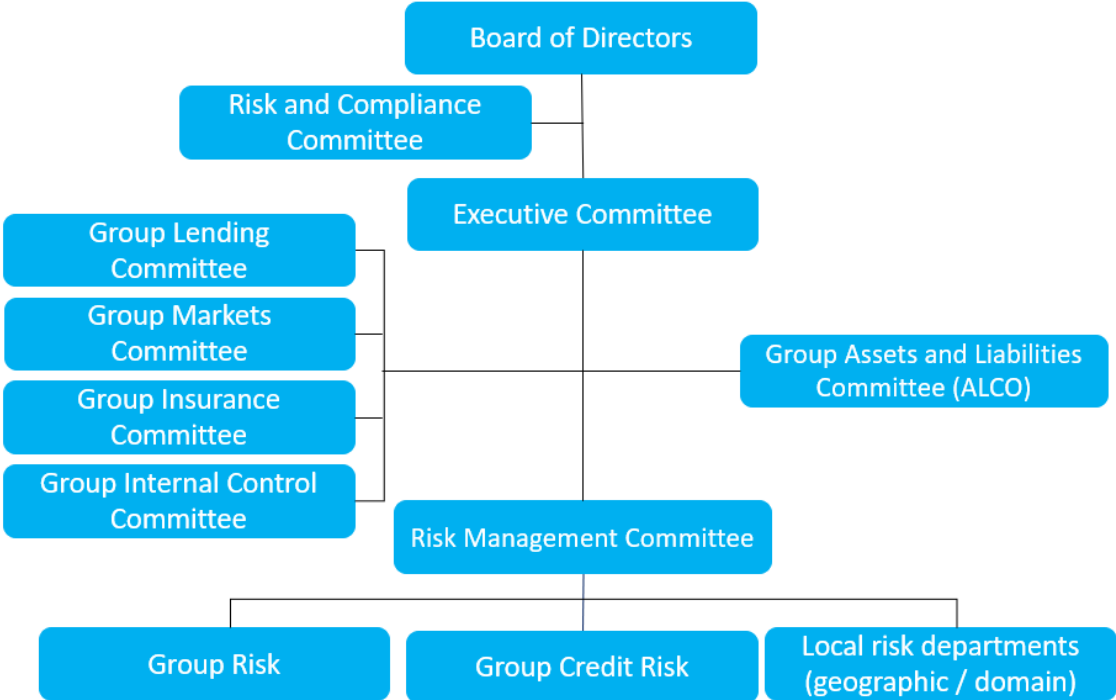
- The Board of Directors, assisted by the Risk & Compliance Committee (RCC), which decides on and supervises the risk appetite – including the risk strategy – each year. It is also responsible for the development of a sound and consistent group-wide risk culture, based on a full understanding of the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

Relevant risk management bodies and control functions:

- Executive Committee:
 - makes proposals to the Board of Directors about risk and capital strategy, risk appetite, and the general concept of the risk management framework;
 - decides on the integrated and risk-type-specific risk management frameworks and monitors their implementation throughout the group;
 - allocates capital to activities in order to maximise the risk-adjusted return;
 - acts as the leading risk committee, covering material issues that are channelled via the specific risk committees or the Group Assets & Liabilities Committee (Group ALCO);
 - monitors the group's major risk exposure to ensure conformity with the risk appetite.
- Group ALCO:
 - is a business committee that assists the Executive Committee in the domain of (integrated) balance sheet management at group level. It handles matters related to ALM and liquidity risk.
- Risk committees:
 - The Risk Management Committee supports the Executive Committee in assessing the adequacy of, and compliance with, the KBC Risk Management Framework and defines and implements the vision, mission and strategy for the CRO Services of the KBC group.
 - The activity-based Group Risk Committees (for lending, markets and insurance, respectively) support the Executive Committee in setting and monitoring limits for these activities at group level. Liquidity and ALM issues related to these activities are addressed by the Group ALCO.
 - The Group Internal Control Committee (GICC) supports the Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system.
- In order to strengthen the voice of the risk function and to ensure that the decision-making bodies of the business entities are appropriately challenged on matters of risk management and receive expert advice, KBC has deployed independent Chief Risk Officers (CROs) throughout the group according to a logical segmentation based on entity and/or business unit. Close collaboration with the business is assured since they take part in the local decision-making process and, if necessary, can exercise a veto. Independence of the CROs is achieved through a direct reporting line to the Group CRO.
- Group Risk and Group Credit Risk (known collectively as 'the Group risk function') have a number of responsibilities, including monitoring risks at an overarching group-wide level, developing risk and capital models (while business models are typically developed by business), performing independent validations of all risk and capital models, developing risk frameworks and advising/reporting on issues handled by the Executive Committee and the risk committees. When appropriate, dedicated working groups comprising risk and business-side representatives are set up to deal with emerging risks or unexpected developments in an integrated way (covering all risk types)

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

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



> More information on risk management can be found in our Risk Report at www.kbc.com, under 'Investor Relations > Reports > risk reports'.

Risk appetite

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

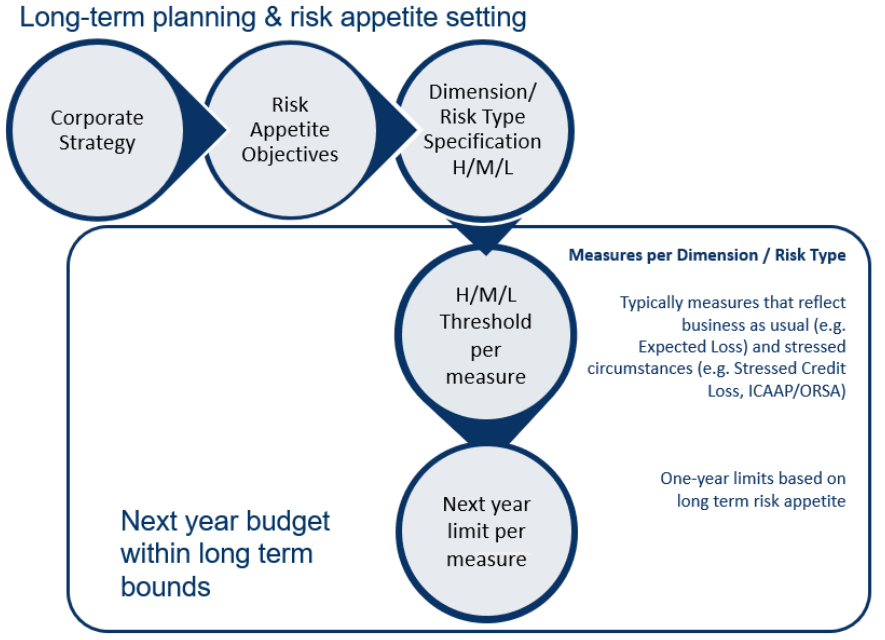
How much risk KBC is prepared to assume and its tolerance for risk is captured in the notion of ‘risk appetite’. It is a key instrument in the overall (risk) management function of the KBC group, as it helps us to better understand and manage risks by explicitly expressing – both qualitatively and quantitatively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

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

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

Risk appetite within KBC is set out in a ‘risk appetite statement’, which is produced at both group and local level. The Risk Appetite Statement (RAS) reflects the view of the Board of Directors and top management on risk taking in general, and on the acceptable level and composition of risks that ensure coherence with the desired return. The statement is built on risk appetite objectives that are directly linked to corporate strategy and provides a qualitative description of the KBC group’s playing field. These high-level risk appetite objectives are further specified in qualitative and quantitative statements for each of the different risk types. The long-term risk appetite is determined as High (H), Medium (M) or Low (L) based on the metrics and thresholds stipulated in the ‘risk appetite underpinning exercise’ performed for the main risk types. The risk appetite specification and related thresholds per metric define the long-term upper boundary for KBC. The specific 2019 limits per risk type are consistent with the long-term upper boundary, but can be set lower. The limits are further cascaded down on the entities.

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



Solvency of KBC Insurance

In the table below, we have provided certain solvency information for KBC Insurance.

The solvency of KBC Insurance is calculated on the basis of Solvency II, the new regulatory framework for insurers in Europe that was introduced on 1 January 2016. Whereas Solvency I requirements were volume-based, Solvency II pursues a risk-based approach. It aims to implement solvency requirements that better reflect the risks that companies face and to deliver a supervisory system that is consistent across all EU Member States. KBC is subject to the Solvency II regime as regards all its insurance subsidiaries.

Solvency, KBC Insurance (incl. volatility adjustment) (Solvency II, in millions of EUR)	31-12-2018	31-12-2017
Own funds	3 590	3 865
Tier-1	3 090	3 365
IFRS parent shareholders' equity	2 728	3 051
Dividend payout	-132	-8
Deduction of intangible assets and goodwill (after tax)	-124	-128
Valuation differences (after tax)	341	403
Volatility adjustment	313	43
Other	-35	3
Tier-2	500	500
Subordinated liabilities	500	500
Solvency capital requirement (SCR)	1 651	1 823
Solvency II ratio	217%	212%
Solvency surplus above SCR	1 939	2 042

For more information see Risk Report of KBC Group available on www.kbc.com.

ORSA

In addition to the integrated approach at group level, KBC Insurance and its insurance and reinsurance subsidiaries have conducted an Own Risk and Solvency Assessment (ORSA) on a regular basis, in accordance with Solvency II requirements. Similar to ICAAP, the aim of the ORSA is to monitor and ensure that business is managed in a sound and prudent way and that the KBC Insurance group is adequately capitalised in view of its risk profile and the quality of its risk management and control environment. The ORSA process draws to a large extent on the same 'core processes' as the ICAAP and includes APC, risk appetite setting and ongoing business, risk and capital management processes. Where necessary, these processes are enhanced to take account of the specific nature of the (re)insurance activities and to comply with Solvency II requirements.

Stress testing

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

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

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

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

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

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

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

Technical insurance risk

Managing technical insurance risk

The Group risk function develops and rolls out a group-wide framework for managing insurance risks. It is responsible for providing support for local implementation and for the functional direction of the insurance risk management process of the insurance subsidiaries.

The insurance risk management framework is designed primarily around the following building blocks:

- Adequate identification and analysis of material insurance risks by, *inter alia*, analysing new emerging risks, concentration or accumulation risks, and developing early warning signals.
- Appropriate risk measurements and use of these measurements to develop applications aimed at guiding the company towards creating maximum shareholder value. Examples include best estimate valuations of insurance liabilities, *ex post* economic profitability analyses, natural catastrophe and other life, non-life and health exposure modelling, stress testing and required internal capital calculations.
- Determination of insurance risk limits and conducting compliance checks, as well as providing advice on reinsurance programmes.

What is it?

Technical insurance risks stem from uncertainty regarding the frequency of insured losses and how extensive they will be. All these risks are kept under control through appropriate underwriting, pricing, claims reserving, reinsurance and claims handling policies of line management and through independent insurance risk management.

Risk modelling

We develop models from the bottom up for all material group-wide insurance liabilities, i.e. (i) future claims that will occur over a predefined time horizon, as well as the claims settlement pattern, (ii) the future settlement of claims (whether already reported to the insurer or not) that have occurred in the past but have not yet been fully settled, and (iii) the impact of the reinsurance programme on these claims. We use these models to steer the group's insurance entities towards creating more shareholder value, by means of applications to calculate the internal capital, support decisions on reinsurance, calculate the *ex post* profitability of specific sub-portfolios and set off internal capital requirements against the relevant return in pricing insurance policies.

Reinsurance

The insurance portfolios are protected against the impact of large claims or the accumulation of losses (due to, for instance, a concentration of insured risks) by means of reinsurance. We divide these reinsurance programmes into three main groups, i.e. property insurance, liability insurance and personal insurance, and we re-evaluate and renegotiate them every year.

Changes in storm and precipitation patterns and in the frequency of floods have shown over the past years a fluctuating level of claim settlements but have not led yet to a structural increase of claim settlements and thus premiums. This is being monitored as part of the insurance risk management framework and processes.

Most of our reinsurance contracts are concluded on a non-proportional basis, which provides cover against the impact of large claims or loss events. The independent insurance risk management function is also responsible for advising on the restructuring of the reinsurance programmes. To this purpose management is informed on quarterly basis of the top natural catastrophe claims and how these were managed and mitigated. Additionally other *ad hoc* studies are executed following risk signals or management requests to analyse possible trends in natural catastrophe events. This approach has resulted in optimising the retention of the KBC group particularly in respect of its exposure to natural catastrophe risk, but also in respect of other lines of business.

Adequacy of technical provisions

As part of its mission to independently monitor insurance risks, the Group risk function regularly carries out in-depth studies. These confirm that there is a high degree of probability that the life and non-life technical provisions at subsidiary level are adequate. Various group companies conduct Liability Adequacy Tests (LAT) that meet local and IFRS requirements for the technical provisions. We make calculations starting from the best estimate model using a discount rate that is set for each insurance entity based on local macroeconomic conditions and regulations. Since no deficiencies were identified by year-end 2018, there was no need for a deficiency reserve to be set aside within the KBC group.

The table shows claims settlement figures in the non-life business over the past few years. All provisions for claims to be paid at the close of 2018 have been included. The claims-settlement figures incorporate all amounts that can be allocated to individual claims, including the Incurred But Not Reported (IBNR) and Incurred But Not Enough Reserved (IBNER) provisions, and the external claims handling expenses, but do not include internal claims settlement expenses and provisions for amounts expected to be recovered. The provision figures included are before reinsurance. As from this year, these figures have been adjusted to eliminate intercompany amounts regarding KBC Group Re. The first row in the table shows the total claims burden (claims paid plus provisions) for the claims that occurred during a particular year, as estimated at the end of the year of occurrence. The following rows indicate the situation at the end of the subsequent calendar years. We restated the amounts to reflect exchange rates at year-end 2018.

Loss triangles, KBC Insurance (in millions of EUR)	Year of occurrence	Year of occurrence	Year of occurrence	Year of occurrence	Year of occurrence	Year of occurrence	Year of occurrence	Year of occurrence	Year of occurrence	Year of occurrence
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Estimate at the end of the year of occurrence	756	867	810	851	916	992	943	1 027	1 004	1 076
1 year later	656	769	712	745	772	884	802	893	886	
2 years later	619	686	657	710	703	832	760	831		
3 years later	600	682	639	685	680	811	729			
4 years later	583	676	627	671	677	795				
5 years later	575	667	620	665	668					
6 years later	568	661	617	659						
7 years later	566	661	611							
8 years later	558	656								
9 years later	559									
Current estimate	559	656	611	659	668	795	729	831	886	1 076
Cumulative payments	495	584	540	557	575	668	567	601	570	436
Current provisions	65	72	71	102	92	127	162	230	315	640

Actuarial function

The Actuarial function is one of the key control functions that is defined in the Solvency II regulatory framework. Solvency II requires an Actuarial function to be installed in each insurance entity and at insurance group level. Basically, the task of such a function is to ensure that the company's Board of Directors or Supervisory Board is fully informed in an independent manner. The tasks of the actuarial function are to:

- coordinate the calculation of technical provisions;
- ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- assess the sufficiency and quality of the data used in the calculation of technical provisions;
- compare best estimates against experience;
- inform the administrative, management or supervisory body of the reliability and adequacy of the

- calculation of technical provisions;
- f) oversee the calculation of technical provisions in the cases where there are insufficient data of appropriate quality to apply a reliable actuarial method.
- g) express an opinion on the overall underwriting policy;
- h) express an opinion on the adequacy of reinsurance arrangements; and
- i) contribute to the effective implementation of the risk-management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements.

Managing ALM risk

Managing market risk in non-trading activities

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

Managing the ALM risk on a daily basis starts with risk awareness at Group Treasury and the local treasury functions. The treasury departments measure and manage interest rate risk on a playing field defined by the risk appetite. They take into account measurement of prepayment and other option risks in KBC's banking book, and manage a balanced investment portfolio. KBC's ALM limits are approved at two levels. Local limits for interest rate risk, equity risk, real estate risk and foreign estate risk for the

consolidated entities are approved by the Board of Directors. Local limits for interest rate risk, equity risk, real estate risk and foreign exchange risk are approved for each entity by the Executive Committee. Together this forms the playing field for KBC's solid first line of defence for ALM risk.

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

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

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

Interest rate risk

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

What is it?

The process of managing our structural exposure to market risks (including interest rate risk, equity risk, real estate risk, foreign exchange risk and inflation risk) is also known as Asset/Liability Management (ALM).

'Structural exposure' encompasses all exposure inherent in our commercial activity or in our long-term positions (banking and insurance). Trading activities are consequently not included. Structural exposure can also be described as a combination of:

- mismatches in the insurance activities between liabilities in the non-life and life businesses and the cover for these liabilities present in the investment portfolios held for this purpose;
- the risks associated with holding an investment portfolio for the purpose of reinvesting shareholders' equity (the so-called strategic position);
- the structural currency exposure stemming from the activities abroad (investments in foreign currency, results posted at branches or subsidiaries abroad, foreign exchange risk linked to the currency mismatch between the insurer's liabilities and its investments).

Impact of a parallel 10-basis-point increase in the swap ² curve for the KBC Insurance (in millions of EUR)	Impact on value ¹	
	2018	2017
Insurance	16	12

¹ Full market value, regardless of accounting classification or impairment rules.

² In accordance with changing market standards, sensitivity figures are based on a risk-free curve (swap curve).

The fixed-income investments for the non-life reserves are invested with the aim of matching the projected payout patterns for claims, based on extensive actuarial analysis.

The non-unit-linked life activities (class 21) combine a guaranteed interest rate with a discretionary participation feature (DPF) fixed by the insurer. The main risks to which the insurer is exposed as a result of such activities are a low-interest-rate risk (the risk that return on investments will drop below the guaranteed level) and a risk that the investment return will not be sufficient to give customers a competitive profit-sharing rate. The risk of low interest rates is managed via a cashflow-matching policy, which is applied to that portion of the life insurance portfolios covered by fixed-income securities. Unit-linked life insurance investments (class 23) are not dealt with here, since this activity does not entail any market risk for KBC.

In the table below, we have summarised the exposure to interest rate risk in our life insurance activities. The life insurance assets and liabilities relating to business offering guaranteed rates are grouped according to the expected timing of cashflows.

Expected cashflows (not discounted), life insurance activities (in millions of EUR)	0–5 years	5–10 years	10–15 years	15–20 years	> 20 years	Total
31-12-2018						
Fixed-income assets backing liabilities, guaranteed component	6 978	4 388	1 679	1 597	799	15 442
Liabilities, guaranteed component	5 513	3 923	2 338	2 008	2 606	16 389
Difference in expected cashflows	1 465	465	-659	-411	-1 807	-947
Mean duration of assets						6.55 years
Mean duration of liabilities						9.20 years
31-12-2017						
Fixed-income assets backing liabilities, guaranteed component	8 118	4 943	2 548	1 766	1 079	18 453
Liabilities, guaranteed component	7 675	3 800	2 385	1 799	2 841	18 500
Difference in expected cashflows	443	1 143	163	-33	-1 763	-47
Mean duration of assets						6.57 years
Mean duration of liabilities						7.92 years

As mentioned above, the main interest rate risk for the insurer is a downside one. We adopt a liability driven ALM approach focused on mitigating the interest rate risk in accordance with KBC's risk appetite. For the remaining interest rate risk, we adhere to a policy that takes into account the possible negative consequences of a sustained decline in interest rates, and have built up adequate supplementary reserves.

Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate	31-12-2018	31-12-2017
5.00% and higher ¹	3%	3%
More than 4.25% up to and including 4.99%	9%	9%
More than 3.50% up to and including 4.25%	5%	5%
More than 3.00% up to and including 3.50%	10%	10%
More than 2.50% up to and including 3.00%	6%	10%
2.50% and lower ²	65%	60%
0.00%	2%	2%
Total	100%	100%

¹ Contracts in Central and Eastern Europe.

² Starting from 2016, future returns on specific insurance contracts under Belgian law have been indexed to the market (with a threshold at 1.75%).

Credit spread risk

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

Exposure to sovereign bonds at year-end 2018, carrying value ¹ (in millions of EUR)						
Total (by portfolio)						
	At amortised cost	At fair value through other comprehensive income	Held for trading	Total	For comparison purposes: total at year-end 2017	Economic impact of +100 basis points ³
KBC Core Countries						
Belgium	1 323	2 829	0	4 152	4 481	-320
Czech Republic	288	432	0	721	658	-44
Hungary	78	104	0	182	181	-8
Slovakia	163	214	0	377	398	-25
Bulgaria	15	150	1	166	181	-9
Ireland	39	77	0	116	133	-4
Other countries						
France	776	983	0	1 759	1 874	-146
Spain	0	295	0	295	318	-14
Italy	31	645	0	676	715	-37
Poland	53	269	0	322	335	-17
Germany	290	103	0	393	537	-34
Austria	130	128	0	258	334	-25
US	0	10	0	10	0	-0
Rest ²	430	902	0	1 332	1 436	-73
Total carrying value	3 616	7 141	1	10 759	11 580	-
Total nominal value	3 750	6 518	1	10 269	10 693	-

¹ The carrying amount refers to the amount at which an asset or a liability is recognised in the company's books, i.e. the fair value amount for instruments categorised as 'At fair value through other comprehensive income' and 'Held for trading', and the amortised cost for instruments categorised as such. The table excludes exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.

² Sum of countries whose individual exposure is less than 0.5 billion euros at year-end 2018.

³ Theoretical economic impact in fair value terms of a parallel 100-basis-point upward shift in the spread over the entire maturity structure (in millions of euros). Only a portion of this impact is reflected in profit or loss and/or equity. Figures relate to non-trading positions in sovereign bonds for the banking and insurance businesses (impact on trading book exposure was very limited and amounted to -1.5 million euros at year-end 2018).

Main changes in 2018:

- The carrying value of the total sovereign bond exposure decreased by 0.8 billion euros. There was a limited increase in exposure to sovereign bonds in Czech Republic (+63 million euros) and a generalized decrease in exposure to other sovereign, of which Belgium (-0.3 billion euros).

Reserve for Fair Value through Other Comprehensive Income (FVOCI) assets at year-end 2018:

- The carrying value of the total FVOCI government bond portfolio incorporated a revaluation reserve of 0.4 billion euros, before tax (165 million euros for Belgium, 83 million euros for France, 18 million euros for Slovakia, 18 million for Spain and 111 million euros for the other countries combined).

Portfolio of Belgian government bonds:

- Despite the decline, Belgian sovereign bonds accounted for 39% of our total government bond portfolio at the end of 2018, reflecting the importance to KBC of Belgium, the group's primary core market.
- At year-end 2018, the credit ratings assigned to Belgium by the three main international agencies were 'Aa3' from Moody's, 'AA' from Standard & Poor's and 'AA-' from Fitch. More information on Belgium's macroeconomic performance is provided in the separate section dealing with Belgium. For more information, please refer to the rating agencies' websites.
- Apart from interest rate risk, the main risk to our holdings of Belgian sovereign bonds is a widening of the credit spread. To assess the potential impact of a 100-basis-point upward shift in the spread (by year-end 2018) we apply two approaches:
 - Theoretical full economic impact approach. This approach assumes a potential full sale of the portfolio at market prices. The impact of a 100-basis-point shift would then amount to a change in value of 320 million euros (see previous table).
 - IFRS approach: the impact on IFRS profit or loss is marginal since the lion's share of the portfolio of Belgian sovereign bonds was classified as 'At amortised cost' implying sales prior to maturity date are unlikely (74.9%; impact only upon realisation). The remaining part is classified as 'FVOCI' (24.6%; no impact on profit or loss); the impact on IFRS unrealised gains regarding FVOCI assets is -155 million euros (after tax) for an increase of 100 basis points.

Equity risk

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

Equity portfolio of the KBC Insurance (breakdown by sector, in %)	Insurance activities	
	31-12-2018	31-12-2017
Financials	24%	24%
Consumer non-cyclical	10%	8%
Communication	3%	2%
Energy	6%	6%
Industrials	38%	39%
Utilities	2%	1%
Consumer cyclical	12%	15%
Materials	5%	6%
Other and not specified	0%	0%
Total	100%	100%
In billions of EUR	1.33	1.47
of which unlisted	0.01	0.0

* The limited difference between the 1.33 billion euros in this table and the 1.32 billion euros for 'Equity instruments' in the table appearing in Note 4.1 of the 'Consolidated financial statements' section comes from the look-through treatment of 'investment in funds'

Impact of a 25% drop in equity prices (in millions of EUR)	Impact on value	
	2018	2017
Insurance activities	-332	-366

Non-trading equity exposure (in millions of EUR)	Net realised gains (in income statement)		Net unrealised gains on year-end exposure (in equity)	
	31-12-2018	31-12-2017	31-12-2018	31-12-2017
Insurance activities	110	81	173	401

Real estate risk

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

Impact of a 25% drop in real estate prices (in millions of EUR)	Impact on value	
	2018	2017
Insurance portfolios	-81	-67

Inflation risk

Inflation – as an econometric parameter – indirectly affects the life of companies in many respects, in much the same way as other parameters do (for instance, economic growth or the rate of unemployment). It is not easily quantifiable as a market risk concept. However, certain financial products or instruments have a direct link with inflation and their value is directly impacted by a change in market expectations. At KBC, it relates specifically to workmen's compensation insurance, where particularly in the case of permanent or long-term disabilities, an annuity benefit is paid to the insured person (with the annuity being linked to inflation by law). KBC Insurance partly mitigates the risks by investing in inflation-linked bonds so that any increase in liabilities arising from mounting inflation is offset by an increase in the value of the bonds. However, these liabilities are long-dated and significantly exceed the investment horizon of such index-linked bonds. Therefore, KBC Insurance complements its inflation hedging programme by investing in real estate and shares, as these assets are traditionally correlated with inflation and do not have a maturity date.

In 2018, the undiscounted value of the inflation-sensitive cashflows was estimated at 608 million euros, against which a 387 million euro portfolio of indexed bonds was held. In the years ahead, investments in inflation-linked bonds will be increased further.

Foreign exchange risk

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

Impact of a 10% decrease in currency value* (in millions of EUR)	Impact on value	
	31-12-2018	Insurance 31-12-2017
USD	-29,66	-30,35
GBP	-16,16	-14,52
CHF	-7,72	-6,46
SEK	-2,46	-2,23
RON	0,00	-0,00
DKK	-1,18	-1,17
CZK	-0,10	0,21

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

Credit risk

What is it?

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

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

Credit risk exposure in the insurance activities

For the insurance activities, credit exposure exists primarily in the investment portfolio (towards issuers of debt instruments) and towards reinsurance companies. We have guidelines in place for the purpose of controlling credit risk within the investment portfolio with regard to, for instance, portfolio composition and ratings. The upper part of the table below shows the market value of the investment portfolio of the insurance entities, broken down by asset type based on Solvency II. The bottom part provides more detail on the bond part of this investment portfolio.

Investment portfolio of KBC Insurance (in millions of EUR, market value) ¹	31-12-2018	31-12-2017
Per asset type (Solvency II)		
Securities	19 249	20 686
Bonds and alike	18 036	19 329
Bonds	17 970	19 285
Collective Investment Undertakings	66	44
Equities	1 211	1 355
Derivatives	3	2
Loans and mortgages	3 131	2 758
Loans and mortgages to customers	2 479	2 025
Loans to banks	652	733
Property and equipment and investment property	286	242
Investments unit-linked ²	13 685	14 354
Investment in associated companies	271	280
Other investments	9	196
Total	36 632	38 517
Details for bonds and other fixed-income securities		
By external rating ³		
Investment grade	99%	98%
Non-investment grade	1%	2%
Unrated	0%	0%
By sector ³		
Governments	63%	63%
Financial ⁴	23%	23%
Other	14%	14%
By remaining term to maturity ³		
Not more than 1 year	11%	11%
Between 1 and 3 years	18%	19%
Between 3 and 5 years	15%	14%
Between 5 and 10 years	34%	31%
More than 10 years	21%	25%

¹ The total carrying value amounted to 35 275 million euros at year-end 2018 and to 37 164 million euros at year-end 2017.

² Representing the assets side of unit-linked (class 23) products and completely balanced on the liabilities side. No credit risk involved for KBC Insurance.

³ Excluding investments for unit-linked life insurance. In certain cases, based on extrapolations and estimates.

⁴ Including covered bonds and non-bank financial companies.

We are also exposed to a credit risk in respect of (re)insurance companies, since they could default on their commitments under (re)insurance contracts concluded with us. We measure this particular type of credit risk by means of a nominal approach (the maximum loss) and expected loss, among other techniques. Name concentration limits apply. PD – and by extension – expected loss is calculated using internal or external ratings. We determine the exposure at default by adding up the net loss reserves and the premiums, and the loss given default percentage is fixed at 50%.

Credit exposure to (re)insurance companies by risk class ¹ : Exposure at Default (EAD) and Expected Loss (EL) ² (in millions of EUR)	EAD 2018	EL 2018	EAD 2017	EL 2017
AAA up to and including A-	188	0.08	191	0.08
BBB+ up to and including BB-	11	0.01	14	0.02
Below BB-	0	0	0	0
Unrated	1	0.02	2	0.04
Total	200	0.11	206	0.13

¹ Based on internal ratings.

² EAD figures are audited, whereas EL figures are unaudited.

Exposure to sovereign bonds

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

Non-financial risks

Operational risk

What is it?

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

Managing operational risk

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

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

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

- define the operational risk management framework and the minimum standards for operational risk management processes for the group;
- inform senior management and oversight committees of the operational risk profile;
- plan and perform independent risk investigations and challenges of the internal control environment;
- provide oversight and advice on the effectiveness of controls executed to reduce operational risk;
- create an environment where risk specialists (in various areas, including information risk management, business continuity and disaster recovery, compliance, anti-fraud, legal, tax and accounting matters) can work together (setting priorities, using the same language and tools, uniform reporting, etc.). The Competence Centre for Operational risk consists of independent risk experts both at group and local level.

The building blocks for managing operational risks

Since 2011, specific attention has been given to the structured set-up of process-based, group-wide mandatory Group Key Controls. These top-down basic control objectives are used to mitigate key and killer risks inherent in the processes of KBC entities and trigger actions, where needed. As such, they are an essential building block of both the operational risk management framework and the internal control system. The current set of Group Key Controls covers the complete process universe of the group. Reviews are executed to manage the process universe, close critical gaps and optimise group-wide risks and basic controls. Besides this minimum level of controls, entities have additional key controls in place to manage local-specific risks or strengthen their control environment.

Risk and control self-assessments by the business are reported to and challenged by the risk function. A group-wide tool is in place to document, assess and report on the internal control environment and to enable benchmarking across entities. It includes the results of challenges and investigations – and related actions – in all material entities and processes. As such, it includes all operational risk and control assessment information across the business, risk, compliance and audit functions.

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

- Setting and cascading risk appetite: the risk appetite for operational risk is set in line with the overall requirements as defined in our overarching risk management framework.
- Risk identification: identifying operational risks involves following on legislation, as well as using the New and Active Product Process, analysing key risk indicators, risk challenges, deep dives, root cause analysis of losses and other risk observations.
- Risk and control metrics: as operational risk is embedded in all aspects of the organisation, group metrics standards are in place to define and support the underpinning of the risk profile of an entity, as well as of a process and individual operational risks and individual controls within the process. In addition to this, a group-wide uniform scale is used to express the overall internal control state of each process in each material entity.
- Risk response and follow-up: a uniform approach – strongly based on first-line of defence accountability and challenges by the second line of defence and assurance by the third line of defence – is in place with risk-based follow up at both local and group level.
- A standardised loss data collection process is in place, including root cause analysis and appropriate response.
- Reporting: minimum standards for the operational risk management reporting process are defined. Besides regulatory required reporting, structural reporting to the group risk committees is performed every quarter. The quality of the internal control environment and related risk exposure is reported to KBC's senior management via a management dashboard and to the National Bank of Belgium, the FSMA and ECB via the annual Internal Control Statement report.
- Stress testing: an annual stress test is performed to assess the adequacy of pillar 1 operational risk capital.

Additional focus on information risk management

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

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

Reputational risk

What is it?

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

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

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

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

Business and strategic risks

What is it?

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

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

Business and strategic risks are assessed as part of the strategic planning process, starting with a structured risk scan that identifies the top financial and non-financial risks. Exposure to the identified business and strategic risks is

monitored on an ongoing basis. Besides the risk scan, business and strategic risks are continually monitored by means of risk signals being reported to top management. In addition, these risks are discussed during the aligned planning process and are quantified under different stress test scenarios and long-term earnings assessments.

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

> *Information on legal disputes is provided in Note 5.7 of the 'Consolidated financial statements' section.*

Liquidity risk

What is it?

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

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

CRR/CRD IV. For insurance entities, liquidity risk is considered in Solvency II.

Insurance entities typically have more stable liabilities than banking entities. An insurance entity's liquidity is managed by matching cashflows and ensuring that sufficient investments are made in liquid assets, thereby guaranteeing that unexpectedly high lapses can be covered by selling or 'repoing' liquid assets. As a result, insurance entities are less sensitive for 'real' liquidity risk.

- > *Specific information on the insurance activities of the group can be found in Notes 3.7 and 5.6 in the 'Consolidated financial statements' section. We have provided a breakdown by business unit of earned premiums and technical charges in the notes dealing with segment reporting.*

New developments in Risk during 2018

Interest rate benchmarks

Interest rate benchmarks play a key role for the smooth functioning of the financial market and are widely used by banks and other market participants. Currently interest rate benchmarks are undergoing in-depth reform.

After the scandals surrounding the setting of LIBOR the Financial Conduct Authority of the UK announced that they would no longer oblige banks to contribute to the LIBOR setting panel from the end of 2020.

In European Union, the Benchmark Regulation (EU 2016/1011, "BMR" - currently due to come into effect from 1st January 2020) set revised guidelines and regulations surrounding the eligibility of a benchmark calculation methodology to move the focus away from 'professional judgement' to a more transaction based methodology. The European Security and Markets Association (ESMA) was given the role of overseeing this transition. The ECB has launched two initiatives in this field: the development of a daily euro unsecured overnight interest rate (ESTER) and the set-up of an industry working group, together with other European institutions, tasked with identifying alternative risk-free rates for widespread adoption.

In this context, KBC Group has set up a Working Group to quantify the risks associated with these changes and prepare a transition plan. KBC Group are monitoring all market developments and are contributing to the public consultations from the ECB Risk Free Rate Working Group. KBC Group will also start pre-studies and implementation plans for ESTER.

Model Risk

Given increased application of advanced modelling solutions in various business functions, the Risk Management Committee decided in October 2018 to implement an action plan to improve management of model risk for all models throughout KBC Group. It will be applied across activity domains (banking, insurance, asset management) and across different types of modelling techniques (regression, machine learning, expert based, etc.). KBC will create a model inventory providing a complete overview of all models used, including a view on the related risk. For labeling model risk, KBC Group will consider the intrinsic model uncertainty, the materiality, the use and the maturity of the governance applicable for a model. This will provide the basis for defining priorities and domain and country-specific action plans.

Digital transformation in risk management

Digitization is a crucial factor impacting and transforming the world around KBC Group. For risk management this evolution brings new challenges but also opportunities. During 2018, the Risk function is investing even more effort into alignment with KBC's front office functions by exploring internal usage of Robotic Process Automation, Big Data & Artificial Intelligence, and FinTech/RegTech solutions. These trends typically can improve the internal efficiency of processes, and allow risk management to gain new insights with respect to specific risk types. By partnering with innovation facilitators, the Risk function is developing new skills and knowledge to better understand the risks related to the digital trends impacting our business, but also learning how to leverage usage of trends to improve our risk management (toolset).

Climate change

Climate related risks and opportunities remain high on the agenda of the business and control functions such as Risk, Compliance and Legal. Climate related risks are part of the KBC Corporate Sustainability Strategy and are continuously monitored and if needed, reported as risk signals towards senior management.

To deal with the growing expectations from different stakeholders such as institutional investors, government and customers, a project on Sustainable Finance was launched in 2018 to further support the gradual implementation of climate-related risks in the overall KBC Risk Management Framework in a more structured way.

In recent years, KBC Group has already taken several steps towards managing climate-related risks and implementing Sustainability within its core strategy & business:

- KBC Group has become a supporting organization of the Task force on Climate-related Financial Disclosures (TCFD) since December 2017.
- KBC Group is already actively engaged in the transition to a low-carbon economy, and manages these risks through strict policies in place to limit the environmental impact of our core lending, investment and insurance activities.
- The KBC Group Sustainability Framework was added to the New and Active Product Process (NAPP) charter. When deciding on new products, sustainability and climate related policies need to be taken into account.
- KBC Bank issued its inaugural KBC Green Bond in June 2018 and continues to focus on SRI product development.

- The impact of more extreme weather conditions is incorporated in the Insurance Risk Management Framework. KBC uses a number of internal and external measures to analyse the impact of acute natural catastrophe risks. These risks are also analysed in multiple internal & external stress tests and ad hoc deep dives following risk signals or management requests.
- During the last risk scan exercise, climate change is acknowledged as a top risk for KBC which is also taken up in the strategic APC (Alignment of Planning Cycles) process.
- We continue to disclose climate-related issues under the Carbon Disclosure Project for which we have an "A-" Leadership score, while the average score of the sector is "B-", both in Europe and worldwide. This is the highest score proposed by the international organisation showing KBC's awareness of climate issues, management methods and its progress on acting on climate change.

➤ *Information on legal disputes is provided in Note 5.7 of the 'Consolidated financial statements' section.*

Corporate Governance statement

Composition of the Board and its committees at year-end 2018

Name	Position	Period served on the Board in 2018	Expiry date of current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors	Members of the EC	AC	RCC
Number of meetings in 2018				11					6	9
LEYSEN Thomas	Chairman	Full year	2019	10	●					
THIJS Johan	President of the Executive Committee/Executive Director	Full year	2021	11				● (c)		
FALQUE Daniel	Executive Director	Full year	2020	11				●		
HOLLOWS John	Executive Director	Full year	2021	9				●		
LUTS Erik	Executive Director	Full year	2021	9				●		
PEPELIER Luc	Executive Director	Full year	2021	11				●		
SCHEERLINCK Hendrik	Executive Director	Full year	2021	11				●		
VAN RIJSSEGHEM Christine	Executive Director	Full year	2022	10				●		
BOSTOEN Alain	Non-Executive Director	Full year	2020	11	●	●				
CALLEWAERT Katelijn	Non-Executive Director	Full year	2021	11	●	●				
DE BECKER Sonja	Non-Executive Director	Full year	2020	10	●	●				
DEPICKERE Franky	Non-Executive Director	Full year	2019	11	●	●				9 (c)
DONCK Frank	Non-Executive Director	Full year	2020	11	●	●				
HÜBBE Morten	Independent Director	Full year	2021	9	●		●		4	7
LANGFORD Andrew	Independent Director	Full year	2022	11	●		●		6	9
NONNEMAN Walter	Non-Executive Director	Full year	2021	11	●	●				
ROUSSIS Theodoros	Non-Executive Director	Full year	2020	11	●	●				
VANHOVE Matthieu	Non-Executive Director	Full year	2021	11	●	●				
VLERICK Philippe	Non-Executive Director	Full year	2020	11	●	●				
WITTEMANS Marc	Non-Executive Director	Full year	2020	11	●	●			6 (c)	

Statutory auditor: PwC bedrijfsrevisoren cvba, represented by Yves Vandenplas and Tom Meuleman. Secretary to the Board of Directors: Johan Tyteca.

Abbreviations: Board of Directors: Board; Executive Committee: EC; Audit Committee: AC; Risk & Compliance Committee: RCC.

(c) Chairman of this committee.

Changes in the composition of the Board in 2018

At the General Meeting of 25 April 2018, Christine Van Rijseghem was re-appointed as a director for a term of four years.

At the same General Meeting, Andrew Langford was re-appointed as an independent director – within the meaning of and in line with the criteria set out in Article 526ter of the Companies Code – for a term of four years.

Changes in the composition of the committees of the Board in 2018

The composition of the AC and RCC remained unchanged in 2018.

Proposed changes in the composition of the Board in 2019

On the advice of the Nomination Committee, it will be proposed that Thomas Leysen and Franky Depickere be re-appointed as directors for a new four-year term of office that will end after the General Meeting of 2023.

On the advice of the Nomination Committee, the Board will propose that Koenraad Debackere be appointed as director for a four-year term of office. After reaching the age limit, Walter Nonneman will resign his seat on the Board following the General Meeting. The Board deeply appreciates all the work that he has done in his capacity as a director.

Koenraad Debackere: holds a Master's Degree in Electrical Engineering and a Doctorate in Management, is a Full Professor at the Faculty of Business and Economics at KU Leuven, Professor at the Vlerick Management School, Executive Director of KU Leuven Research & Development and Managing Director of KU Leuven.

Composition of the EC

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

Statutory auditor

It will be proposed to the General Meeting that PricewaterhouseCoopers be re-appointed as statutory auditor for a three-year period ending after the General Meeting of 2022.

Additional information

- Following the share acquisition transaction on 23 December 2015, KBC Insurance holds 48 889 treasury shares.
- Conflicts of interest that fall within the scope of Articles 523, 524 and 524ter of the Belgian Companies Code. There were no such conflicts in 2018.
- Discharge to directors and to the statutory auditor. It will be requested at the General Meeting to grant discharge to the directors and auditor for the performance of their mandate in financial year 2018.
- At year-end 2018, the AC comprised the following members:
 - Marc Wittemans (non-executive director), who holds a Master's Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences, is Managing Director of MRBB CVBA, the holding company of the Boerenbond (farmers' union), and is the Chairman of the AC.
 - Morten Hübbe (independent director), who holds a Master's Degree in Finance and Accounting (1996), has worked in the insurance sector since 1991. He started his career as a Controller at Zürich Nordic (1991-1997) before moving to Alm. Brand Forsikring AS to take up the position of Financial Analyst (1997-1999). In 1999, he returned to Zürich Nordic as Operations Manager in the Nordic Investment Department (1999-2000) and went on to become vice-CFO (2000-2001) and CFO of the company (2001-2002). In 2002, Mr Hübbe moved to Tryg – a listed Danish insurance company – as Group CFO (2002-2011), where he played an important role in the Risk Committee and Audit Committee. He has been Group CEO there since 2011.
 - Andrew Langford (independent director), who is a graduate in Commerce and a Fellow of the Institute of Chartered Accountants, was Finance Director of FBD Insurance (2003-2008), Group Chief Executive of FBD Holding plc and Chief Executive of FBD Insurance plc (until 2015). Since September 2017, he has

been an Executive Director of Version 1 Software UK Limited, a technology partner for large domestic and international customers from across the industrial spectrum in the UK and Ireland.

They possess the necessary individual and collective expertise in the activities of KBC Insurance and in the fields of accounting and audit, based on their education and extensive business experience.

- At year-end 2018, the RCC comprised the following members:
 - Franky Depickere (non-executive director), who holds Master's Degrees in Trade & Finance (UFSIA Antwerp) and in Financial Management (VLEKHO Business School). He was internal auditor at CERA Bank and has held positions and offices in various financial institutions. He is currently Managing Director at Cera and KBC Ancora. Mr Depickere is the Chairman of the RCC.
 - Andrew Langford (independent director).
 - Morten Hübbe (independent director).

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

- In compliance with the laws on the incompatibility of offices held by executives and managers of insurance institutions and in accordance with National Bank of Belgium Circular PPB-2006-13-CPB-CPA on external offices held by executives and managers of regulated enterprises, Annex contains a list of the external offices held by the executives and directors of KBC Insurance in other companies.

Annex to the annual report of the Board of Directors for the financial year ending on 31 December 2018

Naamloze vennootschap (company with limited liability): KBC Insurance NV
Company number: RLP 0403.552.563

Company name	Registered office	Sector	Office held	Listed	Share of capital held (N= not/none)
Alain Bostoën, Director					
Quatorze Juillet BVBA	Belgium	Accountancy & consulting	Executive Director	N	N
Katlijn Callewaert, Director					
Cera Beheersmaatschappij NV	Belgium	Management	Executive Director	N	N
Almancora Beheersmaatschappij NV	Belgium	Management	Executive Director	N	N
Cera CVBA	Belgium	Management	Member of the Executive Committee	N	N
Sonja De Becker, Director					
SBB Accountants en Belastingconsulenten BV CVBA	Belgium	Accountancy & consulting	Chairman of the Board of Directors	N	N
M.R.B.B. CVBA	Belgium	Holding company	Chairman of the Board of Directors	N	N
SBB Bedrijfsdiensten BV CVBA	Belgium	Accountancy & consulting	Executive Director	N	N
BB-Patrim CVBA	Belgium	Holding company	Chairman of the Board of Directors	N	N
Agri Investment Fund CVBA	Belgium	Holding company	Director	N	N
Acerta CVBA	Belgium	Holding company	Director	N	N
Franky Depickere, Director					
Almancora Beheersmaatschappij NV	Belgium	Management	Executive Director	N	N
Cera CVBA	Belgium	Management	Executive Director	N	N
Cera Beheersmaatschappij NV	Belgium	Management	Executive Director	N	N
Euro Pool System International BV	Netherlands	Packaging	Director	N	N
BRS Microfinance Coop CVBA	Belgium	Finance	Director	N	N
Frank Donck, Director					
3D NV	Belgium	Investment company	Executive Director	N	N
3D Private Equity NV	Belgium	Investment company	Executive Director	N	N
3D Real Estate	Belgium	Intermediation in the purchase of real estate	Director	N	N
Anchorage NV	Belgium	Investment company	Director	N	N
Atenor Groep NV	Belgium	Real estate	Chairman	Euronext	N
Elia System Operator	Belgium	Electricity & gas production, sales and transport	Director	Euronext	N
Elia Asset	Belgium	Electricity & gas production, sales and transport	Director	N	N
Hof Het Lindeken CVBA	Belgium	Agriculture	Executive Director	N	N
Huon & Kauri NV	Belgium	Real estate	Executive Director	N	N
Iberanfra BVBA	Belgium	Real estate	Director	N	N
Ibervest NV	Belgium	Investment company	Executive Director	N	N
Tele Columbus AG	Germany	Cable provider	Chairman	N	N
Ter Wyndt CVBA	Belgium	Golf	Director	N	N
Ter Wyndt NV	Belgium	Golf	Chairman	N	N
Tris NV	Belgium	Real estate	Executive Director	N	N
Winge Golf NV	Belgium	Golf club	Chairman	N	N
Barco NV	Belgium	Technology	Director	Euronext	N
3D Private Investerings NV	Belgium	Investment company	Executive Director	N	N
Academie Vastgoedontwikkeling NV	Belgium	Real estate	Director	N	N
Bowinvest NV	Belgium	Real estate	Director	N	N
Dragonfly Belgium NV	Belgium	Financial holding company	Independent Director	N	N
3D Land NV	Belgium	Real estate	Director	N	N
Tasco NV	Belgium	IT	Director	N	N
Morten Hübbe, Director					
Tryg Limited	Denmark	Insurance	Executive Director	Y	N
Simcorp as	Denmark	IT	Director	Y	N

Company name	Registered office	Sector	Office held	Listed	Share of capital held (N= not/none)
Andrew Langford, Independent Director					
Version 1 Software Limited	Ireland	IT	Executive Director	N	N
Sionnach Limited	Ireland	IT	Executive Director	N	N
Version 1 Software UK Limited	UK	IT	Executive Director	N	N
Version 1 Limited	Ireland	IT services	Executive Director	N	N
Version 1 Solutions Limited	UK	IT	Executive Director	N	N
Version 1 Holdings Limited	Ireland	IT	Executive Director	N	N
Version 1 Community Trust Company Tomas Limited	Ireland	IT	Executive Director	N	N
Cedar Consulting (UK) Limited	UK	IT	Executive Director	N	N
Cedar Consulting Holdco Limited	UK	IT	Executive Director	N	N
Thomas Leysen, Chairman of the Board of Directors					
Umicore NV	Belgium	Non-ferrous metals	Chairman of the Board of Directors	Euronext	N
Corelio NV	Belgium	Media	Chairman of the Board of Directors	N	N
Booischoot NV	Belgium	Real estate	Director	N	N
Mediahuis NV	Belgium	Publishing	Chairman of the Board of Directors	N	N
Walter Nonneman, Director					
Cera Beheersmaatschappij NV	Belgium	Management	Director	N	N
Fluxys Belgium NV	Belgium	Electricity & gas	Independent Director	Euronext	N
Theo Roussis, Director					
Asphalia NV	Belgium	Management	Executive Director	N	N
Pentahold	Belgium	Investment company	Director	N	N
Matthieu Vanhove, Director					
BRS Microfinance Coop CVBA	Belgium	Finance	Executive Director	N	N
Cera Beheersmaatschappij NV	Belgium	Management	Director	N	N
Philippe Vlerick, Deputy Chairman					
Besix Group NV	Belgium	Construction	Director	N	N
Exmar NV	Belgium	Trade	Director	Euronext	N
Point NV	Belgium	Textiles	Chairman of the Board of Directors	N	N
Smartphoto Group NV	Belgium	Photo development	Chairman of the Board of Directors	Euronext	N
Batibic NV	Belgium	Real estate	Chairman of the Board of Directors	N	N
Cecan NV	Belgium	Holding company	Executive Director	N	N
Midelco NV	Belgium	Holding company	Chairman of the Board of Directors	N	N
VIT NV	Belgium	Holding company	Chairman of the Board of Directors	N	N
Vlerick Investeringsmaatschappij CVBA	Belgium	Investment company	Chairman of the Board of Directors	N	N
Vlerick Vastgoed NV	Belgium	Real estate	Executive Director	N	N
Raymond UCO Denim Private Ltd	India	Textiles	Chairman of the Board of Directors	N	N
Pentahold NV	Belgium	Holding company	Chairman of the Board of Directors	N	N
BMT NV	Belgium	Metallurgical industry	Director	N	N
BMT International	Luxembourg	Mechanical engineering	Director	N	N
ETEX GROUP SA	Belgium	Construction	Director	N	N
Corelio NV	Belgium	Media group	Deputy Chairman of the Board of Directors	N	N
LVD Company NV	Belgium	Metallurgical industry	Director	N	N
Vobis Finance NV	Belgium	Holding company	Chairman of the Board of Directors	N	N
B.I.C. Carpets NV	Belgium	Textiles	Chairman of the Board of Directors	N	N
Concordia Textiles NV	Belgium	Textiles	Director	N	N
Indus Kamdhenu Fund	India	Investment company	Chairman	N	N
Hamon & Cie (International) SA	Belgium	Holding company	Director	Euronext	N
Durabilis	Belgium	Import-export	Deputy Chairman of the Board of Directors	N	N
De Robaertbeek NV	Belgium	Textiles	Director	N	N
Bareldam SA	Luxembourg	Holding company	Director	N	N
Sapient Investment Managers Ltd	Cyprus	Holding company	Chairman of the Board of Directors	N	N
UCO NV	Belgium	Textiles	Chairman of the Board of Directors	N	N
Cecan Invest NV	Belgium	Holding company	Executive Director	N	N
Arteveld BVBA	Belgium	Real estate	Chairman	N	N
Oxurion	Belgium	Biopharma	Director	Euronext	N

Company name	Registered office	Sector	Office held	Share of capital held	
				Listed	(N= not/none)
Marc Wittemans, Director					
Aktiefinvest CVBA	Belgium	Real estate	Executive Director/CEO – Chairman of the Board of Directors	N	N
Arda Immo NV	Belgium	Real estate	Chairman of the Board of Directors	N	N
SBB Accountants en Belastingconsulenten BV CVBA	Belgium	Accountancy & consulting	Director	N	N
SBB Bedrijfsdiensten BV CVBA	Belgium	Accountancy & consulting	Director	N	N
M.R.B.B. CVBA	Belgium	Holding company	Executive Director/CEO	N	N
Agri Investment Fund CVBA	Belgium	Holding company	Director	N	N
Acerta CVBA	Belgium	Holding company	Director	N	N
Acerta Consult CVBA	Belgium	HR services	Director	N	N
Acerta Public NV	Belgium	IT services & software	Director	N	N
Shéhérazade développement CVBA	Belgium	IT services & software	Director	N	N
Arvesta NV	Belgium	Agricultural and horticultural	Director	N	N
Hans Verstraete, Senior General Manager					
ADD NV	Belgium	Insurance broker	Chairman of the Board of Directors	N	100.00%
Pensioenfonds KBC OFP	Belgium	Pension fund	Chairman of the Board of Directors	N	N
Pensioenfonds Senior Management OFP	Belgium	Pension fund	Chairman of the Board of Directors	N	N
KBC International Pension Fund OFP	Belgium	Pension fund	Chairman of the Board of Directors	N	N

Consolidated financial statements

Abbreviations used

- ✘ AC = amortised cost
- ✘ OCI = other comprehensive income
- ✘ FVOCI = fair value through other comprehensive income
- ✘ FVPL = fair value through profit or loss. Broken down into:
 - ✘ MFVPL = mandatorily measured at fair value through profit or loss (including held for trading (HFT))
 - ✘ FVO = fair value option (designated upon initial recognition at fair value through profit or loss)
 - ✘ FVPL – overlay = measured at fair value through profit or loss – overlay approach
- ✘ POCI = purchased or originated credit impaired assets

Consolidated income statement

(in millions of EUR)	Note	2018 (IFRS 9)	2017 (IAS 39)
Net interest income	3.1	507	564
Interest income	3.1	559	610
Interest expense	3.1	- 52	- 47
Non-life insurance (before reinsurance)	3.7	775	722
Earned premiums	3.7	1 601	1 510
Technical charges	3.7	- 826	- 788
Life insurance (before reinsurance)	3.7	- 20	- 60
Earned premiums	3.7	1 361	1 273
Technical charges	3.7	- 1 382	- 1 334
Ceded reinsurance result	3.7	- 41	- 8
Dividend income	3.2	53	58
Net result from financial instruments at fair value through profit or loss	3.3	63	- 2
of which result on equity instruments (overlay approach)	3.3	51	-
Net realised result from available-for-sale assets	3.4	-	84
Net realised result from debt instruments at fair value through OCI	-	1	-
Net fee and commission income	3.5	- 341	- 312
Fee and commission income	3.5	142	165
Fee and commission expense	3.5	- 483	- 477
Other net income	3.6	78	63
TOTAL INCOME		1 074	1 108
Operating expenses	3.8	- 476	- 463
Staff expenses	3.8	- 232	- 231
General administrative expenses	3.8	- 230	- 215
Depreciation and amortisation of fixed assets	3.8	- 14	- 17
Impairment	3.10	- 2	- 12
on loans and receivables	3.10	-	0
on financial assets at AC and at FVOCI	3.10	3	-
on available-for-sale assets	3.10	-	- 11
on goodwill	3.10	0	0
other	3.10	- 5	- 2
Share in results of associated companies and joint ventures	3.11	19	19
RESULT BEFORE TAX		615	652
Income tax expense	3.12	- 145	- 187
RESULT AFTER TAX		470	465
attributable to minority interests	-	0	0
<i>of which relating to discontinued operations</i>	-	0	0
attributable to equity holders of the parent	-	469	465

- We are preparing the financial statements for 2018 and subsequent years in accordance with IFRS 9 (see Note 1.1 for more details) and have elected to make use of transition relief for disclosing comparative information.
- We have dealt with the main items in the income statement under 'Review of the consolidated financial statements under IFRS' in the 'Report of the Board of Directors' section.
- Overview of the impact of the 'overlay' approach on the consolidated income statement: this approach has been applied to most of the equity instruments held by the group's insurance companies. These equity instruments, which have mainly been classified as 'Available for sale' under IAS 39, would be measured at FVPL under IFRS 9. For as long as IFRS 17 is not effective – i.e. until 1 January 2022 (subject to EU endorsement) – the overlay approach allows for increased volatility reported in the income statement as a result of applying IFRS 9 to be removed from the income statement to OCI. This increased volatility, which was reclassified out of 'Net result from financial instruments at FVPL' to 'Revaluation reserve (FVPL equity instruments) – overlay approach', relates to -228 million euros in unrealised changes in fair value. That is the difference between (i) the result under IFRS 9 (without applying the overlay), i.e. -177 million euros in realised and unrealised changes in fair value recognised in 'Net result from financial instruments at FVPL' and (ii) the result under IAS 39, i.e. 51 million euros, comprising a net realised result of 110 million euros and an impairment of 58 million euros. More details are provided in Note 1.2.
- The breakdown of interest income and interest expense on financial instruments calculated using the effective interest rate method and on other financial instruments (not calculated using the effective interest rate method) is provided in Note 3.1.

Consolidated statement of comprehensive income

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
RESULT AFTER TAX	470	465
attributable to minority interests	0	0
attributable to equity holders of the parent	469	465
OCI TO BE RECYCLED TO PROFIT OR LOSS	- 394	- 19
Net change in revaluation reserve for equity instruments	-	30
Fair value adjustments before tax	-	95
Deferred tax on fair value changes	-	5
Transfer from reserve to net result	-	- 70
Impairment	-	11
Net gains/losses on disposal	-	- 80
Deferred taxes on income	-	0
Net change in revaluation reserve for bonds	-	- 39
Fair value adjustments before tax	-	- 130
Deferred tax on fair value changes	-	122
Transfer from reserve to net result	-	- 30
Impairment	-	0
Net gains/losses on disposal	-	- 4
Amortisation and impairment of revaluation reserve for available-for-sale financial assets following reclassification to 'loans and receivables' and 'held-to-maturity assets'	-	- 36
Deferred taxes on income	-	10
Net change in revaluation reserve (FVOCI debt instruments)	- 165	-
Fair value adjustments before tax	- 214	-
Deferred tax on fair value changes	52	-
Transfer from reserve to net result	- 4	-
Impairment	- 3	-
Net gains/losses on disposal	- 1	-
Deferred taxes on income	0	-
Net change in revaluation reserve (FVPL equity instruments) - overlay approach	- 228	-
Fair value adjustments before tax	- 176	-
Deferred tax on fair value changes	0	-
Transfer from reserve to net result	- 51	-
Impairment	58	-
Net gains/losses on disposal	- 110	-
Deferred taxes on income	0	-
Net change in hedging reserve (cashflow hedges)	0	- 9
Fair value adjustments before tax	0	- 1
Deferred tax on fair value changes	0	0
Transfer from reserve to net result	0	- 8
Gross amount	0	- 13
Deferred taxes on income	0	4
Net change in translation differences	- 3	8
Gross amount	- 3	8
Deferred taxes on income	0	0

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Hedge of net investments in foreign operations	4	- 6
Fair value adjustments before tax	6	- 9
Deferred tax on fair value changes	- 2	3
Transfer from reserve to net result	0	0
Gross amount	1	0
Deferred taxes on income	0	0
Net change in respect of associated companies and joint ventures	- 3	- 3
Gross amount	- 3	- 3
Deferred taxes on income	1	0
Other movements	0	0
OCI NOT TO BE RECYCLED TO PROFIT OR LOSS	- 7	8
Net change in revaluation reserve (FVOCI equity instruments)	0	-
Fair value adjustments before tax	0	-
Deferred tax on fair value changes	0	-
Transfer to retained earnings on realisation of assets	0	-
Gross amount	0	-
Deferred taxes on income	0	-
Net change in defined benefit plans	- 7	8
Remeasurements	- 9	16
Deferred tax on remeasurements	2	- 8
Net change in own credit risk	0	0
Fair value adjustments before tax	0	0
Deferred tax on fair value changes	0	0
Transfer to retained earnings on realisation of assets	0	0
Gross amount	0	0
Deferred taxes on income	0	0
Net change in respect of associated companies and joint ventures	0	0
Remeasurements	0	0
Deferred tax on remeasurements	0	0
TOTAL COMPREHENSIVE INCOME	68	455
attributable to minority interests	0	0
attributable to equity holders of the parent	68	455

- We are preparing the financial statements for 2018 and subsequent years in accordance with IFRS 9 (see Note 1.1 for more details) and have elected to make use of transition relief for disclosing comparative information.

Consolidated balance sheet

(in millions of EUR)	Note	31-12-2018 (IFRS 9)	31-12-2017 (IAS 39)
ASSETS			
Cash, cash balances with central banks and other demand deposits with credit institutions	-	246	312
Financial assets	4.0	35 026	36 735
Held for trading	4.0	-	11
Designated at fair value through profit or loss	4.0	-	14 421
Available for sale	4.0	-	14 563
Loans and receivables	4.0	-	2 553
Held to maturity	4.0	-	5 185
Amortised cost	4.0	7 481	-
Fair value through OCI	4.0	12 418	-
Fair value through profit or loss	4.0	15 125	-
of which held for trading	4.0	11	-
Hedging derivatives	4.0	3	2
Reinsurers' share in technical provisions, insurance	5.6	120	131
Tax assets	5.2	43	33
Current tax assets	5.2	32	28
Deferred tax assets	5.2	10	5
Investments in associated companies and joint ventures	5.3	46	47
Property, equipment and investment property	5.4	300	274
Goodwill and other intangible assets	5.5	143	130
Other assets	5.1	663	733
TOTAL ASSETS		36 586	38 395
LIABILITIES AND EQUITY			
Financial liabilities	4.0	14 532	15 571
Amortised cost	4.0	1 535	1 950
Fair value through profit or loss	4.0	12 965	13 585
of which held for trading	4.0	17	34
Hedging derivatives	4.0	33	36
Technical provisions, before reinsurance	5.6	18 388	18 721
Tax liabilities	5.2	277	358
Current tax liabilities	5.2	76	65
Deferred tax liabilities	5.2	201	293
Provisions for risks and charges	5.7	6	5
Other liabilities	5.8	655	688
TOTAL LIABILITIES		33 858	35 343
Total equity	5.10	2 728	3 051
Parent shareholders' equity	5.10	2 728	3 052
Minority interests	-	0	- 1
TOTAL LIABILITIES AND EQUITY		36 586	38 395

- We are preparing the financial statements for 2018 and subsequent years in accordance with IFRS 9 (see Note 1.1 for more details) and have elected to make use of transition relief for disclosing comparative information. The opening balance sheet positions under IFRS 9 at 1 January 2018 for a selection of items are given below.

Opening balance sheet position under IFRS 9 at 01-01-2018 for selected items (in millions of EUR)	01-01-2018 (IFRS 9)
Financial assets	36 537
Amortised cost	7 515
Fair value through OCI	13 177
Fair value through profit or loss	15 843
of which held for trading	11
Hedging derivatives	2
Financial liabilities	15 571
Amortised cost	1 950
Fair value through profit or loss	13 585
of which held for trading	34
Hedging derivatives	36
Parent shareholders' equity	2 903

Consolidated statement of changes in equity

(in millions of EUR)	Issued and paid up share capital	Share premium	Treasury shares	Retained earnings	Revaluation reserve (AFS assets)	Revaluation reserve (FVOCI debt instruments)	Revaluation reserve (FVPL equity instruments) - equity overlay approach	Revaluation reserve (FVOCI equity instruments)	Hedging reserve (cashflow hedges)	Translation differences	Hedge of net investments in foreign operations	Remeasurement of defined benefit plans	Total revaluation reserves	Parent shareholders' equity	Minority interests	Total equity	
2018 (IFRS 9)																	
Balance at the end of the previous period	65	1 086	- 203	1 010	1 105	0	0	0	0	0	10	- 3	- 18	1 094	3 052	- 1	3 051
Impact of the first-time adoption of IFRS 9	0	0	0	- 30	- 1 105	589	387	10	0	0	0	0	- 119	- 149	0	- 149	
Balance at the beginning of the period after impact IFRS 9	65	1 086	- 203	980	0	589	387	10	0	10	- 3	- 18	975	2 903	- 1	2 903	
Net result for the period	0	0	0	469	0	0	0	0	0	0	0	0	0	469	0	470	
Other comprehensive income for the period	0	0	0	0	0	- 168	- 228	0	0	- 3	4	- 7	- 402	- 401	0	- 401	
Subtotal	0	0	0	469	0	- 168	- 228	0	0	- 3	4	- 7	- 402	68	0	68	
Dividends	0	0	0	- 243	0	0	0	0	0	0	0	0	0	- 243	0	- 243	
Total change	0	0	0	226	0	- 168	- 228	0	0	- 3	4	- 7	- 402	- 175	0	- 175	
Balance at the end of the period	65	1 086	- 203	1 207	0	422	159	10	0	7	1	- 25	574	2 728	0	2 728	
of which relating to application of the equity method					0	6	0	1	0	0	0	0	7	7		7	
2017 (IAS 39)																	
Balance at the end of the previous period	65	1 086	- 203	885	1 116	-	-	-	9	2	3	- 26	1 104	2 937	0	2 936	
Net result for the period	0	0	0	465	0	-	-	-	0	0	-	0	0	465	0	465	
Other comprehensive income for the period	0	0	0	0	- 11	-	-	-	- 9	8	- 6	8	- 10	- 11	0	- 11	
Subtotal	0	0	0	465	- 11	-	-	-	- 9	8	- 6	8	- 10	455	0	455	
Dividends	0	0	0	- 339	0	-	-	-	0	0	-	0	0	- 339	0	- 339	
Total change	0	0	0	126	- 11	-	-	-	- 9	8	- 6	8	- 10	115	0	115	
Balance at the end of the period	65	1 086	- 203	1 010	1 105	-	-	-	0	10	- 3	- 18	1 094	3 052	- 1	3 051	
of which revaluation reserve for shares					397	-	-	-	-	-	-	-	-	-		-	
of which revaluation reserve for bonds					708	-	-	-	-	-	-	-	-	-		-	
of which relating to application of the equity method				0	10	-	-	-	0	0	0	0	10	10		10	

- We are preparing the financial statements for 2018 and subsequent years in accordance with IFRS 9 (see Note 1.1 for more details) and have elected to make use of transition relief for disclosing comparative information. More information on the impact of IFRS 9 can be found in Note 1.4.
- The 'Dividends' item in 2018 includes the payment of a final dividend for 2017 (8 million euros) and of an interim dividend for 2018 (235 million euros). The 'Dividends' item in 2017 include the payment of a final dividend for 2016 (103 million euros) and of an interim dividend for 2017 (236 million euros). Subject to the approval of the General Meeting of Shareholders, KBC Insurance plans to pay a final dividend of 133 million euros for financial year 2018.
- Revaluation reserves in 2018: the net change in the 'revaluation reserve (FVPL equity instruments) – overlay approach' came to 228 million euros and was largely attributable to negative changes in fair value and, to a lesser extent, to a transfer to the net result (gains on sales partly offset by impairment charges). The 'revaluation reserve (FVOCI debt instruments)' fell by 168 million euros in 2018, owing to the effect of an increase in long-term rates (including in Belgium) and unwinding operations.
- During 2017, the revaluation reserve (for available-for-sale assets) contracted by 11 million euros, with the decline in the reserve for bonds (-42 million euros) being partly offset by the reserve for shares (+31 million euros). The decline in the reserve for bonds was caused by the increase in long-term interest rates, but was mitigated in part by the lower rate of tax in Belgium.

Consolidated cashflow statement

(in millions of EUR)	Note ¹	2018 (IFRS 9)	2017 (IAS 39)
OPERATING ACTIVITIES			
Result before tax	Inc. statement	615	652
Adjustments for:	-	- 19	- 219
Result before tax from discontinued operations	Inc. statement	0	0
Depreciation, impairment and amortisation of property, plant and equipment, intangible fixed assets, investment property and securities	3.10, 4.2, 5.4, 5.5	90	35
Profit/Loss on the disposal of investments	-	- 1	5
Change in impairment on loans and advances	3.10	0	0
Change in technical provisions (before reinsurance)	5.6	- 28	- 147
Change in the reinsurers' share in the technical provisions	5.6	10	- 18
Change in other provisions	5.7	0	1
Other unrealised gains/losses	-	- 70	- 76
Income from associated companies and joint ventures	3.11	- 19	- 19
Cashflows from operating profit before tax and before changes in operating assets and liabilities	-	596	433
Changes in operating assets (excluding cash and cash equivalents)	-	841	185
Financial assets held for trading	4.1	-	5
Financial assets initially recognised at FVPL	4.1	-	- 719
Available-for-sale assets	4.1	-	1 109
Loans and receivables	4.1	-	- 363
Financial assets at amortised cost (excluding debt securities)	4.1	- 324	-
Financial assets at fair value through OCI	4.1	553	-
Financial assets at fair value through profit or loss	4.1	542	-
of which financial assets held for trading	4.1	0	-
Hedging derivatives	4.1	- 1	13
Operating assets associated with disposal groups, and other assets	-	70	141
Changes in operating liabilities (excluding cash and cash equivalents)	-	- 1 384	- 293
Financial liabilities at amortised cost	4.1	- 415	- 246
Financial liabilities at fair value through profit or loss	4.1	- 620	899
of which financial liabilities held for trading	4.1	- 17	0
Hedging derivatives	4.1	- 3	- 37
Technical provisions, before reinsurance	5.6	- 304	- 869
Operating liabilities associated with disposal groups, and other liabilities	-	- 42	- 41
Income taxes paid	3.12	- 137	- 149
Net cash from or used in operating activities		- 84	177
INVESTING ACTIVITIES			
Purchase of held-to-maturity securities	4.1	-	- 67
Purchase of debt securities at amortised cost	4.1	- 106	-
Proceeds from the repayment of held-to-maturity securities	4.1	-	268
Proceeds from the repayment of debt securities at amortised cost	4.1	430	-
Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held)	6.6	- 39	0
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed of (including decreases in percentage interest held)	-	0	0
Purchase of shares in associated companies and joint ventures	-	0	0
Proceeds from the disposal of shares in associated companies and joint ventures	-	0	0
Dividends received from associated companies and joint ventures	-	17	2

(in millions of EUR)	Note ¹	2018 (IFRS 9)	2017 (IAS 39)
Purchase of investment property	5.4	- 45	- 25
Proceeds from the sale of investment property	5.4	6	2
Purchase of intangible fixed assets (excluding goodwill)	5.5	- 12	- 10
Proceeds from the sale of intangible fixed assets (excluding goodwill)	5.5	0	0
Purchase of property, plant and equipment	5.4	- 11	- 15
Proceeds from the sale of property, plant and equipment	5.4	0	- 1
Net cash from or used in investing activities		241	154
FINANCING ACTIVITIES			
Purchase or sale of treasury shares	Changes equity	0	0
Issue or repayment of promissory notes and other debt securities	4.1	0	0
Proceeds from or repayment of subordinated liabilities	4.1	0	0
Principal payments under finance lease obligations	-	0	0
Proceeds from the issuance of share capital	Changes equity	0	0
Issue of additional tier-1 instruments	Changes equity	0	0
Proceeds from the issuance of preference shares	Changes equity	0	0
Dividends paid	Changes equity	- 243	- 339
Net cash from or used in financing activities		- 243	- 339
CHANGE IN CASH AND CASH EQUIVALENTS			
Net increase or decrease in cash and cash equivalents	-	- 87	- 9
Cash and cash equivalents at the beginning of the period	-	334	342
Effects of exchange rate changes on opening cash and cash equivalents	-	- 1	1
Cash and cash equivalents at the end of the period	-	247	334
ADDITIONAL INFORMATION			
Interest paid ²	3.1	- 52	- 47
Interest received ²	3.1	559	610
Dividends received (including equity method)	3.2, 5.3	70	60
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash and cash balances with central banks and other demand deposits with credit institutions	Balance sheet	246	312
Term loans to banks at not more than three months (excl. reverse repos)	4.1	1	23
Reverse repos with credit institutions and investment firms at not more than three months		0	0
Deposits from banks repayable on demand	4.1	0	0
Cash and cash equivalents belonging to disposal groups	-	0	0
Total		247	334
of which not available	-	0	0

¹ The notes referred to do not always contain the exact same amounts as those included in the cashflow statement, as – among other things – adjustments have been made to take account of acquisitions or disposals of subsidiaries, as set out in IAS 7.

² 'Interest paid' and 'Interest received' in this overview are the equivalent of the 'Interest expense' and 'Interest income' items in the consolidated income statement. Given the large number of underlying contracts that generate interest expense and interest income, it would take an exceptional administrative effort to establish actual cashflows. Moreover, it is reasonable to assume that actual cashflows for a bank-insurance company do not differ much from the accrued interest expense and accrued interest income, as most rate products pay interest regularly within the year.

- We are preparing the financial statements for 2018 and subsequent years in accordance with IFRS 9 (see Note 1.1 for more details) and have elected to make use of transition relief for disclosing comparative information.
- KBC uses the indirect method to report on cashflows from operating activities.
- In 2018, DZI acquired all of UBB-MetLife's shares (limited impact – see Note 6.6 for more information).
- There were no material acquisitions or divestments of group companies or activities in 2017.

1.0 Notes on the accounting policies

Note 1.1: Statement of compliance

The consolidated financial statements of KBC Insurance NV, including all the notes, were authorised for issue on 14 March 2019 by the Board of Directors. They have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ('endorsed IFRS') and present one year of comparative information. All amounts are shown in millions of euros and rounded to the million (unless otherwise stated).

The following changes in presentation and accounting policies were applied in 2018:

- IFRS 9 (Financial Instruments) on the classification and measurement of financial instruments became effective on 1 January 2018, replacing IAS 39 (Financial Instruments: Recognition and Measurement). KBC also applies IFRS 9 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 these 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 in our insurance business lines, KBC applies the overlay approach to eligible equity instruments (i.e. they are treated consistently, just as they were 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 will be classified into three stages, namely Stage 1: Performing; Stage 2: (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. The macroeconomic variables include GDP growth, the unemployment rate, policy interest rates, the exchange rate, government bond yields, house prices and inflation.

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 statement of changes in equity have all changed significantly, as have the accompanying notes. KBC has opted to make use of transition relief for disclosing comparative information. The accounting policies in Note 1.2 have been updated and now include information on IFRS 9. For the accounting policies applying to the comparative figures, see KBC Insurance's consolidated financial statements for the year ending 31 December 2017. Transition disclosures are included in Note 1.4 and additional explanations provided in the notes, where relevant.

The fact that KBC uses transition relief for disclosing comparative figures for 2017 and, therefore, does not or is unable to provide comparative figures for a number of items, means that the structure of several tables is also impacted. Although we try where possible to present the figures for 2017 and 2018 in the same table, we have not been able to do so for a number of tables (primarily in Note

4.0) and have had to provide two separate tables instead. For 2018, a new table structure has been provided to reflect the IFRS 9 requirements, whereas the structure of the table for 2017 is the same as the one published in the annual report for 2017.

- IFRS 15 (Revenue from Contracts 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 IFRS standards were issued but not yet effective in 2018. KBC will apply these standards when they become mandatory.

- In January 2016, the IASB issued IFRS 16 (Leases), which will become effective on 1 January 2019. The new standard does not significantly change the accounting treatment of leases for lessors and, therefore, its impact is expected to be limited for KBC (given that it is mainly a lessor and not a lessee). At present, the balance sheet total is estimated to increase insignificantly due to KBC acting as lessee. The first time application of this standard is not expected to have any impact on equity.
- 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 2022 (subject to EU endorsement), with comparative figures being required. KBC launched a group-wide project in 2018 to implement IFRS 17. The project is structured around sub-projects dealing with data delivery, local reporting, the impact on the business model and strategic consequences, guidance and support, consolidated reporting and the IFRS 17 calculation engine. It is being jointly run by the insurance business side and the Finance function, and involves all the departments and entities at group and local level that are affected (including actuaries, finance specialists, IT staff and process managers). In 2017, the group conducted a high-level impact study of IFRS 17 and the implementation phase began at the start of 2018. The focus over the past year has been on arriving at a clear interpretation of the standard for KBC. Where necessary, this interpretation will be adjusted when new information becomes available from external sources (the IASB or the market) or in-house (further detailed analyses). During the past year, considerable effort has also been put into choosing an IFRS 17 calculation engine, setting up data flows to fuel that engine and examining the impact of IFRS 17 on the accounting process. These activities are progressing according to plan and the aim is to complete them by the end of 2020.
- Other: the IASB has published several limited amendments to existing IFRSs and IFRICs. They will be applied when they become mandatory, but their impact is currently estimated to be negligible.

Note 1. 2: Summary of significant accounting policies

The significant accounting policies were adjusted to take account of IFRS 9.

General/Basic principle

The general accounting principles of KBC Group NV ('KBC') are based on the International Financial Reporting Standards (IFRS), as adopted by the European Union, and on the IFRS Framework. The financial statements of KBC are prepared based on the going concern assumption. It presents each material class of similar items separately. Dissimilar items are presented separately unless they are immaterial, and items are only offset when explicitly required or permitted by the relevant IFRS.

Financial assets

KBC has applied all the requirements of IFRS 9 since 1 January 2018, except for hedge accounting transactions, which continue to be accounted for in accordance with IAS 39.

Financial assets – recognition and derecognition

Recognition: financial assets and liabilities are recognised in the balance sheet when KBC becomes party to the contractual provisions of the instruments. Regular-way purchases or sales of financial assets are recognised using settlement date accounting. All financial assets – except those measured at fair value through profit or loss – are measured initially at fair value plus transaction costs directly attributable to their acquisition.

Derecognition and modification: KBC derecognises a financial asset when the contractual cashflows from the asset expire or when KBC transfers its rights to receive contractual cashflows from the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. If the terms and conditions change during the term of a financial asset, KBC assesses whether the new terms are substantially different from the original ones and whether the changes indicate that the rights to the cashflows from the instrument have expired. If it is concluded that the terms are substantially different, the transaction is accounted for as a financial asset derecognition, which means that the existing financial asset is removed from the balance sheet and that a new financial asset is recognised based on the revised terms. Conversely, when KBC assesses that the terms are not substantially different, the transaction is accounted for as a financial asset modification.

Classification of equity instruments and debt instruments

On initial recognition of a financial asset, KBC first assesses the contractual terms of the instrument in order to classify it as an equity instrument or a debt instrument. An equity instrument is defined as any contract that evidences a residual interest in another entity's net assets. To satisfy this condition, KBC checks that the instrument does not include a contractual obligation requiring the issuer to deliver cash or exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer. Any instruments that do not meet the criteria to qualify as equity instruments are classified as debt instruments by KBC.

Classification and measurement – debt instruments

If KBC concludes that a financial asset is a debt instrument, then – upon initial recognition – it can be classified in one of the following categories:

- Measured at fair value through profit or loss (FVPL).
 - Mandatorily measured at fair value through profit or loss (MFVPL) – this category includes held-for-trading instruments (HFT).
 - Designated upon initial recognition at fair value through profit or loss (FVO).
 - Measured at fair value through profit or loss – application of overlay approach (FVPL – overlay) – only for debt instruments that are held in an activity connected with the insurance business and that do not pass the SPPI test.
- Measured at fair value through other comprehensive income (FVOCI).
- Measured at amortised cost (AC).

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

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated to be measured at FVO:

- the asset is held within a business model whose objective is achieved by both collecting contractual cashflows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cashflows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at AC only if it meets both of the following conditions and is not designated to be measured at FVO:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cashflows; and
- the contractual terms of the financial asset give rise on specified dates to cashflows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is categorised as 'FVPL – overlay' when it is held in respect of a business line that is connected with contracts in scope of IFRS 4 and if it is measured at fair value through profit or loss by applying IFRS 9, but would not have been measured at fair value through profit or loss in its entirety in accordance with IAS 39, and it is an instrument for which KBC has elected to use the overlay approach. More information on this approach is provided under 'Overlay approach' further below.

Business model assessment

The business model is assessed to determine whether debt instruments should be measured at AC or FVOCI. In performing the assessment, KBC reviews at portfolio level the objective of the business model in which an asset is held because this best reflects how the business is managed and how information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and how those policies operate in practice (in particular, whether management's strategy focuses on earning contractual interest income, maintaining a specific interest rate profile, matching the duration of the financial assets to that of the liabilities that fund those assets, or realising cashflows through the sale of the assets);
- how the performance of the portfolio is evaluated and reported to KBC's Executive Committee and Board of Directors;
- the risks that affect the performance of the business model (and the financial assets held within that model) and how those risks are managed;
- how managers of the business are rewarded (for instance, whether remuneration is based on the fair value of the assets managed or the contractual cashflows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and KBC's expectations of future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how KBC's stated objective for managing the financial assets is achieved and how cashflows are realised.

Financial assets that are held for trading or whose performance is evaluated on a fair value basis are measured at FVPL, because they are neither held for collecting contractual cashflows, nor held for both collecting contractual cashflows and selling financial assets.

Assessment whether contractual cashflows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as profit margin. In assessing whether contractual cashflows are solely payments of principal and interest, KBC considers the contractual terms of the instrument, which entails assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cashflows such that the instrument would not meet this condition. In making the assessment, KBC considers:

- contingent events that could change the amount and timing of cashflows;
- leverage features;
- prepayment and extension terms;
- terms that limit KBC's claim to cashflows from specified assets (e.g., non-recourse asset arrangements); and
- features that modify consideration of the time value of money (e.g., periodic resets of interest rates).

Reclassifications

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

Classification and measurement – equity instruments

Financial equity instruments are classified in one of the following categories:

- mandatorily measured at fair value through profit or loss (MFVPL) – only includes equity instruments held for trading (HFT).
- equity instruments elected to be measured at fair value through other comprehensive income (FVOCI).
- equity instruments held in an activity connected with the insurance business, which KBC measures at fair value through profit or loss – overlay approach (FVPL – overlay).

KBC can classify equity instruments connected with the insurance business in the 'FVPL – overlay' category until the effective date of IFRS 17 (1 January 2022). Each equity instrument that KBC's insurance business classifies as 'FVPL – overlay' must meet both of the following criteria:

- it is measured at fair value through profit or loss under IFRS 9, but would not have been measured at fair value through profit or loss in its entirety under IAS 39; and
- it is not held in respect of an activity that is unconnected with insurance contracts.

More information on this approach is provided under 'Overlay approach' further below. The election to include equity instruments in the FVOCI category is irrevocable on initial recognition and can be done on an investment-by-investment basis, which is interpreted by KBC as a share-by-share basis. Equity instruments categorised as FVOCI are subsequently measured at fair value, with all value changes recognised in other comprehensive income and without any recycling into the income statement, even when the investment is disposed of. The only exception applies to dividend income, which is recognised in the income statement under 'Dividend income'.

Classification and measurement – derivatives (trading and hedging)

KBC can recognise derivative instruments either for trading purposes or as hedging derivatives. They can be accounted for as assets or liabilities depending on their current market value.

Trading derivatives

Derivatives are always measured at fair value and KBC draws distinctions as follows:

- Derivatives that are held with the intent of hedging, but for which hedge accounting cannot be or is not applied (economic hedges): hedging instruments can be acquired with the intention of economically hedging an external exposure but without applying hedge accounting. The interest component of these derivatives is recognised under 'Net interest income', while all other fair value changes are recognised under 'Net result from financial instruments at fair value through profit or loss'.
- Derivatives held with no intent of hedging (trading derivatives): KBC entities can also contract derivatives without any intention to hedge a position economically. Such activity can relate to closing or selling an external position in the near term or for short-term profit-taking purposes. All fair value changes on such derivatives are recognised under 'Net result from financial instruments at fair value through profit or loss'.

Hedging derivatives

Hedging derivatives are derivatives that are specifically designated in a hedge relationship. The process for accounting such derivatives is detailed in 'Hedge accounting'.

Financial assets – impairment

Definition of default

KBC defines defaulted financial assets in the same way as the definition for internal risk management purposes and in line with the guidance and standards of financial industry regulators. A financial asset is considered in default if any of the following conditions is fulfilled:

- there is a significant deterioration in creditworthiness;
- the asset is flagged as non-accrual;
- the asset is flagged as a forborne asset in line with the internal policies for forbearance;
- KBC has filed for the borrower's bankruptcy;
- the counterparty has filed for bankruptcy or sought similar protection measures;
- the credit facility granted to the client has been terminated.

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

Expected credit loss model (ECL model) – general

The ECL model is used to measure impairment of financial assets, apart from debt instruments and equity instruments connected with the insurance business, for which KBC has elected to apply the overlay approach. The impairment policy applying to these instruments is dealt with under 'Overlay approach' further below.

The scope of the ECL model is based on how financial assets are classified. The model is applicable to the following financial assets:

- Financial assets measured at AC and at FVOCI;
- Loan commitments and financial guarantees;
- Finance lease receivables;
- Trade and other receivables.

No ECLs are calculated for share investments.

Financial assets that are in scope of the ECL model carry impairment in an amount equal to the lifetime ECL if the credit risk increases significantly after initial recognition. Otherwise, the loss allowance is equal to the 12-month ECL (see below for more information on the significant increase in credit risk).

To distinguish the various stages with regard to quantifying ECL, KBC uses the internationally accepted terminology for 'Stage 1', 'Stage 2' and 'Stage 3' financial assets.

Unless they are already credit impaired, all financial assets are classified in 'Stage 1' at the time of initial recognition and 12-month ECL is recognised. Once a significant increase in credit risk occurs after initial recognition, the asset is moved into 'Stage 2' and lifetime ECL is recognised. Once an asset meets the definition of default, it is moved into 'Stage 3'.

For trade receivables, IFRS 9 allows for a practical expedient. The ECL for trade receivables can be measured in an amount equal to their lifetime ECL. KBC applies this practical expedient to trade and other receivables.

Impairment gains and losses on financial assets are recognised under the 'Impairment' heading in the income statement.

Financial assets that are measured at AC are presented in the balance sheet at their net carrying value, which is the gross carrying value less impairment. Debt instruments measured at FVOCI are presented in the balance sheet at their carrying value, which is their fair value on the reporting date. The adjustment for the ECL is recognised as a reclassification adjustment between the income statement and OCI.

Significant increase in credit risk since initial recognition

In accordance with the ECL model, financial assets attract lifetime ECL once their credit risk increases significantly after initial recognition. Therefore, the assessment of a significant increase in credit risk is important for the staging of financial assets. The assessment of a significant increase in credit risk is a relative assessment based on the credit risk that was assigned upon initial recognition. This is a multi-factor assessment and, therefore, KBC has developed a multi-tier approach.

Multi-tier approach (MTA) – bond portfolio

For the bond portfolio, the MTA consists of three tiers:

- Low-credit exception: 12-month ECL is always recognised for bonds if they have a low credit risk on the reporting date (i.e. 'Stage 1'). KBC uses this exception for investment grade bonds.

- Internal rating: [only applicable if the first tier criterion is not met] this is a relative assessment that compares the probability of default (PD) upon initial recognition to that on the reporting date. KBC does the assessment at facility level for each reporting period.
- Management assessment: lastly, management review and assess the significant increase in credit risk for financial assets at an individual and portfolio level.

If none of these triggers results in a move into 'Stage 2', the bond remains in 'Stage 1'. A financial asset is considered defaulted (i.e. 'Stage 3') as soon as it meets the definition of default. The MTA is symmetrical, i.e. credit that has been moved into 'Stage 2' or 'Stage 3' can revert to 'Stage 1' or 'Stage 2' if the tier criterion that triggered the migration is not met on a subsequent reporting date.

Loan portfolio

For the loan portfolio, KBC uses a five-tier approach. This MTA is a waterfall approach (i.e. if assessing the first tier does not result in a move into 'Stage 2', the second tier is assessed, and so on). In the end, if all tiers are assessed without triggering a migration to 'Stage 2', the financial asset remains in 'Stage 1'.

- Internal rating: this rating is used as the main criterion for assessing an increase in credit risk. It is a relative assessment that compares the PD upon initial recognition to that on the reporting date. KBC does the assessment at facility level for each reporting period.
- Forbearance: forborene financial assets are always considered as 'Stage 2' unless they are already impaired, in which case they are moved into 'Stage 3'.
- Days past due: KBC uses the backstop defined in the standard. A financial asset that is more than 30 days past due is moved into 'Stage 2'.
- Internal rating backstop: KBC uses an absolute level of PD as a backstop for financial assets that have to be moved into 'Stage 2'. This backstop corresponds to the highest PD (i.e. PD 9 based on KBC's internal rating) before a financial asset is considered defaulted.
- Management assessment: lastly, management review and assess the significant increase in credit risk for financial assets at an individual and portfolio level.

A financial asset is considered impaired (i.e. 'Stage 3') as soon as it meets the definition of default. The MTA is symmetrical, i.e. credit that has been moved into 'Stage 2' or 'Stage 3' can revert to 'Stage 1' or 'Stage 2' if the tier criterion that triggered the migration is not met on the reporting date.

Measurement of ECL

ECL is calculated as the product of probability of default (PD), estimated exposure at default (EAD) and loss given default (LGD).

ECL is calculated to reflect:

- an unbiased, probability-weighted amount;
- the time value of money; and
- information about past events, current conditions and forecast economic conditions.

Lifetime ECL represents the sum of ECL over the lifetime of the financial asset discounted at the original effective interest rate.

The 12-month ECL represents the portion of lifetime ECL resulting from a default in the 12-month period after the reporting date.

KBC uses specific IFRS 9 models for PD, EAD and LGD in order to calculate ECL. As much as possible and to promote efficiency, KBC uses modelling techniques similar to those developed for prudential purposes (i.e. Basel models). That said, KBC ensures that the Basel models are adapted so they comply with IFRS 9. For example:

- KBC removes the conservatism that is required by the regulator for Basel models;
- KBC adjusts how macroeconomic parameters affect the outcome to ensure that the IFRS 9 models reflect a 'point-in-time' estimate rather than one that is 'through the cycle' (as required by the regulator).
- KBC applies forward-looking macroeconomic information in the models.

KBC also considers three different forward-looking macroeconomic scenarios with different weightings when calculating ECL. The base-case macroeconomic scenario represents KBC's estimates for the most probable outcome and also serves as primary input for other internal and external purposes.

The maximum period for measurement of ECL is the maximum contractual period (including extensions), except for specific financial assets that include a drawn and an undrawn amount available on demand, and KBC's contractual ability to request repayment of the drawn amount and cancel the undrawn commitment does not limit the exposure to credit risk to the contractual period. Only for such assets can a measurement period extend beyond the contractual period.

Purchased or originated credit impaired (POCI) assets

KBC defines POCI assets as financial assets in scope of the IFRS 9 impairment standard that are already defaulted at origination (i.e. they then meet the definition of default). POCI assets are initially recognised at an amount net of impairment and are measured at amortised cost using a credit-adjusted effective interest rate. In subsequent periods, any changes to the lifetime ECL are recognised in the income statement. Favourable changes are recognised as an impairment gain, even if the lifetime ECL on the reporting date is lower than the lifetime ECL at origination.

Significant judgements and uncertainties

Calculating ECL requires significant judgement of various aspects, including the borrowers' financial position and repayment capabilities, the value and recoverability of collateral, projections and macroeconomic information. KBC applies a neutral, bias-free approach when dealing with uncertainties and making decisions based on significant judgements.

Overlay approach

In accordance with the amendment to IFRS 4 issued in September 2016, KBC uses the overlay approach to overcome the temporary consequences of the different effective dates of IFRS 9 and IFRS 17 (replacing IFRS 4). Accordingly, KBC uses the overlay approach, which means that the extra volatility related to the adoption of IFRS 9 is reclassified from the income statement to OCI. The reclassified amounts are recognised in the overlay reserve in OCI. The overlay approach is applied to those financial assets of KBC's insurance business that are eligible. Eligibility is based on the following criteria:

- Assets that are measured at FVPL under IFRS 9 that would not have been measured at FVPL in their entirety under IAS 39.
- All assets except those held in respect of an activity that is unconnected with contracts within the scope of IFRS 4.

A financial asset can be designated under the overlay approach until:

- the instrument is derecognised;
- it is no longer held in respect of an activity that is connected with insurance contracts;
- KBC decides not to apply the overlay approach for that particular instrument at the beginning of any financial year; or
- the effective date of IFRS 17 (1 January 2022, subject to EU endorsement).

Application of the overlay approach requires certain IAS 39 accounting policies for financial assets to be retained, namely:

- Impairment of equity instruments: equity instruments held by KBC's insurance business were typically classified as 'available for sale' under IAS 39, whereas they are classified as FVPL under IFRS 9. Designation under the overlay approach requires the application of IAS 39 impairment rules to investments in equity instruments. In using the overlay approach, all fair value changes are recognised in the overlay reserve but, where the decline is significant compared to acquisition cost (more than 30%) or prolonged (more than one year), the fair value loss is recognised in the income statement. Any further decrease is also recognised directly in the income statement, whereas increases are recognised in the overlay reserve.
- Recognition of gains and losses in the income statement upon the disposal of equity instruments: by designating the equity instruments connected with KBC's insurance business under the overlay approach upon their sale, the accumulated overlay reserve in OCI is recycled to the income statement, ensuring the same results as under IAS 39.
- Impairment of debt instruments: the KBC methodology for calculating incurred but not reported (IBNR) impairment on non-defaulted debt securities booked at amortised cost ('held-to-maturity' and 'loans and receivables' categories) is based on the Basel II Advanced IRB models with an emergence period of 1.5 months (no PIT factor applied). No IBNR impairment is calculated for debt securities at fair value ('available for sale').

Cash, cash balances with central banks and other demand deposits with credit institutions

Cash comprises cash on hand and demand deposits, e.g., cheques, petty cash and cash balances at central and other banks.

Financial liabilities

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

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

A financial instrument is classified as an equity instrument if neither condition is met. In that case, it is accounted for in the way set out under 'Equity'.

Financial liabilities – recognition and derecognition

KBC recognises a financial liability when it becomes party to the contractual provisions of the relevant instrument, which is typically the date when the consideration received in the form of cash or some other financial asset is received. Upon initial recognition, the financial liability is recognised at fair value less transaction costs directly attributable to issuance of the instrument, except for financial liabilities at fair value through profit or loss.

Financial liabilities are derecognised when they are extinguished, i.e. the obligation specified in the contract is discharged or cancelled, or it expires. KBC can also derecognise the financial liability and recognise a new one where an exchange takes place between KBC and the lenders of the financial liability, each with substantially different terms, or if there are substantial modifications to the terms of the existing financial liabilities. In assessing whether terms differ, KBC compares the discounted present value of cashflows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, and the discounted present value of the remaining cashflows of the original financial liability. If the difference is 10% or more, KBC derecognises the original financial liability and recognises a new one. Where the exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

Financial liabilities – classification and measurement

KBC classifies recognised financial liabilities in three different categories, as provided for by IFRS 9.

- Financial liabilities held for trading (HFT). Held-for-trading liabilities are those incurred principally for generating a profit from short-term fluctuations in price or dealer's margin. A liability also qualifies as a trading liability if it belongs to a portfolio of financial instruments held for trading separately by the trading desk and for which there is a recent pattern of short-term profit-taking. Held-for-trading liabilities can include derivatives, short positions in debt and equity instruments, time deposits and debt certificates. Derivative liabilities are split by KBC into trading and hedging derivatives as in the case of derivative assets. Initially, held-for-trading liabilities are measured at fair value. At the end of the reporting period, derivative liabilities are measured at fair value. Fair value adjustments are always recorded in the income statement.
- Financial liabilities designated by the entity as liabilities at fair value through profit or loss upon initial recognition (FVO). Under IFRS 9, a financial liability or group of financial liabilities can be measured upon initial recognition at fair value, whereby fair value changes are recognised in the income statement except for fair value changes related to changes in own credit risk, which are presented separately in OCI. The fair value designation is used by KBC for the following reasons:
 - managed on an FV basis: KBC designates a financial liability or a group of financial liabilities at fair value where it is managed and its performance is evaluated on a fair value basis. It is used to account for (unbundled) deposit components (i.e. financial liabilities that do not include a discretionary participation feature);
 - accounting mismatch: the fair value option can be used when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising gains and losses on them on different bases;

- hybrid instruments: a financial instrument is regarded as hybrid when it contains one or more embedded derivatives that are not closely related to the host contract. The fair value option can be used when it is not possible to separate the non-closely-related embedded derivative from the host contract, in which case the entire hybrid instrument can be designated at fair value. This means that both the embedded derivative and the host contract are measured at fair value. KBC uses this option when structured products contain non-closely-related embedded derivatives, in which case both the host contract and the embedded derivative is measured at fair value.
- Financial liabilities measured at amortised cost (AC). These financial liabilities are initially measured at cost, which is the fair value of the consideration received including transaction costs. Subsequently, they are measured at amortised cost, which is the amount at which the funding liability was initially recognised minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount. The difference between the amount made available and the nominal value is recorded on an accruals basis as an interest expense. Interest expenses accrued but not yet paid are recorded under accruals and deferrals.

Financial liabilities – financial guarantee contract

A financial guarantee contract is one that requires KBC to make specified payments to reimburse holders for losses they incur because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract is initially recognised at fair value and is subsequently measured at the higher of (a) the amount determined in accordance with the impairment provisions of IFRS 9 (see 'Financial assets – impairment') and (b) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition principle of IFRS 15.

Offsetting

KBC offsets and presents only a net amount of a financial asset and financial liability in its balance sheet if and only if (i) it currently has a legally enforceable right to set off the recognised amounts and (ii) it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Fair value

KBC defines 'fair value' as 'the price that would be received for sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale. An imbalance between supply and demand (e.g., fewer buyers than sellers, thereby forcing prices down) is not the same as a forced transaction or distress sale.

Market value adjustments are recognised on all positions that are measured at fair value, with fair value changes being reported in the income statement or in equity. They relate to close-out costs, adjustments for less-liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk (credit value adjustment) and funding costs:

- Credit value adjustments (CVAs) are used when measuring derivatives to ensure that their market value is adjusted to reflect the credit risk of the counterparty. In making this adjustment, both the mark-to-market value of the contract and its expected future fair value are taken into account. These valuations are weighted based on the counterparty credit risk that is determined using a quoted credit default swap (CDS) spread, or, if there is no such spread, on the counterparty credit risk that is derived from bonds whose issuers are similar to the derivative counterparty in terms of rating, sector and geographical location. A debt value adjustment (DVA) is made for contracts where the counterparty is exposed to KBC. It is similar to a CVA, but the expected future negative fair value of the contracts is taken into consideration.
- A funding value adjustment (FVA) is a correction made to the fair value of uncollateralised derivatives in order to ensure that the (future) funding costs or income attached to entering into and hedging such instruments are factored in when measuring their value.

Hedge accounting

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

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

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

Fair value micro hedging: when a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability (portfolio of recognised assets or liabilities) or a firm commitment that

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

Fair value hedges for a portfolio of interest-rate risk (macro hedging): the EU's macro hedging carve-out means that a group of derivatives (or proportions of them) can be viewed in combination and jointly designated as a hedging instrument, and removes some of the limitations on fair value hedge accounting relating to hedging core deposits and underhedging strategies. Under the EU carve-out, hedge accounting may be applied to core deposits and will be ineffective only when the revised estimate of the amount of cashflows in scheduled time buckets falls below the designated amount of that bucket. KBC uses interest rate swaps to hedge the interest rate risk for a portfolio of loans and for a portfolio of retail deposits. Interest rate swaps are measured at fair value, with fair-value changes being reported in the income statement. Accrued interest income from interest rate swaps is recognised in 'Net Interest Income'. The hedged amount of loans is measured at fair value as well, with fair value changes being reported in the income statement. The fair value of the hedged amount is presented as a separate item on the assets or liabilities side of the balance sheet. If a hedge is ineffective, the cumulative fair value change in the hedged amount will be amortised to the income statement over the remaining lifetime of the hedged assets or will be immediately removed from the balance sheet if ineffectiveness is due to derecognition of the corresponding loans.

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

Insurance contracts

General

The accounting policies for IFRS 4 (Insurance Contracts) apply to insurance contracts (including reinsurance contracts) that KBC issues and reinsurance contracts that it holds. They also apply to financial instruments with a discretionary participation feature held by KBC.

A reinsurance contract is a type of insurance contract, given that all reinsurance contracts that transfer insurance risk are themselves insurance contracts.

Some contracts that are accounted for as insurance contracts under local GAAP will no longer be considered insurance contracts under IFRS. Contracts that do not expose KBC to any insurance risk (e.g., pure investment without additional (insurance) benefits/cover) are treated as financial instruments, which can exist with or without a discretionary participation feature.

Financial instruments without a discretionary participation feature and the deposit component of unit-linked insurance contracts will be recognised in accordance with deposit accounting principles.

Deposit accounting applies to the deposit component of unit-linked insurance contracts (the insurance component is treated as an insurance contract according to IFRS 4).

KBC unbundles the components if both of the following conditions are met:

- measurement of the deposit component is possible (including any embedded surrender options), i.e. without considering the insurance component;
- the accounting policies do not otherwise require recognition of all the obligations and rights arising from deposit accounting.

Unbundling is prohibited if the deposit component cannot be measured separately. At KBC, insurance contracts other than unit-linked contracts are not unbundled into a deposit component and an insurance component. The insurance component of unit-linked contracts, whether insurance contracts or investment contracts, is treated as an insurance contract. Unit-linked financial instruments without death benefits or a participation feature are classified as 'financial liabilities at fair value through profit or loss' under IFRS 9 and are consequently measured at fair value. Changes in fair value (assets and liabilities), including any component that relates to changes in foreign exchange rates, are recognised in the income statement under 'Net result from financial instrument at fair value through profit or loss'. The unit value is considered to be the fair value.

Financial instruments with a discretionary participation and the insurance component of unit-linked contracts are treated as insurance contracts under IFRS 4. On the balance sheet date, the liabilities resulting from these financial instruments or insurance contracts are subjected to the liability adequacy test to see if they are adequate. If the carrying value of these liabilities is lower than their estimated future discounted cashflows, the deficiency will be recognised in the income statement against an increase in the corresponding liability.

A reinsurance asset is impaired if and only if:

- there is objective evidence that, as a result of an event occurring after initial recognition of the reinsurance asset, KBC might not receive all amounts due under the terms of the contract;
- that event has a reliably measurable impact on the amounts that KBC will receive from the reinsurer. If a reinsurance asset is impaired, KBC will reduce its carrying value accordingly and recognise that impairment loss in the income statement.

When IFRS 4 was adopted, KBC decided to follow its then local GAAP practices and did not introduce any of the following:

- measurement of insurance liabilities on an undiscounted basis;
- non-uniform accounting policies for the insurance contracts of subsidiaries. If these accounting policies are not uniform, an insurer may change them if the change does not make them more divergent and provided the other requirements of IFRS 4 (Insurance Contracts) are met.

KBC believes that it applies sufficient prudence in the measurement of its insurance contracts. KBC does not recognise any provisions for possible future claims as a liability if those claims arise under insurance contracts that are not in existence at the reporting date, such as catastrophe provisions and equalisation provisions.

KBC removes an insurance liability (or part of an insurance liability) from the balance sheet if and only if it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Reinsurance assets are not offset against the related insurance liabilities, nor will income or expense from reinsurance contracts be offset against expense or income from the related insurance contracts.

Technical provisions – insurance contracts

The technical provisions comprise the estimates at balance sheet date of the liabilities of the company towards insured persons, beneficiaries and policyholders, including the translation differences on the technical provisions denominated in a foreign currency.

Provision for unearned premiums and unexpired risk (non-life)

Provision for unearned premiums (non-life)

This provision comprises the portion of gross premiums to be allocated to a subsequent period in order to be able to cover claims, administrative costs and management costs of investments relating to the underlying policies. For the primary business, the provision for unearned premiums is in principle calculated separately for each contract on a daily basis, based on the gross premiums. For reinsurance business received, the provision for unearned premiums is calculated for each contract separately. It is based on information communicated by the ceding undertaking, supplemented by the company's own past experience of how risks change over time.

Provision for unexpired risk (non-life)

This item is an additional provision to supplement the provision for unearned premiums. It is set aside if the estimated total amount of claims and administrative costs relating to current contracts is expected to be higher in the following period than total unearned premiums and premiums receivable. For reinsurance business received, the contractual stipulations are examined and, where appropriate, the underlying provision restated.

Life insurance provisions

This provision relates exclusively to life insurance activities, with the exception of the unit-linked life business. It comprises the actuarially estimated value of KBC's liabilities and the profit share already awarded, less the actuarially estimated value of the liabilities of the policyholders. The acquisition costs are not deducted from the provision.

This item also includes the provision for unearned premiums and unexpired risk, the ageing provision, the provisions for annuities payable but not yet due (including internal claims settlement costs) for supplementary life insurance and the provisions for retirement and survivorship annuities.

Valuation according to the prospective method is applied to (i) the provision for conventional non-unit-linked life insurance, (ii) universal non-unit-linked life insurance policies offering a guaranteed rate of interest on future premium payments, and (iii) the provision for non-statutory benefits for employees in respect of current annuities. Valuation according to the retrospective method is applied to the provisions for modern non-unit-linked universal life insurance and to the provision for non-statutory benefits for employees in respect of new supplementary premium payments.

The provision is calculated separately for every insurance contract.

Provision for claims outstanding

For claims reported, the provision is measured separately in each case, taking into account the known facts in the claims file, on the basis of the amounts still due to the injured parties or beneficiaries, plus external costs of settling claims. Where benefits have to be paid in the form of an annuity, the amounts to be set aside for that purpose are calculated using recognised actuarial methods.

For 'claims incurred but not reported' at balance sheet date, an IBNR (Incurred But Not Reported) provision is set aside. In the primary business, this IBNR provision is based on a lump sum per class of insurance depending upon past experience and the trend in the insured portfolio. For extraordinary events, additional amounts are added to the IBNR provision.

For 'claims incurred but not enough reserved' at balance sheet date, an IBNER (Incurred But Not Enough Reserved) provision is set aside if the adequacy procedures demonstrate that the other claims provisions are insufficient to meet future liabilities. This provision contains amounts for claims which have already been reported but which, for technical reasons, could not yet be recorded in the claims file.

A provision for the internal cost of settling claims is calculated at a percentage that is based on past experience. Additional provisions are also constituted as required by law, such as supplementary workmen's compensation provisions in Belgium.

Leasing

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

Equity

Equity represents the residual interest in KBC's total assets after deduction of all its liabilities (referred to as 'net assets') and encompasses all shares issued by KBC, reserves attributable to the holders of the shares and minority interests.

KBC classifies all issued financial instruments as equity or as a financial liability based on the substance of the contractual arrangements. The critical feature that distinguishes a financial liability from a share is whether KBC has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation.

Minority interests represent the equity in a subsidiary that is not attributable to the holders of KBC shares. When the proportion of the equity held by the minority interests changes, KBC adjusts the carrying value of the controlling and minority interests to reflect changes in their relative interests in the consolidated companies. KBC recognises in equity any difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or received, and allocates it to its controlling stake.

Employee benefits

Short-term employee benefits

Short-term employee benefits, such as salaries, paid absences, performance-related cash awards and social security contributions, are recognised over the period in which the employees provide the corresponding services. The related expenses are presented in the income statement as 'Operating expenses' under the 'Staff expenses' heading.

Post-employment benefits

KBC offers its employees' pension schemes in the form of defined contribution or defined benefit plans. Under the defined contribution plans, KBC's statutory or constructive obligation is limited to the amount that it agrees to contribute to the fund. The amount of the post-employment benefit to be received by the employee is determined

by the amount of the contributions paid by KBC and the employee him or herself into the post-employment benefit plan, as well as by the investment returns arising from those contributions. The actuarial risk is borne by the employee.

Conversely, under the defined benefit plans, KBC's obligation is to provide the agreed benefits to current and former employees and, in substance, the actuarial risk and investment risk fall on KBC. This means that if, from an actuarial or investment viewpoint, things turn out worse than expected, KBC's obligation may be increased.

In Belgium, defined contribution plans have a legally guaranteed minimum return and the actual return can be lower than the legally required return. In addition, these plans have defined benefit plan features and KBC treats them as defined benefit plans.

Liabilities under the defined benefit plans and the Belgian defined contribution plans (or pension liabilities) are included under 'Other liabilities' and relate to the obligations for retirement and survivor's pensions, early retirement benefits and similar pensions and annuities.

The pension obligations for employees under the defined benefit plans are calculated using the projected-unit-credit method, with each period of service granting additional entitlement to pension benefits.

Actuarial valuations are performed every reporting period. The defined benefit liabilities are discounted using rates equivalent to the yields on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have a maturity similar to the related pension liabilities.

Changes in the net defined benefit liability/asset apart from cash movements are grouped in three main categories and are accounted for in operating expenses (service costs), interest expenses (net interest costs) and other comprehensive income (re-measurements).

Net fee and commission income

Most net fee and commission income falls under the scope of IFRS 15 (Revenue from Contracts with Customers), as it relates to the services that KBC provides to its clients and is outside the scope of other IFRS standards. For the recognition of revenue, KBC identifies the contract and defines the promises (performance obligations) in the transaction. Revenue is recognised only when KBC has satisfied the performance obligation.

The revenue presented under 'Securities and asset management' falls under the scope of IFRS 15 and, in principle, entails KBC keeping assets in a trust for the beneficiary ('fund') and being responsible for investing the amounts received from clients to their benefit. These transactions are straightforward, because KBC provides a series of distinct services which clients use at the same time when receiving the benefits. In return, KBC receives a monthly or quarterly management fee, which is calculated as a fixed percentage of the net asset value, or a subscription fee retained from the beneficiary. The fees do not include a variable component.

Revenue reported as 'Margin on life insurance investment contracts without DPF' represents the amount realised on investment contracts without a discretionary participation feature, i.e. a fixed percentage or fixed amount is withheld from the client's payments, enabling the insurance company to cover its expenses.

Payment services, where KBC charges clients for certain current-account transactions, domestic or foreign payments, payment services provided through ATMs, etc., are usually settled when the actual transaction is carried out, enabling the relevant fee to be recognised directly at that time.

Government grants

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

Levies

Public authorities can impose various levies on KBC. The size of the levies can depend on the amount of revenue (mainly interest income) generated by KBC, the amount of deposits accepted from clients, and the total balance sheet volume, including corrections based on certain, specific ratios. In accordance with IFRIC 21, levies are recognised when the obligating event that gives rise to recognition of the liability has occurred as stated in the relevant legislation. Depending on the obligating event, levies can be recognised at a single point in time or over time. Most of the levies imposed on KBC have to be recognised at a single point in time, which is mainly the beginning of the financial year. KBC recognises levies under 'Operating expenses'.

Income tax

Income tax consists of three items, namely taxes paid/payable over the reporting period, underprovisioning/overprovisioning in previous years, and changes in deferred tax assets/deferred tax liabilities. It is accounted for either in the income statement or in other comprehensive income, depending on where the items that triggered the tax are recorded. Income taxes that are initially accounted for in other comprehensive income and that relate to gains or losses that are subsequently recognised in the income statement are recycled to the income statement in the same period in which that item is accounted for in the income statement.

Deferred and current tax assets and liabilities are offset when there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Current tax assets/liabilities

Current tax for the period is measured at the amount expected to be paid to/recovered from the tax authorities, using the rates of tax in effect during the reporting period.

Deferred tax assets/liabilities

Deferred tax liabilities are recognised for all taxable temporary differences between the carrying value of an asset or liability and its tax base. They are measured using the tax rates that are substantively enacted at the reporting date and expected to be in effect on realisation of the assets or settlement of the liabilities to which they relate and that reflect the tax consequences following from the manner in which the entity expects to recover or settle the carrying value of the underlying asset or liability at the balance sheet date.

Deferred tax assets are recognised for all deductible temporary differences between the carrying value of assets and liabilities and their tax base, as well as for the carry forward of unused tax losses and unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. KBC calculates deferred tax assets for carry forward unused tax losses. When estimating the period

over which tax losses can be set off against future taxable profits, KBC uses projections for a period of eight to ten years.

Deferred tax assets/liabilities that relate to business combinations are recorded directly in goodwill.

Deferred tax assets/liabilities are not discounted.

Property and equipment

Property and equipment are recognised initially at cost (including directly allocable acquisition costs). KBC subsequently measures property and equipment at the initial cost less accumulated depreciation and impairment. The rates of depreciation are determined on the basis of the estimated useful life of the assets and are applied according to the straight-line method from the moment the assets are available for use. Property and equipment are derecognised upon disposal or when the relevant asset is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses upon derecognition are recognised in the income statement in the period in which derecognition occurs.

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

Depreciation charges, impairment losses and gains or losses on disposal are recognised under 'Operating expenses' in the income statement, with the exception of assets that are leased under operating leases (KBC as a lessor), for which the costs are recognised in 'Net other income'. Where a disposal falls within the definition of a discontinued operation, the net results are reported in a single line in the income statement (see 'Discontinued operations' below).

Investment property

Investment property is defined as a property built, purchased or acquired by KBC under a finance lease and is held to earn rentals or for the purpose of capital appreciation rather than being used by KBC for the provision of services or for administrative purposes.

Investment property is initially recognised at cost (including directly attributable costs). KBC subsequently measures it at the initial cost less accumulated depreciation and impairment.

The depreciation charge is recognised under 'Net other income' in the income statement.

Intangible assets

Intangible assets include goodwill, software developed in-house, software developed externally and other intangible assets. Intangible assets can be (i) acquired as part of a business combination transaction (see 'Business combinations and goodwill' below), (ii) acquired separately or (iii) developed internally.

Separately acquired intangible assets (mainly software developed externally) are initially recognised at cost. Internally developed intangible assets (mainly software developed in-house) are recognised only if they arise from development and KBC can demonstrate:

- the technical feasibility of completing them;
- an intention to complete for use or sale;
- an ability to use or sell them;
- how the intangible assets will generate future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets;
- reliable measurement of the expenditure attributable to the intangible assets during their development.

Internally generated intangible assets are initially measured at the development costs directly attributable to the design and testing of the unique software controlled by KBC. Directly attributable costs capitalised as part of the software developed in-house include software development employee costs and directly attributable overheads. Research expenses, other development expenditure, costs associated with maintaining software and investment projects (large-scale projects introducing or replacing an important business objective or model) that do not meet the recognition criteria are recognised as an expense in the period they are incurred.

Intangible assets are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation begins when the asset is available for use as intended by management. Software is amortised as follows:

- System software (initial purchased software forming an integral part with hardware) is amortised at the same rate as hardware.

- Standard software and customised software developed by a third party or developed in-house are amortised over five years according to the straight-line method from the time the software is available for use.
- Core systems (typically including deposit account processing, loan and credit processing, interfaces to the general ledger and reporting tools) are amortised over eight years according to the straight-line method.

Impairment of non-financial assets

When KBC prepares financial statements, it ensures that the carrying value of the non-financial asset does not exceed the amount that could be obtained from either using or selling it ('recoverable amount'). Property and equipment, investment property and software are subject to the impairment review only when there is objective evidence of impairment. Goodwill and intangible assets with an indefinite useful life are subject to impairment reviews at least annually and also reviewed for impairment indicators every quarter.

Indications that an impairment loss is required may stem from either an internal source (e.g., the condition of the asset) or an external source (e.g., new technology or a significant decline in the asset's market value).

When an impairment indicator is present, KBC reviews the asset's recoverable amount and the asset is impaired if its recoverable amount is lower than its carrying value at the reporting date. The recoverable amount is defined as the higher of the value in use and the fair value less cost to sell.

Value in use is defined as the discounted future cashflows expected to be derived from an asset or a cash-generating unit.

Impairment is borne at individual asset level, but when the individual asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, the recoverable amount is determined for the so-called 'cash-generating unit' (CGU) to which the asset or group of assets belongs. In forming the CGUs, KBC applies its own judgement to define the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. This process mainly applies to goodwill that has been recognised in relation to acquisitions.

Impairment losses are recognised in the income statement for the period in which they occur. An impairment loss can be reversed if the condition that triggered it is no longer present, except for goodwill, which can never be reversed. Impairment gains are recognised in the income statement for the period in which they occur.

Provisions, contingent liabilities and contingent assets

Provisions are recognised on the reporting date if and only if the following criteria are met:

- there is a present obligation (legal or constructive) due to a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

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

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

Consolidated financial statements / interim financial statements

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

Consolidation threshold: subsidiaries are effectively included in the consolidated financial statements using the full consolidation method if at least two of the following materiality criteria are exceeded:

- Group share in equity is 2 500 000 euros;
- Group share in the result is 1 000 000 euros (absolute value);
- Group share in the balance sheet total is 100 000 000 euros.

In order to prevent too many entities from being excluded, KBC checks that the combined balance sheet total of the entities excluded from consolidation does not amount to more than 1% of the consolidated balance sheet total.

Business combinations and goodwill

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

Goodwill is the excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. In order to complete the acquisition accounting and determine the goodwill item, KBC applies a measurement period of 12 months. The classification of the financial assets acquired and financial liabilities assumed in the business combination is based on the facts and circumstances existing at the acquisition date (except for lease and insurance contracts, which are classified on the basis of the contractual terms and other factors at the inception of the relevant contract).

Goodwill is presented under 'Goodwill and other intangible assets' and is carried at cost less impairment losses. Goodwill is not amortised, but is tested for impairment at least once a year or when there is objective evidence (external or internal) that it should be impaired. If the acquisition accounting is not complete because the 12-month measurement period has not elapsed, the goodwill is not considered as final and is only tested if there is objective evidence that the provisional goodwill is impaired.

For the purpose of testing goodwill for impairment, it is allocated to each of KBC's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired entity are assigned to those units. An impairment loss is recognised if the carrying value of the cash-generating unit to which the goodwill belongs exceeds its recoverable amount. Impairment losses on goodwill cannot be reversed.

Effects of changes in foreign exchange rates

KBC's functional and presentation currency is the euro. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the spot rate on the balance sheet date. Negative and positive valuation differences, except for those relating to the funding of equity instruments and investments of consolidated companies in a foreign currency, are recognised in the income statement. Non-monetary items measured at historical cost are translated into the functional currency at the historical exchange rate that existed on the transaction date. Non-monetary items carried at fair value are translated at the spot rate on the date the fair value was determined. Translation differences are reported together with changes in fair value. Income and expense items in foreign currency are taken to the income statement at the exchange rate prevailing when they were recognised.

Valuation differences are accounted for either in the income statement or in other comprehensive income. Valuation differences that are initially accounted for in other comprehensive income and that relate to gains or losses that are subsequently recognised in the income statement are recycled to the income statement in the same period in which that item is accounted for in the income statement. The balance sheets of foreign subsidiaries are translated into the presentation currency at the spot rate on the reporting date (except for equity, which is translated at the historical rate). The income statement is translated at the average rate for the financial year as a best estimate of the exchange rate on the transaction date.

Related-party transactions

A related party to KBC is either a party over which KBC has control or significant influence or a party that has control or significant influence over KBC. KBC defines its related parties as:

- KBC subsidiaries and other KBC Group entities (primarily KBC Bank NV and KBC Group NV);
- KBC associates and joint ventures;
- KBC key management staff (i.e. the Board of Directors and the Executive Committee of KBC Group NV).

Transactions with related parties must occur at arm's length.

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

Non-current assets held for sale and disposal groups, liabilities associated with disposal groups

- Non-current assets or groups of assets and liabilities held for sale are those where the carrying value will be recovered by KBC through a sale transaction, which is expected to qualify as a sale within a year, rather than through continued use. Non-current assets and liabilities held for sale are reported separately from the other assets and liabilities in the balance sheet at the end of the reporting date.

Discontinued operations

A discontinued operation refers to a part of KBC that has been disposed of or is classified as held for sale and:

- represents a separate major line of business or geographical area of operations; or
- is part of a single, coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Results from discontinued operations are recognised separately in the income statement and in other comprehensive income and contain:

- the post-tax profit or loss of discontinued operations; and
- the post-tax gain or loss recognised on the measurement to fair value less the costs of the sale or disposal of the assets or group of assets.

Events after the reporting period

Events after the reporting date are defined as favourable or unfavourable events that occur between the reporting date and the date on which the financial statements are authorised for issue. There are two types of event after the reporting date:

- those which provide evidence of conditions that existed on the reporting date (adjusting events);
 - those that are indicative of conditions that arose after the reporting date (non-adjusting events).
- The impact of adjusting events has already been reflected in the financial position and financial performance for the current year. The impact and consequences of non-adjusting events are disclosed in the notes to the financial statements.

Exchange rates used*

	Exchange rate at 31-12-2018		Exchange rate average in 2018	
	1 EUR = currency	Change from 31-12-2017 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = currency	Change relative to average in 2017 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
BGN	1,9558	0%	1,9558	0%
CZK	25,724	-1%	25,671	3%
GBP	0,89453	-1%	0,88565	-1%
HUF	320,98	-3%	319,53	-3%
USD	1,1450	5%	1,1816	-4%

* Rounded figures.

Note 1.3: Critical estimates and significant judgements

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

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Significant areas of estimation uncertainty, and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are found in, but not limited to, notes 1.4 3.3, 3.7, 3.10, 4.2, 4.4–4.7, 5.2, 5.5–5.7, 5.9 and 6.1.

Note 1.4: Transition disclosures for IFRS 9

As from 1 January 2018, the consolidated financial statements have been prepared in accordance with IFRS 9. We have opted to make use of transition relief for disclosing comparative information. The tables in this note show the impact of the adoption of IFRS 9 on equity. There were no specific reclassifications requiring additional disclosures under IFRS 7.

The total impact of transitioning from IAS 39 to IFRS 9 on 1 January 2018, including the impact on financial assets and provisions, was to reduce equity by -197 million euros (before tax) or 149 million euros (after tax). This can be broken down as follows:

- impact due to classification and measurement: 190 million euros (before tax) due mainly to a decline in the OCI reserves;
- increase in impairment and provisions of 8 million euros (before tax).

Transition disclosures for financial assets

The impact of the first-time adoption of IFRS 9 on 1 January 2018 can be summarised as follows (see detailed table below):

Classification and measurement

- Most of the loans and advances to credit institutions, loans and advances to customers and debt securities classified in 'Loans and receivables' under IAS 39 have been moved to 'Amortised cost'. The (net positive) frozen available-for-sale (AFS) reserves for historical reclassifications of bonds from 'Available for sale' to 'Loans and receivables' were reversed for some of these instruments, which reduced the OCI reserves by 10 million euros (before tax). Debt instruments that failed the SPPI test have been reclassified to MFVPL, which had a negative fair value impact of 31 million euros (before tax) on retained earnings.
- Virtually all of the debt securities previously classified as 'Held to maturity' have been reclassified to 'Amortised cost'. The (net positive) frozen AFS reserves for historical reclassifications of bonds from 'Available for sale' to 'Held to maturity' were reversed for those instruments, which reduced the OCI reserves by 156 million euros (before tax).
- Virtually all of the debt securities that had previously been classified as 'Available for sale' have been reclassified to FVOCI, with the impact on the OCI reserves being limited to the reversal of the increase in impairment (+6 million euros). The remaining debt securities that had previously been classified as 'Available for sale' were reclassified to MFVPL, with the result that -2 million euros (before tax) in the net negative AFS reserves moved from OCI to retained earnings.
- Most of the equity instruments (other than participating interests) previously classified as 'Available for sale' have been reclassified mainly to 'FVPL – Overlay'. Impairment of 78 million euros remained in retained earnings when the overlay approach was applied.
- Investment contracts (not included in the table) amounting to 14 421 million euros, which had previously been measured at FVPL under IAS 39, have been reclassified as MFVPL in accordance with their 'managed on a FV basis' business model (no impact on equity).

Impairment

- Implementation of the ECL model resulted in impairment on debt instruments measured at AC and FVOCI increasing by 8 million euros (before tax) as from 1 January 2018, causing retained earnings to fall by the same amount. As impairment on FVOCI debt instruments does not reduce the instruments' carrying value, 6 million euros has been moved into the OCI reserves.

See table below.

Transition disclosures for financial liabilities

The adoption of IFRS 9 did not result in any reclassifications of financial liabilities.

Financial assets (in millions of EUR)	Classification before IFRS 9									Impact of IFRS 9 (1 January 2018)			
	Debt Instruments ³					Equity Instruments			Total	Retained earnings		OCI reserve	
	Loans and receivables	Held to maturity	Available for sale	Designated at fair value	Held for trading	Available for Sale	Designated at Fair Value	Held for Trading		Before tax	After tax	Before tax	After tax
FINANCIAL ASSETS, 31-12-2017													
(TOTAL CARRYING VALUE BEFORE ADOPTION OF IFRS 9)	2 553	5 185	13 128	0	7	1 434	0	4	22 312	- 40	- 30	- 157	- 119
AC									7 515	- 1	- 1	- 166	- 125
Amount before adoption of IFRS 9	2 500	5 182	0	0	0	-	-	-	7 682				
Remeasurement	- 10	- 156	0	0	0	-	-	-	- 167				
Due to reclassification: reversal of revaluation reserve (IAS 39)	- 10	- 156	0	-	-	-	-	-	- 166	-	-	- 166	- 125
Due to reclassification: portfolio of FV hedges (transfers to non-financial assets)	-	-	0	-	-	-	-	-	0	-	-	-	-
Impairment impact	0	- 1	0	0	0	-	-	-	- 1	- 1	- 1	-	-
Reserved interest	0	0	0	0	0	-	-	-	0				
Reversal of specific impairment	0	0	0	-	-	-	-	-	0				
Reversal of IBNR provision	0	1	0	-	-	-	-	-	1				
Transfer to ECL – Stage 3	0	0	0	0	0	-	-	-	0				
Transfer to ECL – Stage 2	0	0	0	0	0	-	-	-	0				
Transfer to ECL – Stage 1	0	- 2	0	0	0	-	-	-	- 2				
IFRS 9 measurement on 01-01-2018	2 490	5 026	0	0	0	-	-	-	7 515				
FVOCI									13 176	- 6	- 5	6	5
Amount before adoption of IFRS 9	0	0	13 113	0	0	63	0	0	13 176				
Remeasurement	0	0	0	0	0	0	-	-	0				
Due to reclassification: reversal of revaluation reserve (IAS 39)	0	0	- 762	-	-	- 9	-	-	- 771	-	-	- 771	- 585
Due to reclassification: impact of revaluation reserve (IAS 39) on OCI reserve (IFRS 9)	-	-	762	-	-	9	-	-	771	-	-	771	585
Due to reclassification: other than reversal of revaluation reserve	0	0	6	0	0	0	-	-	6	0	0	6	5
Impairment impact	0	0	- 6	0	0	0	-	-	- 6	- 6	- 5	-	-
Reversal of specific impairment	0	0	0	-	-	0	-	-	0				
Reversal of IBNR provision	0	0	0	-	-	-	-	-	0				
Transfer to ECL – Stage 3	0	0	0	0	0	-	-	-	0				
Transfer to ECL – Stage 2	0	0	- 4	0	0	-	-	-	- 4				
Transfer to ECL – Stage 1	0	0	- 3	0	0	-	-	-	- 3				
IFRS 9 measurement on 01-01-2018	0	0	13 113	0	0	63	0	0	13 176				

Financial assets (in millions of EUR)	Classification before IFRS 9									Impact of IFRS 9 (1 January 2018)			
	Debt Instruments ³					Equity Instruments			Total	Retained earnings		OCI reserve	
	Loans and receivables	Held to maturity	Available for sale	Designated at fair value	Held for trading	Available for Sale	Designated at Fair Value	Held for Trading		Before tax	After tax	Before tax	After tax
HFT									11	0	0	0	0
Amount before adoption of IFRS 9	0	0	0	0	7	0	0	4	11				
Remeasurement	0	0	0	-	-	0	-	-	0				
IFRS 9 measurement on 01-01-2018	0	0	0	0	7	0	0	4	11				
FVO									0	0	0	0	0
Amount before adoption of IFRS 9	0	0	0	0	0	-	-	-	0				
Remeasurement	0	0	0	-	-	-	-	-	0				
IFRS 9 measurement on 01-01-2018	0	0	0	0	0	-	-	-	0				
FVPL - Overlay ¹									1371	0	0	0	0
Amount before adoption of IFRS 9	0	0	0	-	-	1371	-	-	1371				
Remeasurement	0	0	0	-	-	0	-	-	0				
Due to reclassification: reversal of revaluation reserve (IAS 39)	0	0	0	-	-	-390	-	-	-390	-	-	-390	-387
Due to reclassification: impact of revaluation reserve (IAS 39) on OCI (IFRS 9)	0	0	0	-	-	390	-	-	390	-	-	390	387
Due to reclassification: other than reversal of revaluation reserve	0	0	0	-	-	-78	-	-	-78	-78	-78	0	0
Impairment impact	0	0	0	-	-	78	-	-	78	78	78	-	-
IFRS 9 measurement on 01-01-2018	0	0	0	-	-	1371	-	-	1371				
MFVPL (excluding HFT)									40	-33	-25	2	2
Amount before adoption of IFRS 9	53	3	15	0	0	0	0	0	71				
Remeasurement	-31	0	0	-	-	0	0	-	-31				
Due to reclassification: reversal of revaluation reserve (IAS 39)	0	0	2	-	-	0	-	-	2	-	-	2	2
due to reclassification: impact of revaluation reserve (IAS 39) on retained earnings (IFRS 9)	0	0	-2	-	-	0	-	-	-2	-2	-2	-	-
Due to reclassification: other than reversal of revaluation reserve	-31	0	0	-	-	0	-	-	-31	-31	-23	-	-
Impairment impact	0	0	0	-	-	0	-	-	0	0	0	-	-
IFRS 9 measurement on 01-01-2018	22	3	15	0	0	0	0	0	40				
FINANCIAL ASSETS 01-01-2018:	2 512	5 028	13 128	0	7	1 434	0	4	22 115	- 40	- 30	- 157	- 119
Of which impact phase 1										- 33	- 25	- 157	- 119
Of which impact phase 2										- 8	- 6		

¹ Insurance entities can elect to categorise financial instruments as FVPL and still recognise them at FVOCI until IFRS 17 becomes effective.

² Financial assets previously classified as 'Loans and receivables', 'Held to maturity' or 'Available for sale' that have been reclassified to FVPL, have a business model other than hold to collect (and sell) contractual cashflows or have failed the SPPI test.

³ Debt instruments include loans and receivables (including finance leases that fall outside the scope of IAS 39/IFRS 9), debt securities and other financial assets.

2.0 Notes on segment reporting

Applies to KBC Group and KBC Bank, but not to KBC Insurance.

3.0 Notes to the income statement

Note 3.1: Net interest income

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	507	564
Interest income	559	610
Interest income on financial instruments calculated using the effective interest rate method		
Loans and receivables	-	70
Held-to-maturity investments	-	199
Financial assets at AC	212	-
Available-for-sale assets	-	302
Financial assets at FVOCI	312	-
Hedging derivatives	1	2
Other assets not at fair value	28	16
Interest income on other financial instruments		
Financial assets MFVPL other than held for trading	0	0
Financial assets held for trading	5	22
Of which economic hedges	5	22
Other financial assets at FVPL	0	0
Interest expense	- 52	- 47
Interest expense on financial instruments calculated using the effective interest rate method		
Financial liabilities at AC	- 9	- 8
Hedging derivatives	- 11	- 3
Other	- 9	- 4
Interest expense on other financial instruments		
Financial liabilities held for trading	- 22	- 30
Of which economic hedges	- 22	- 30
Other financial liabilities at FVPL	0	0
Net interest expense relating to defined benefit plans	0	- 1

Note 3.2: Dividend income

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	53	58
Equity instruments MFVPL other than held for trading	52	-
Equity instruments held for trading	0	0
Equity instruments initially recognised at FVPL	-	0
Equity instruments at FVOCI	2	-
Available-for-sale equity instruments	-	58

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

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	63	- 2
Financial instruments MFVPL other than held for trading and overlay	- 590	-
Trading instruments (including interest and fair value changes in trading derivatives)	17	2
Financial instruments to which the overlay approach is applied	51	-
Gains or losses on sale	110	-
Impairment	- 58	-
Other financial instruments at FVPL	587	- 3
Foreign exchange trading	- 2	- 6
Fair value adjustments in hedge accounting	- 1	5
<i>Hedge accounting broken down by type of hedge</i>		
Fair value micro hedges	- 1	5
Changes in the fair value of the hedged items	- 5	- 25
Changes in the fair value of the hedging derivatives	4	29
Cashflow hedges	0	0
Changes in the fair value of the hedging derivatives, ineffective portion	0	0
Hedges of net investments in foreign operations, ineffective portion	0	0
Portfolio hedge of interest rate risk	0	0
Changes in the fair value of the hedged items	0	0
Changes in the fair value of the hedging derivatives	0	0
Discontinuation of hedge accounting for fair value hedges	0	0
Discontinuation of hedge accounting in the event of cashflow hedges	0	0

- Financial instruments to which the overlay approach is applied: see the comments under the consolidated income statement.
- Under IFRS 9, investment contracts (insurance) are reclassified to 'Financial instruments mandatorily measured at fair value through profit or loss' in accordance with their 'managed on a FV basis' business model, whereas liabilities under investment contracts continue to be recognised under 'Financial instruments at fair value through profit or loss'. This resulted in amounts being offset against each other in 'Financial instruments MFVPL other than held for trading and overlay' and 'Financial instruments at fair value through profit or loss' in the above table (-589 million euros and +589 million euros, respectively).
- The effectiveness of the hedge is determined according to the following methods:
 - For fair value micro hedging, we use the dollar offset method on a quarterly basis, with changes in the fair value of the hedged item offsetting changes in the fair value of the hedging instrument within a range of 80%–125%.
 - For cashflow hedges, we compare the designated hedging instrument with a perfect hedge of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the perfect hedge). The effectiveness of both tests must fall within a range of 80%–125%.
 - We use the rules set out in the European version of IAS 39 (carve-out) to assess the effectiveness of fair value hedges for a portfolio of interest rate risk. IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, we make sure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.

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

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	-	84
Fixed-income securities	-	3
Equity instruments	-	81

Note 3.5: Net fee and commission income

(in millions of EUR)	2018	2017
Total	- 341	- 312
Fee and commission income	142	165
Fee and commission expense	- 483	- 477
Breakdown by type		
Asset Management Services	27	49
Fee and commission income	40	68
Fee and commission expense	- 13	- 19
Banking Services	- 5	- 3
Fee and commission income	2	4
Fee and commission expense	- 7	- 6
Distribution	- 363	- 358
Fee and commission income	100	94
Fee and commission expense	- 462	- 452

- As from 2018, the financial information has been prepared in accordance with IFRS 9, without affecting net fee and commission income. The impact of implementing IFRS 15 is negligible.

Note 3.6: Other net income

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	78	63
of which gains or losses on		
Sale of loans and receivables	-	0
Sale of held-to-maturity investments	-	- 4
Sale of financial assets measured at amortised cost	0	-
Repurchase of financial liabilities measured at amortised cost	0	0
Other, including:	78	67
Income from VAB Group	62	64
Net rental income	14	12

Note 3.7: Insurance results

Note 3.7.1: Overview

(in millions of EUR)	Life	Non-life	Non-technical account	Total
2018 (IFRS 9)				
Earned premiums, insurance (before reinsurance)	1 361	1 601		2 962
Technical charges, insurance (before reinsurance)	- 1 382	- 826		- 2 208
Net fee and commission income	- 30	- 311		- 341
Ceded reinsurance result	- 2	- 39		- 41
General administrative expenses	- 147	- 249	- 3	- 399
Internal claims settlement expenses	- 9	- 59		- 67
Indirect acquisition costs	- 31	- 70		- 100
Administrative expenses	- 108	- 120		- 228
Investment management fees	0	0	- 3	- 3
Technical result	- 199	176	- 3	- 26
Net interest income			507	507
Net dividend income			53	53
Net result from financial instruments at fair value through profit or loss			63	63
Net realised result from debt instruments at fair value through OCI			1	1
Other net income			0	0
Impairment			- 2	- 2
Allocation to the technical accounts	508	79	- 586	0
Technical-financial result	308	255	33	596
Share in results of associated companies and joint ventures			19	19
RESULT BEFORE TAX	308	255	51	615
Income tax expense				- 145
RESULT AFTER TAX				470
Attributable to minority interest				0
Attributable to equity holders of the parent				469
2017 (IAS 39)				
Earned premiums, insurance (before reinsurance)	1 273	1 510		2 784
Technical charges, insurance (before reinsurance)	- 1 334	- 788		- 2 122
Net fee and commission income	- 20	- 292		- 312
Ceded reinsurance result	1	- 9		- 8
General administrative expenses	- 140	- 247	- 3	- 389
Internal claims settlement expenses	- 8	- 56		- 65
Indirect acquisition costs	- 31	- 73		- 103
Administrative expenses	- 100	- 118		- 218
Investment management fees	0	0	- 3	- 3
Technical result	- 219	175	- 3	- 47
Net interest income			564	564
Net dividend income			58	58
Net result from financial instruments at fair value through profit or loss			- 2	- 2
Net realised result from available-for-sale assets			84	84
Other net income			- 10	- 10
Impairment			- 12	- 12
Allocation to the technical accounts	536	87	- 623	0
Technical-financial result	317	262	54	634
Share in results of associated companies and joint ventures			19	19
RESULT BEFORE TAX	317	262	73	652
Income tax expense				- 187
RESULT AFTER TAX				465
Attributable to minority interest				0
Attributable to equity holders of the parent				465

- The figures relating to earned premiums do not include investment contracts without DPF, which largely correspond to unit-linked contracts. The margin on these products is recognised under 'Net fee and commission income'.
- As from 2018, the financial information has been prepared in accordance with IFRS 9. The overlay approach has been applied to equity instruments held by the insurance companies. More information in this regard can be found in Note 1.2 and in the comments under the income statement. Due to the application of the overlay approach, the impact that equity instruments will have on the net result under IAS 39 is the same as under IFRS 9. Under IAS 39, however, the income from sales were recognised in 'Net realised result from available-for-sale assets', and impairment on those equity instruments recognised in 'Impairment'. Under IFRS 9 (with the overlay approach), they are recognised in 'Net result from financial instruments at fair value through profit or loss'.
- 'Non-life technical charges' in 2017 included the release of 26 million euros relating to the indexation provision (see Note 1.1 for more information).

Note 3.7.2: Life insurance

(in millions of EUR)	2018	2017
Total	1 361	1 273
By IFRS category		
Insurance contracts	935	893
Investment contracts with DPF	426	380
By type		
Accepted reinsurance	15	12
Primary business	1 346	1 261
Breakdown of primary business		
Individual premiums	1 015	950
Single premiums	315	285
Periodic premiums	699	665
Premiums under group contracts	331	312
Single premiums	61	60
Periodic premiums	270	252
Total sales of life insurance (including investment contracts without DPF)		
Unit-linked	705	856
Guaranteed-rate	1 112	1 025
Total	1 817	1 881

- As required under IFRS, we use deposit accounting for a number of investment contracts without DPF. This means that the premium income and technical charges from these contracts are not recognised under 'Earned premiums' and 'Technical charges', but that the margins on them are reported under 'Net fee and commission income'. Investment contracts without DPF are more or less the same as unit-linked contracts, which in 2018 accounted for premium income of 0.7 billion euros and in 2017 for premium income of 0.9 billion euros.

Note 3.7.3: Non-life insurance

(in millions of EUR)	Earned premiums (before reinsurance)	Claims incurred	Operating expenses (before reinsurance)	Ceded reinsurance	Total
2018					
Total	1 601	- 826	- 560	- 39	176
Accepted reinsurance	40	- 8	- 15	- 11	6
Primary business	1 561	- 818	- 545	- 29	170
Accident & health (classes 1 & 2, excl. industrial accidents)	115	- 56	- 40	0	18
Industrial accidents (class 1)	79	- 53	- 18	- 1	6
Motor, third-party liability (class 10)	436	- 262	- 138	- 6	29
Motor, other classes (classes 3 & 7)	253	- 146	- 87	- 1	19
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	4	- 2	- 2	0	- 1
Fire and other damage to property (classes 8 & 9)	459	- 190	- 176	- 17	77
General third-party liability (class 13)	113	- 64	- 41	- 2	6
Credit and suretyship (classes 14 & 15)	0	0	0	0	0
Miscellaneous pecuniary losses (class 16)	18	- 9	- 8	0	0
Legal assistance (class 17)	55	- 22	- 21	0	12
Assistance (class 18)	30	- 12	- 15	0	4
2017					
Total	1 510	- 788	- 536	- 9	178
Accepted reinsurance	39	- 5	- 16	- 23	- 4
Primary business	1 472	- 784	- 520	14	182
Accident & health (classes 1 & 2, excl. industrial accidents)	112	- 54	- 40	0	19
Industrial accidents (class 1)	73	- 39	- 18	0	16
Motor, third-party liability (class 10)	407	- 268	- 128	1	11
Motor, other classes (classes 3 & 7)	229	- 135	- 82	0	14
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	4	- 2	- 2	0	0
Fire and other damage to property (classes 8 & 9)	449	- 169	- 171	6	116
General third-party liability (class 13)	98	- 81	- 40	6	- 17
Credit and suretyship (classes 14 & 15)	0	0	0	0	0
Miscellaneous pecuniary losses (class 16)	16	- 7	- 7	1	3
Legal assistance (class 17)	53	- 16	- 19	0	18
Assistance (class 18)	29	- 12	- 15	0	2

Note 3.8: Operating expenses

(in millions of EUR)	2018	2017
Total	- 476	- 463
Staff expenses	- 232	- 231
General administrative expenses	- 230	- 215
of which levies	- 18	- 20
Depreciation and amortisation of fixed assets	- 14	- 17

- General administrative expenses include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes, utilities and other such expenses. They also include expenses related to the special tax imposed on financial institutions in various countries.

Note 3.9: Personnel

(in number)	2018	2017
Total average number of persons employed (in full-time equivalents)	4 202	4 167
By employee classification		
Blue-collar staff	298	299
White-collar staff	3 880	3 842
Senior management	24	26

Note 3.10: Impairment (income statement)

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	- 2	- 12
Impairment on financial assets at AC and at FVOCI	3	-
Of which impairment on financial assets at AC (IFRS 9) and on loans and receivables (IAS 39)	0	0
By product		
Loans and advances	0	0
Debt securities	0	0
Off-balance-sheet commitments and financial guarantees	0	0
By type		
Stage 1 (12-month ECL)	1	-
Stage 2 (lifetime ECL)	0	-
Stage 3 (non-performing; lifetime ECL)	0	-
Purchased or originated credit impaired assets	0	-
Specific impairment, on-balance-sheet lending	-	0
Provisions for off-balance-sheet commitments and financial guarantees	-	0
Portfolio-based impairment	-	0
Of which impairment on financial assets at FVOCI (IFRS 9) and on available-for-sale assets (IAS 39)	3	- 11
Equity instruments	-	- 11
Debt securities	3	0
Stage 1 (12-month ECL)	2	-
Stage 2 (lifetime ECL)	1	-
Stage 3 (lifetime ECL)	0	-
Impairment on goodwill	0	0
Impairment on other	- 5	- 2
Intangible fixed assets (other than goodwill)	0	0
Property, plant and equipment (including investment property)	- 3	0
Held-to-maturity assets (IAS 39)	-	0
Associated companies and joint ventures	0	0
Other	- 1	- 1

(*) With effect from 2018, provisions for off-balance-sheet credit commitments have been recognised in the line items for loss allowances by stage.

(**) Under IFRS 9, equity instruments at fair value through other comprehensive income are not subject to impairment testing.

- KBC Insurance uses three different forward-looking macroeconomic scenarios (with different probability weightings) to measure ECL. A sensitivity analysis of the impact of these multiple economic scenarios on ECL at the collective level under IFRS 9 – performed by calculating the difference between the outcome of the probability-weighted scenario (which is recognised) and the base scenario – gives a scenario-weighted ECL at year-end 2018 that is 0% to 0.1% higher than the base scenario, depending on the country concerned. If we take just the portfolios for which statistical macroeconomic variables are included in the model, the impact rises to 0.2%.

Note 3.11: Share in results of associated companies and joint ventures

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	19	19
Of which:		
KBC Asset Management SA	15	16
NLB Vita	4	4

- Impairment on (goodwill on) associated companies and joint ventures is included in 'Impairment' (see Note 3.10). The share in results of associated companies and joint ventures does not therefore take this impairment into account.

Note 3.12: Income tax expense

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	- 145	- 187
By type		
Current taxes on income	-137	- 149
Deferred taxes on income	-8	- 38
Tax components		
Result before tax	615	652
Income tax at the Belgian statutory rate	29,58%	33,99%
Income tax calculated	- 182	- 222
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	9	14
tax-free income	50	54
adjustments related to prior years	0	- 2
adjustments to deferred taxes due to change in tax rate	2	- 7
unused tax losses and unused tax credits to reduce current tax expense	0	0
unused tax losses and unused tax credits to reduce deferred tax expense	0	0
reversal of previously recognised deferred tax assets due to tax losses	0	0
other (mainly non-deductible expenses)	- 24	- 25

- For information on tax assets and tax liabilities, see Note 5.2.
- In 2017, adjustments to deferred taxes due to change in the tax rate concerned the reform of the Belgian corporation tax regime, which will impact KBC mainly because of the planned gradual decrease in the tax rate from 33.99% to 29.58% (from financial year 2018) and to 25% (from financial year 2020). This had a one-off negative impact on the income statement at the end of 2017 (-7 million euros due to a reduction in the amount of deferred tax assets). The reform of the Belgian corporation tax regime has been having a recurring positive impact on the income statement since 2018,

Note 3.13: Earnings per share

Applies to KBC Group, but not to KBC Insurance.

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

These notes should be read in conjunction with Note 1.1.

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

(in millions of EUR)	Mea- sured at amor- tised cost (AC)	Mea- sured at fair value through OCI (FVOCI)	Mandatorily measured at FVPL (other than held for trading) (MFVPL excl. HFT)	Held for trading (HFT)	Available for sale	Loans and recei- vables	Held to maturity	Desig- nated at fair value (FVO)	Hedging deri- vatives	Total
FINANCIAL ASSETS, 31-12-2018 (IFRS 9)										
Loans and advances to credit institutions and investment firms (excl. reverse repos) ^a	497	0	0	0	-	-	-	0	0	498
Loans and advances to customers (excl. reverse repos)	2 296	0	0	0	-	-	-	0	0	2 296
Trade receivables	1	0	0	0	-	-	-	0	0	1
Consumer credit	0	0	0	0	-	-	-	0	0	0
Mortgage loans	1 184	0	0	0	-	-	-	0	0	1 184
Term loans	1 019	0	0	0	-	-	-	0	0	1 019
Finance lease	0	0	0	0	-	-	-	0	0	0
Current account advances	0	0	0	0	-	-	-	0	0	0
Other	92	0	0	0	-	-	-	0	0	92
Reverse repos	0	0	0	0	-	-	-	0	0	0
with credit institutions and investment firms	0	0	0	0	-	-	-	0	0	0
with customers	0	0	0	0	-	-	-	0	0	0
Equity instruments	0	68	1 249	4	-	-	-	0	0	1 321
Investment contracts (insurance)	0	0	13 837	0	-	-	-	0	0	13 837
Debt securities issued by	4 679	12 350	27	6	-	-	-	0	0	17 062
Public bodies	3 616	7 141	0	1	-	-	-	0	0	10 759
Credit institutions and investment firms	556	1 848	0	3	-	-	-	0	0	2 408
Corporates	506	3 361	27	1	-	-	-	0	0	3 896
Derivatives	0	0	0	1	-	-	-	0	3	4
Other	9	0	0	0	-	-	-	0	0	9
Total	7 481	12 418	15 113	11	-	-	-	0	3	35 026
<i>a of which loans and advances to banks repayable on demand and term loans to banks at not more than three months</i>										
FINANCIAL ASSETS, 31-12-2017 (IAS 39)										
Loans and advances to credit institutions and investment firms (excl. reverse repos) ^a	-	-	-	1	0	580	0	0	0	581
Loans and advances to customers (excl. reverse repos)	-	-	-	0	0	1 919	0	0	0	1 919
Trade receivables	-	-	-	0	0	1	0	0	0	1
Consumer credit	-	-	-	0	0	0	0	0	0	0
Mortgage loans	-	-	-	0	0	787	0	0	0	787
Term loans	-	-	-	0	0	1 055	0	0	0	1 055
Finance lease	-	-	-	0	0	0	0	0	0	0
Current account advances	-	-	-	0	0	0	0	0	0	0
Other	-	-	-	0	0	77	0	0	0	77
Reverse repos	-	-	-	0	0	0	0	0	0	0
with credit institutions and investment firms	-	-	-	0	0	0	0	0	0	0
with customers	-	-	-	0	0	0	0	0	0	0
Equity instruments	-	-	-	4	1 435	0	0	0	0	1 439
Investment contracts (insurance)	-	-	-	0	0	0	0	14 421	0	14 421
Debt securities issued by	-	-	-	6	13 128	53	5 185	0	0	18 371
Public bodies	-	-	-	1	7 604	0	3 973	0	0	11 578
Credit institutions and investment firms	-	-	-	4	1 758	0	674	0	0	2 437
Corporates	-	-	-	1	3 766	53	537	0	0	4 357
Derivatives	-	-	-	1	0	0	0	0	2	3
Other	-	-	-	0	0	0	0	0	0	0
Total	-	-	-	11	14 563	2 553	5 185	14 421	2	36 735
<i>a of which loans and advances to banks repayable on demand and term loans to banks at not more than three months</i>										
23										

(in millions of EUR)	Measured at amortised cost (AC)	Held for trading (HFT)	Designated at fair value (FVO)	Hedging derivatives	Total
FINANCIAL LIABILITIES, 31-12-2018 (IFRS 9)					
Deposits from credit institutions and investment firms (excl. repos) ^a	50	0	0	-	50
Deposits from customers and debt securities (excl. repos)	500	0	0	-	500
Demand deposits	0	0	0	-	0
Time deposits	0	0	0	-	0
Savings accounts	0	0	0	-	0
Special deposits	0	0	0	-	0
Other deposits	0	0	0	-	0
Certificates of deposit	0	0	0	-	0
Savings certificates	0	0	0	-	0
Convertible bonds	0	0	0	-	0
Non-convertible bonds	0	0	0	-	0
Convertible subordinated liabilities	0	0	0	-	0
Non-convertible subordinated liabilities	500	0	0	-	500
Repos ¹	983	0	0	-	983
with credit institutions and investment firms	983	0	0	-	983
with customers	0	0	0	-	0
Liabilities under investment contracts	0	-	12 949	-	12 949
Derivatives	-	17	0	33	49
Short positions	-	0	0	-	0
In equity instruments	-	0	0	-	0
In debt securities	-	0	0	-	0
Other	0	0	0	-	0
Total	1 535	17	12 949	33	14 532
<i>a of which deposits from banks repayable on demand</i>					0
FINANCIAL LIABILITIES, 31-12-2017 (IAS 39)					
Deposits from credit institutions and investment firms (excl. repos) ^a	8	0	0	-	8
Deposits from customers and debt securities (excl. repos)	500	0	0	-	500
Demand deposits	0	0	0	-	0
Time deposits	0	0	0	-	0
Savings accounts	0	0	0	-	0
Special deposits	0	0	0	-	0
Other deposits	0	0	0	-	0
Certificates of deposit	0	0	0	-	0
Savings certificates	0	0	0	-	0
Convertible bonds	0	0	0	-	0
Non-convertible bonds	0	0	0	-	0
Convertible subordinated liabilities	0	0	0	-	0
Non-convertible subordinated liabilities	500	0	0	-	500
Repos ¹	1 442	0	0	-	1 442
with credit institutions and investment firms	1 442	0	0	-	1 442
with customers	0	0	0	-	0
Liabilities under investment contracts	0	-	13 552	-	13 552
Derivatives	-	34	0	36	70
Short positions	-	0	0	-	0
In equity instruments	-	0	0	-	0
In debt securities	-	0	0	-	0
Other	0	0	0	-	0
Total	1 950	34	13 552	36	15 571
<i>a of which deposits from banks repayable on demand</i>					0

¹ The amount of the reverse repos is virtually identical to the amount of the underlying assets (that have been lent out).

- At year-end 2018, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 1 930 million euros (debt instruments classified as 'at fair value through OCI' (1 008 million euros) and 'at amortised cost' (922 million euros)) and an associated financial liability with a carrying value of 2 233 million euros (958 million euros classified as 'at fair value through OCI' and 1 275 million euros as 'at amortised cost'). At year-end 2017, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions with a carrying value of 1 235 million euros (debt instruments classified as 'available for sale' (639 million euros) and as 'held to maturity' (596 million euros)) and an associated financial liability with a carrying value of 1 422 million euros (659 million euros classified as 'available for sale' and 763 million euros as 'held to maturity').

Note 4.2: Financial assets and liabilities, breakdown by portfolio and quality

Note 4.2.1: Impaired financial assets

(in millions of EUR)	31-12-2018		
	Carrying value before impairment	Impairment	Carrying value after impairment
FINANCIAL ASSETS AT AMORTISED COST			
Loans and advances	2 793	- 1	2 793
Stage 1 (12-month ECL)	2 734	0	2 734
Stage 2 (lifetime ECL)	58	0	58
Stage 3 (lifetime ECL)	1	0	1
Purchased or originated credit impaired assets (POCI)	0	0	0
Debt Securities	4 680	- 1	4 679
Stage 1 (12-month ECL)	4 593	0	4 593
Stage 2 (lifetime ECL)	87	0	86
Stage 3 (lifetime ECL)	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0
FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI			
Debt Securities	12 355	- 5	12 350
Stage 1 (12-month ECL)	11 914	- 3	11 911
Stage 2 (lifetime ECL)	441	- 2	439
Stage 3 (lifetime ECL)	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0

31-12-2017 (IAS 39)

(in millions of EUR)	Held for trading	Available for sale	Loans and receivables	Held to maturity	Designated at fair value	Hedging derivatives
Unimpaired assets	11	14 337	2 553	5 186	14 421	2
Impaired assets	0	304	1	0	0	0
Impairment	0	- 79	0	- 1	0	0
Total	11	14 563	2 553	5 185	14 421	2

Note 4.2.2: Impairment details

31-12-2018 (IFRS 9)

(in millions of EUR)	Stage 1 Subject to 12- month ECL	Stage 2 Subject to lifetime ECL	Stage 3 Subject to lifetime ECL (non- performing)	Subject to lifetime ECL (purchased or originated credit impaired)	Total
LOANS AND ADVANCES AT AMORTISED COST					
Impairment on 01-01-2018 (IFRS 9)	0	0	0	0	1
Movements with an impact on results	0	0	0	0	0
Transfer of financial assets					
Stage 1 (12-month ECL)	0	0	0	0	0
Stage 2 (lifetime ECL)	0	0	0	0	0
Stage 3 (lifetime ECL)	0	0	0	0	0
New financial assets	0	0	0	0	0
Changes in risk parameters during the reporting period	0	0	0	0	0
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets	0	0	0	0	0
Other	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0
Derecognised financial assets (incl. disposals, write-offs and repayments)	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31-12-2018	0	0	0	0	1
DEBT SECURITIES AT AMORTISED COST					
Impairment on 01-01-2018 (IFRS 9)	1	0	0	0	1
Movements with an impact on results	- 1	0	0	0	0
Transfer of financial assets					
Stage 1 (12-month ECL)	- 1	0	0	0	0
Stage 2 (lifetime ECL)	0	0	0	0	0
Stage 3 (lifetime ECL)	0	0	0	0	0
New financial assets	0	0	0	0	0
Changes in risk parameters during the reporting period	0	0	0	0	0
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets	0	0	0	0	0
Other	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0
Derecognised financial assets (incl. disposals, write-offs and repayments)	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31-12-2018	0	0	0	0	1
DEBT SECURITIES AT FAIR VALUE THROUGH OCI					
Impairment on 01-01-2018 (IFRS 9)	5	2	0	0	7
Movements with an impact on results	- 2	0	0	0	- 2
Transfer of financial assets					
Stage 1 (12-month ECL)	- 2	2	0	0	0
Stage 2 (lifetime ECL)	0	- 1	0	0	- 1
Stage 3 (lifetime ECL)	0	0	0	0	0
New financial assets	0	0	0	0	0
Changes in risk parameters during the reporting period	0	- 1	0	0	- 2
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets	0	0	0	0	0
Other	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0
Derecognised financial assets (incl. disposals, write-offs and repayments)	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31-12-2018	3	2	0	0	5

31-12-2017 (IAS 39)

(in millions of EUR)	Available-for-sale fixed-income assets	Available-for-sale equity instruments	Held-to-maturity fixed-income assets	Individually impaired loans and receivables	Portfolio impaired loans and receivables
Opening balance	0	94	1	0	0
Movements with an impact on results					
Impairment recognised	0	11	0	0	0
Impairment reversed	0	0	0	0	0
Movements without an impact on results					
Write-offs	0	0	0	0	0
Changes in the scope of consolidation	0	- 5	0	0	0
Transfers to/from non-current assets held for sale and disposal groups	0	0	0	0	0
Other	0	- 21	0	0	0
Closing balance	0	79	1	0	0

- For information on provisions for commitments and financial guarantees, see Note 5.7.2.
- For information regarding the impact of changes in impairment on the income statement, see Note 3.10.

Note 4.3: Maximum credit exposure and offsetting

(in millions of EUR)	Maximum credit exposure (A)	Collateral and other credit enhancements received (B)	Net (A-B)
31-12-2018 (IFRS 9)			
Subject to impairment	19 895	788	19 108
of which Stage 3 'non-performing' (AC and FVOCI)	1	0	1
Debt securities	17 029	0	17 029
Loans and advances (excl. reverse repos)	2 793	788	2 005
Reverse repos	0	0	0
Other financial assets	9	0	9
Off-balance-sheet liabilities	64	0	64
Not subject to impairment	37	0	37
Debt securities	33	0	33
Loans and advances (excl. reverse repos)	0	0	0
of which designated upon initial recognition at fair value through profit or loss (FVO)	0	0	0
Reverse repos	0	0	0
Derivatives	4	0	4
Other financial assets	0	0	0
Off-balance-sheet liabilities	0	0	0
Total	19 932	788	19 145
31-12-2017 (IAS 39)			
Debt securities	18 371	0	18 371
Loans and advances (incl. reverse repos)	2 501	517	1 984
of which designated at fair value	0	0	0
Derivatives	3	0	3
Other	47	0	47
Total	20 922	517	20 405

- Maximum credit exposure for a financial asset is the net carrying value. Besides the amounts on the balance sheet, maximum credit exposure also includes the undrawn portion of irrevocable credit lines, financial guarantees granted and other irrevocable commitments.
- Collateral and credit enhancements received: recognised at market value and limited to the outstanding amount of the relevant loans.

Financial instruments subject to offsetting, enforceable master netting agreements and similar arrangements (in millions of EUR)	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments set off	Net amounts of financial instruments presented in the balance sheet	Amounts not set off in the balance sheet			Net amount
				Financial instruments	Cash collateral	Securities collateral	
FINANCIAL ASSETS, 31-12-2018 (IFRS 9)							
Derivatives	4	0	4	2	0	0	1
Derivatives (excluding central clearing houses)	4	0	4	2	0	0	1
Derivatives with central clearing houses*	0	0	0	0	0	0	0
Reverse repos, securities borrowing and similar arrangements	5	0	5	0	5	0	0
Reverse repos	0	0	0	0	0	0	0
Securities borrowing	5	0	5	0	5	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	8	0	8	2	5	0	1
FINANCIAL ASSETS, 31-12-2017 (IAS 39)							
Derivatives	3	0	3	1	0	0	2
Derivatives (excluding central clearing houses)	3	0	3	1	0	0	2
Derivatives with central clearing houses*	0	0	0	0	0	0	0
Reverse repos, securities borrowing and similar arrangements	0	0	0	0	0	0	0
Reverse repos	0	0	0	0	0	0	0
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	3	0	3	1	0	0	2
FINANCIAL LIABILITIES, 31-12-2018 (IFRS 9)							
Derivatives	49	0	49	2	0	0	47
Derivatives (excluding central clearing houses)	49	0	49	2	0	0	47
Derivatives with central clearing houses*	0	0	0	0	0	0	0
Repos, securities lending and similar arrangements	983	0	983	0	0	983	0
Repos	983	0	983	0	0	983	0
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	1 033	0	1 033	2	0	983	47
FINANCIAL LIABILITIES, 31-12-2017 (IAS 39)							
Derivatives	70	0	70	1	0	0	68
Derivatives (excluding central clearing houses)	70	0	70	1	0	0	68
Derivatives with central clearing houses*	0	0	0	0	0	0	0
Repos, securities lending and similar arrangements	1 442	0	1 442	0	0	1 442	0
Repos	1 442	0	1 442	0	0	1 442	0
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	1 511	0	1 511	1	0	1 442	68

* Cash collateral account at central clearing houses included in the gross amount.

- The criteria for offsetting are met if KBC currently has a legally enforceable right to set off the recognised financial assets and financial liabilities and intends either to settle the transactions on a net basis, or to realise the financial asset and settle the financial liability simultaneously. Financial assets and financial liabilities that are set off relate to financial instruments that were traded on (central) clearing houses.

- The amounts presented in the 'Financial instruments' column under the 'Amounts not set off in the balance sheet' heading are for financial instruments entered into under an enforceable master netting agreement or similar arrangement that does not meet the criteria defined in IAS 32. The amounts stated refer to situations in which offsetting can only be applied if one of the counterparties defaults, becomes insolvent or goes bankrupt. The same principle applies for financial instruments given or received as collateral. The value given in the table for non-cash collateral received (the 'Securities collateral' column under the 'Amounts not set off in the balance sheet' heading) corresponds with the market value. This is the value that is used if one of the counterparties defaults, becomes insolvent or goes bankrupt.

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

- All internal valuation models used at KBC are validated by an independent Risk Validation Unit. In addition, the Executive Committee has appointed a Group Valuation Committee (GVC) to ensure that KBC and its entities meet all the legal requirements for measuring financial assets and liabilities at fair value. The GVC monitors consistent implementation of the *KBC Valuation Framework*, which consists of various guidelines, including the *Group Valuation Policy*, the *Group Market Value Adjustments Policy* and the *Group Parameter Review Policy*. The GVC meets at least twice a quarter to approve significant changes in valuation methods (including, but not limited to, models, market data and inputs) or deviations from group policies for financial assets and liabilities measured at fair value. The committee is made up of members from Finance, Risk Management and the Middle Office. Valuation uncertainty measurements are made and reported to the GVC every quarter. Lastly, certain fair values generated by valuation models are challenged by a team set up specifically for this purpose.
- The fair value of mortgage and term loans not measured at fair value in the balance sheet (see table) is calculated by discounting contractual cashflows at the risk-free rate. This calculation is then adjusted for credit risk by taking account of margins obtained on similar, but recently issued, loans. The fair value of the main portfolios takes account of prepayment risks and cap options.
- The fair value of demand and savings deposits (both of which are repayable on demand) is presumed to be equal to their carrying value.

Fair value of financial assets and liabilities that are not measured at fair value in the (in millions of EUR)	Financial assets measured at amortised		Loans and receivables		Financial assets held to maturity		Financial liabilities measured at amortised	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS, 31-12-2018 (IFRS 9)								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	497	633	-	-	-	-	-	-
Loans and advances to customers (incl. reverse repos)	2 296	2 480	-	-	-	-	-	-
Debt securities	4 679	5 616	-	-	-	-	-	-
Other	9	9	-	-	-	-	-	-
Total	7 481	8 738	-	-	-	-	-	-
Level 1	-	4 293	-	-	-	-	-	-
Level 2	-	4 441	-	-	-	-	-	-
Level 3	-	4	-	-	-	-	-	-
FINANCIAL ASSETS, 31-12-2017 (IAS 39)								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	-	-	580	726	-	-	-	-
Loans and advances to customers (incl. reverse repos)	-	-	1 919	2 059	-	-	-	-
Debt securities	-	-	53	29	5 185	6 145	-	-
Other	-	-	0	0	-	-	-	-
Total	-	-	2 553	2 815	5 185	6 145	-	-
Level 1	-	-	-	16	-	4 744	-	-
Level 2	-	-	-	1 599	-	1 375	-	-
Level 3	-	-	-	1 200	-	26	-	-
FINANCIAL LIABILITIES, 31-12-2018 (IFRS 9)								
Deposits from credit institutions and investment firms (incl. repos)	-	-	-	-	-	-	1 034	1 034
Deposits from customers and debt securities (incl. repos)	-	-	-	-	-	-	500	500
Liabilities under investment contracts	-	-	-	-	-	-	0	0
Other	-	-	-	-	-	-	0	0
Total	-	-	-	-	-	-	1 535	1 534
Level 1	-	-	-	-	-	-	-	0
Level 2	-	-	-	-	-	-	-	1 534
Level 3	-	-	-	-	-	-	-	0
FINANCIAL LIABILITIES, 31-12-2017 (IAS 39)								
Deposits from credit institutions and investment firms (incl. repos)	-	-	-	-	-	-	1 450	1 450
Deposits from customers and debt securities (incl. repos)	-	-	-	-	-	-	500	501
Liabilities under investment contracts	-	-	-	-	-	-	0	0
Other	-	-	-	-	-	-	0	0
Total	-	-	-	-	-	-	1 950	1 950
Level 1	-	-	-	-	-	-	-	0
Level 2	-	-	-	-	-	-	-	1 950
Level 3	-	-	-	-	-	-	-	0

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

(in millions of EUR) Fair value hierarchy	31-12-2018 (IFRS 9)				31-12-2017 (IAS 39)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS AT FAIR VALUE								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	-	-	-	-
Loans and advances to customers (incl. reverse repos)	0	0	0	0	-	-	-	-
Equity instruments	1 210	0	39	1 249	-	-	-	-
Investment contracts (insurance)	13 417	420	0	13 837	-	-	-	-
Debt securities	0	0	27	27	-	-	-	-
<i>of which sovereign bonds</i>	0	0	0	0	-	-	-	-
Other	0	0	0	0	-	-	-	-
Held for trading								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	0	1	0	1
Loans and advances to customers (incl. reverse repos)	0	0	0	0	0	0	0	0
Equity instruments	4	0	0	4	4	0	0	4
Debt securities	1	4	0	6	2	5	0	6
<i>of which sovereign bonds</i>	1	0	0	1	1	0	0	1
Derivatives	0	1	0	1	0	1	0	1
Other	0	0	0	0	0	0	0	0
Designated upon initial recognition at fair value through profit or loss (FVO)								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	0	0	0	0
Loans and advances to customers (incl. reverse repos)	0	0	0	0	0	0	0	0
Equity instruments	-	-	-	-	0	0	0	0
Investment contracts (insurance)	-	-	-	-	13 935	486	0	14 421
Debt securities	0	0	0	0	0	0	0	0
<i>of which sovereign bonds</i>	0	0	0	0	0	0	0	0
At fair value through OCI								
Equity instruments	1	8	59	68	-	-	-	-
Debt securities	8 392	3 838	120	12 350	-	-	-	-
<i>of which sovereign bonds</i>	5 354	1 744	43	7 141	-	-	-	-
Available for sale								
Equity instruments	-	-	-	-	1 325	14	95	1 435
Debt securities	-	-	-	-	8 700	3 903	524	13 128
<i>of which sovereign bonds</i>	-	-	-	-	5 878	1 332	394	7 604
Hedging derivatives								
Derivatives	0	3	0	3	0	2	0	2
Total financial assets at fair value	23 025	4 274	246	27 545	23 966	4 411	620	28 997
FINANCIAL LIABILITIES AT FAIR VALUE								
Held for trading								
Deposits from credit institutions and investment firms (incl. repos)	0	0	0	0	0	0	0	0
Deposits from customers and debt securities (incl. repos)	0	0	0	0	0	0	0	0
Derivatives	0	17	0	17	0	34	0	34
Short positions	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
Designated at fair value								
Deposits from credit institutions and investment firms (incl. repos)	0	0	0	0	0	0	0	0
Deposits from customers and debt securities (incl. repos)	0	0	0	0	0	0	0	0
Liabilities under investment contracts	12 931	17	0	12 949	13 544	7	0	13 552
Other	0	0	0	0	0	0	0	0
Hedging derivatives								
Derivatives	0	33	0	33	0	36	0	36
Total	12 931	66	0	12 998	13 544	77	0	13 621

- The fair value hierarchy prioritises the valuation techniques and the respective inputs into three levels.
 - The fair value hierarchy gives the highest priority to 'level 1 inputs'. This means that, when there is an active market, quoted prices have to be used to measure the financial assets or liabilities at fair value. Level 1 inputs are prices that are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency (and that are quoted in active markets accessible to KBC). They represent actual and regularly occurring market transactions on an arm's length basis. The fair value is then based on a mark-to-market valuation derived from currently available transaction prices. No valuation technique (model) is involved.
 - If there are no price quotations available, the reporting entity establishes fair value using a model based on observable or unobservable inputs. The use of observable inputs needs to be maximised, whereas the use of unobservable inputs has to be minimised. Observable inputs are also referred to as 'level 2 inputs' and reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Examples of observable inputs are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs include discounted cashflow analysis, or reference to the current or recent fair value of a similar instrument.
 - Unobservable inputs are also referred to as 'level 3 inputs' and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions regarding the risks involved). Unobservable inputs reflect a market that is not active. For example, proxies and correlation factors can be considered to be unobservable in the market.
- When the inputs used to measure the fair value of an asset or a liability can be categorised into different levels of the fair value hierarchy, the fair value measurement is classified in its entirety into the same level as the lowest level input that is significant to the entire fair value measurement. For example, if a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.
- The valuation methodology and the corresponding classification in the fair value hierarchy of the most commonly used financial instruments are summarised in the table. This table provides an overview of the level in which the instruments are generally classified, but exceptions are possible. In other words, whereas the majority of instruments of a certain type are within the level indicated in the table, a small portion may actually be classified in another level.
- KBC follows the principle that transfers into and out of levels of the fair value hierarchy are made at the end of the reporting period. Transfers between the various levels are dealt with in more detail in Note 4.6.

Overview at KBC Group level

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

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

- In 2018, KBC transferred 510 million euros' worth of financial assets and liabilities out of level 1 and into level 2. It also reclassified approximately 518 million euros' worth of financial assets and liabilities from level 2 to level 1. Most of these reclassifications were carried out due to a change in the liquidity of government bonds and corporate bonds.
- In 2017, KBC reclassified 1 827 million euros' worth of debt instruments from level 1 to level 2, and approximately 56 million euros' worth of bonds from level 2 to level 1. Most of these reclassifications were attributable to a change in the valuation method, driven by the implementation in the third quarter of 2017 of an automated process that uses BVAL to price debt instruments. Provided by Bloomberg, BVAL is a fully transparent service that sets prices on the basis of various sources. Its use impacts fair value hierarchy levelling.

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

- The first time application of IFRS 9 resulted in a number of reclassifications, though without having any net impact on the fair value of level-3 financial assets and liabilities measured at fair value. The main changes were as follows:
 - 25 million euros' worth of debt instruments was transferred out of the 'available for sale' category and into the 'mandatorily measured at fair value through profit or loss' category, with the remainder being classified as 'at fair value through OCI';
 - 39 million euros' worth of unlisted equity instruments was reclassified from 'available for sale' to 'at fair value through OCI', with the remainder being classified as 'mandatorily measured at fair value through profit or loss (other than held for trading) - (overlay)';
- In 2018, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
 - The fair value of debt instruments measured at fair value through OCI fell by 379 million euros, primarily on account of a transfer out of level 3 due to instruments that had reached maturity and changes in fair value.
- In 2017, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
 - The carrying value of debt instruments classified as 'available-for-sale' fell by 257 million euros:
 - o a net 93 million euros' worth of bonds was transferred to level 3, with most of these reclassifications accounted for by the use of BVAL to price debt instruments.
 - o the carrying value fell by a further 200 million euros as a result of the settlement and disposal of positions, offset in part by purchases.
 - The carrying value of unlisted shares in the 'available-for-sale' category increased by 18 million euros primarily on account of acquisitions.

Note 4.8: Derivatives

Note 4.8.1 Trading derivatives

(in millions of EUR)	31-12-2018				31-12-2017			
	Carrying value		Notional amount ¹		Carrying value		Notional amount ¹	
	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
Total	1	17	352	352	1	34	932	939
Interest rate contracts	1	16	351	351	1	33	720	720
<i>of which interest rate swaps and futures</i>	1	16	351	351	1	33	720	720
<i>of which options</i>	0	0	0	0	0	0	0	0
Foreign exchange contracts	0	0	1	1	0	0	212	219
<i>of which currency and interest rate swaps, FX swaps and futures</i>	0	0	1	1	0	0	212	219
<i>of which options</i>	0	0	0	0	0	0	0	0
Equity contracts	0	0	0	0	0	0	0	0
<i>of which equity swaps</i>	0	0	0	0	0	0	0	0
<i>of which options</i>	0	0	0	0	0	0	0	0
Credit contracts	0	0	0	0	0	0	0	0
<i>of which credit default swaps</i>	0	0	0	0	0	0	0	0
Commodity and other contracts	0	0	0	0	0	0	0	0

¹In this table, both legs of the derivatives are reported in the notional amounts.

Note 4.8.2 Hedging derivatives

31-12-2018

(in millions of EUR)	Hedging instrument				Type	Hedged item			Impact on equity	
	Notional amount ¹		Carrying value			Change in fair value of hedging instruments used as basis for recognising hedge ineffectiveness for the period ²	Total (including fair value changes)	Of which accumulated fair value adjustments	Change in fair value of hedged items used as basis for recognising hedge ineffectiveness for the period ²	Ineffective portion recognised in profit or loss
Hedging strategy	Purchased	Sold	Assets	Lia-bilities						
Fair value micro hedge										
Interest rate swaps	335	335	0	26	4 Debt securities held at AC	0	0	0		
Currency and interest rate swaps	38	38	1	2	0 Loans and advances at AC	0	0	0		
					Debt securities held at FVOCI	414	22	- 5		
					Debt securities issued at AC	0	0	0		
					Deposits at AC	0	0	0		
Total	373	373	1	28	4 Total	414	22	- 5	- 1	-
Portfolio hedge of interest rate risk										
Interest rate swaps	0	0	0	0	0 Debt securities held at AC	0	0	0		
Currency and interest rate options	0	0	0	0	0 Loans and advances at AC	0	0	0		
					Debt securities held at FVOCI	0	0	0		
					Debt securities issued at AC	0	0	0		
					Deposits at AC	0	0	0		
Total	0	0	0	0	0 Total	0	0	0	0	-
Cashflow hedge (micro hedge and portfolio hedge)										
Interest rate swaps	0	0	0	0	0					
Currency and interest rate swaps	17	17	0	2	0					
Total	17	17	0	2	0 Total			0	0	0
Hedge of net investments in foreign operations										
Total	191	192	2	3	6 Total			- 6	0	4

1 In this table, both legs of the derivatives are reported in the notional amounts.

2 Ineffectiveness is recognised in 'Net result from financial instruments at fair value through profit or loss' (also see Note 3.3).

31-12-2017

(in millions of EUR)	Fair value hedge				Cashflow hedge ²				Portfolio hedge of interest rate risk			
	Carrying value		Notional amount ¹		Carrying value		Notional amount ¹		Carrying value		Notional amount ¹	
	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
Total	1	35	383	383	1	1	231	239	0	0	0	0
Interest rate contracts	0	33	335	335	0	0	0	0	0	0	0	0
of which interest rate swaps and futures	0	33	335	335	0	0	0	0	0	0	0	0
of which options	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	1	1	48	48	1	1	231	239	0	0	0	0
of which currency and interest rate swaps and futures	1	1	48	48	1	1	231	239	0	0	0	0
of which options	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	0	0	0	0	0	0	0	0	0	0	0	0
of which equity swaps	0	0	0	0	0	0	0	0	0	0	0	0
of which options	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	0	0	0	0	0	0	0	0	0	0	0	0
of which credit default swaps	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	0	0	0	0	0	0	0	0	0	0	0	0

1 In this table, both legs of the derivatives are reported in the notional amounts.

2 Including hedges of net investments in foreign operations.

- To prevent rate movements from having a negative impact, the maturities of assets and liabilities are adjusted on the balance sheet using interest rate swaps and other derivatives.
- As regards the relationship between risk management and hedge accounting policy, 'economic' management takes priority and risks are hedged in accordance with the general ALM framework. Only then is a decision made on which, if any, of these techniques will be used to limit any resulting accounting mismatch.

5.0 Notes on other balance sheet items

Note 5.1: Other assets

(in millions of EUR)	31-12-2018	31-12-2017
Total	663	733
Debtors arising out of direct insurance operations	356	346
Debtors arising out of reinsurance operations	27	12
Deposits with ceding companies	9	174
Income receivable (other than interest income from financial assets)	4	8
Other	267	193

Note 5.2: Tax assets and tax liabilities

(in millions of EUR)	31-12-2018	31-12-2017
CURRENT TAXES		
Current tax assets	32	28
Current tax liabilities	76	65
DEFERRED TAXES	- 191	- 289
Deferred tax assets by type of temporary difference	119	111
Employee benefits	15	23
Losses carried forward	2	1
Tangible and intangible fixed assets	6	5
Provisions for risks and charges	1	1
Impairment for losses on loans and advances	2	1
Financial instruments at fair value through profit or loss and fair value hedges	55	49
Fair value changes, available-for-sale assets, financial instruments at FVOCI, cashflow hedges and hedges of net investments in foreign operations	28	24
Technical provisions	7	6
Other	2	1
Deferred tax liabilities by type of temporary difference	309	399
Employee benefits	0	0
Losses carried forward	0	0
Tangible and intangible fixed assets	4	4
Provisions for risks and charges	8	7
Impairment for losses on loans and advances	0	0
Financial instruments at fair value through profit or loss and fair value hedges	40	38
Fair value changes, available-for-sale assets, financial instruments at FVOCI, cashflow hedges and hedges of net investments in foreign operations	170	252
Technical provisions	86	90
Other	1	7
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	10	5
Deferred tax liabilities	201	293
Unused tax losses and unused tax credits	0	0

- Deferred tax assets are recognised to the extent that it is probable that, on the basis of realistic financial projections, taxable profit will be available against which the deductible temporary differences can be utilised in the foreseeable future (limited to a period of eight to ten years).

- Unused tax losses and unused tax credits concern tax losses of group companies which are not capitalised due to insufficient proof of future taxable profit. Most unused tax losses and unused tax credits can be carried forward for 20 years or more.
- Deferred tax assets are recognised to the extent that it is probable that, on the basis of realistic financial projections, taxable profit will be available against which the deductible temporary differences can be utilised in the foreseeable future (limited to a period of eight to ten years).
- The net change in deferred taxes (+98 million euros in 2018) breaks down as follows:
 - an increase in deferred tax assets: +8 million euros;
 - a decrease in deferred tax liabilities: -90 million euros.
- The change in deferred tax assets was accounted for chiefly by:
 - an increase in deferred tax assets resulting primarily from the impact of the first time adoption of IFRS 9, due to reclassification to 'financial instruments at fair value through profit or loss': +10 million euros;
 - an increase on account of changes in the revaluation reserve for financial instruments measured at fair value through OCI: +4 million euros;
 - the decrease in deferred tax assets via the income statement: -8 million euros (due primarily to defined benefit plans (-10 million euros), partly offset by losses carried forward (+2 million euros));
 - other items: +2 million euros.
- The change in deferred tax liabilities was accounted for chiefly by:
 - the decrease in deferred tax liabilities on account of changes in the revaluation reserve for financial instruments measured at fair value through OCI: 55 million euros;
 - the decrease in deferred tax liabilities resulting from the impact of the first time adoption of IFRS 9 on financial instruments due to their reclassification from the 'available for sale' category to the 'at amortised cost' category (-39 million euros);
 - other items: +4 million euros.

Note 5.3: Investments in associated companies and joint ventures

(in millions of EUR)	31-12-2018	31-12-2017
Total	46	47
Overview of investments, including goodwill		
NLB Vita	31	31
KBC Asset Management SA	15	17
Goodwill on associated companies and joint ventures	0	0
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	46	47
Listed	0	0
Fair value of investments in listed associated companies and joint ventures	0	0

- Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies. Joint ventures are companies over which KBC exercises joint control. In this case, it concerns primarily NLB Vita.
- Goodwill paid on associated companies and joint ventures is included in the nominal value of 'Investments in associated companies and joint ventures' shown on the balance sheet. An impairment test is performed and, if required, the necessary impairment losses on goodwill recognised (see table).

Note 5.4: Property and equipment and investment property

(in millions of EUR)				31-12-2018	31-12-2017
Property, equipment				39	49
Investment property				260	224
Rental income				19	16
Direct operating expenses from investments generating rental income				5	4
Direct operating expenses from investments not generating rental income				0	0
MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2018					
Opening balance	28	2	19	49	224
Acquisitions	7	2	1	11	45
Disposals	0	0	0	0	- 4
Depreciation	- 6	- 1	- 2	- 9	- 16
Other movements	1	0	- 12	- 12	12
Closing balance	30	3	7	39	260
of which accumulated depreciation and impairment	37	7	15	59	202
Fair value 31-12-2018					384
2017					
Opening balance	28	1	19	48	210
Acquisitions	2	1	12	15	25
Disposals	0	0	- 5	- 6	- 1
Depreciation	- 6	- 1	- 7	- 13	- 6
Other movements	5	0	0	5	- 4
Closing balance	28	2	19	49	224
of which accumulated depreciation and impairment	33	7	27	66	172
Fair value 31-12-2017					310

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

Note 5.5: Goodwill and other intangible assets

(in millions of EUR)	Goodwill	Software developed in-house	Software developed externally	Other	Total
2018					
Opening balance	115	0	7	8	130
Acquisitions	1	0	9	3	13
Disposals	0	0	0	0	0
Amortisation	0	0	- 3	- 2	- 5
Other movements	0	0	1	3	5
Closing balance	117	0	14	12	143
of which accumulated amortisation and impairment	199	0	32	14	245
2017					
Opening balance	115	0	5	3	124
Acquisitions	0	0	4	6	10
Disposals	0	0	0	0	0
Amortisation	0	0	- 3	- 1	- 4
Other movements	0	0	0	0	0
Closing balance	115	0	7	8	130
of which accumulated amortisation and impairment	199	0	29	23	251

- Goodwill: includes the goodwill paid on companies included in the scope of consolidation and relating to the acquisition of activities. Goodwill paid on associated companies: included in the nominal value of 'Investments in associated companies' shown on the balance sheet.
- For goodwill in respect of recent acquisitions, see Note 6.6.
- Impairment testing: a test was carried out to establish whether impairment on goodwill had to be recognised (see table and Note 3.10). This impairment test is performed at least once a year. We also carry out a high level assessment on a quarterly basis to see whether there is an indication of impairment. In the test, each entity is regarded as a separate cash-generating unit. Each entity has a specific risk profile and it is rare to have different profiles within a single entity.
- Impairment on goodwill under IAS 36: recognised in profit or loss if the recoverable amount of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cashflow analysis) and the fair value (calculated based on multiple analysis, etc.) less costs to sell.
- The main insurance companies to which goodwill relates are listed in the table. All of these companies have been valued using the discounted cashflow method. The discounted cashflow method calculates the recoverable amount of an investment as the present value of all future free cashflows of the business. This method is based on long-term projections about the company's business and the resulting cashflows (i.e. projections for a number of years ahead and the residual value of the business at the end of the specific projection period). These long-term projections are the result of an assessment of past and present performances combined with external sources of information on future performances in the respective markets and the global macroeconomic environment. The terminal growth rate is determined using a long-term average market growth rate. The present value of these future cashflows is calculated using a compound discount rate which is based on the capital asset pricing model (CAPM). A risk-free rate, a market-risk premium (multiplied by an activity beta), and a country risk premium (to reflect the impact of the economic situation of the country where KBC is active) are also used in the calculation. KBC has developed two distinct discounted cashflow models, viz. a bank model and an insurance model. Free cashflows in both cases are the dividends that can be paid out to the company's shareholders, account taken of the minimum capital requirements.

Goodwill outstanding (in millions of EUR)	31-12-2018	31-12-2017	Discount rates throughout the specific period of cashflow projections	
			31-12-2018	31-12-2017
			DZI Insurance	75
CSOB Pojist'ovna	18	18	9.5%-8.1%	8.8%-8.0%
Rest	24	23	-	-
Total	117	115	-	-

- The period to which the cashflow budgets and projections relate is 14 years in most cases. This longer period is used to take account of the expected convergence of the Central and Eastern European economies with their Western European counterparts. This significant assumption is used in the model to reflect the dynamism of the economies in Central and Eastern Europe.
- The growth rate used to extrapolate the cashflow projections after the 15-year period is equal to the expected long-term growth rate of gross domestic product. This rate depends on the country and varied between 1.2% and 1.7% in 2018 (between 1.2% and 1.8% in 2017).
- No sensitivity analysis was carried out for entities where the recoverable amount exceeded the carrying value to such a large extent that no reasonably possible change in the key assumptions would result in the recoverable amount being less than or equal to the carrying value. This was the case at all the insurance entities.

Note 5.6: Technical provisions, insurance

(in millions of EUR)	31-12-2018	31-12-2017
Technical provisions (before reinsurance) (i.e. gross figures)	18 388	18 721
Insurance contracts	11 083	10 931
Provision for unearned premiums and unexpired risk	705	650
Life insurance provision	7 247	7 172
Provision for claims outstanding	2 665	2 653
Provision for profit sharing and rebates	25	20
Other technical provisions	441	437
Investment contracts with DPF	7 305	7 790
Life insurance provision	7 233	7 713
Provision for claims outstanding	0	0
Provision for profit sharing and rebates	72	76
Reinsurers' share	120	131
Insurance contracts	120	131
Provision for unearned premiums and unexpired risk	2	2
Life insurance provision	5	4
Provision for claims outstanding	114	126
Provision for profit sharing and rebates	0	0
Other technical provisions	0	0
Investment contracts with DPF	0	0
Life insurance provision	0	0
Provision for claims outstanding	0	0
Provision for profit sharing and rebates	0	0

MOVEMENTS TABLE	Gross 2018	Reinsu- rance 2018	Gross 2017	Reinsu- rance 2017
INSURANCE CONTRACTS, LIFE				
Opening balance	7 608	6	7 514	3
Deposits excluding fees	715	0	694	0
Provisions paid	- 568	0	- 571	0
Accretion of interest	170	0	176	0
Cost of profit sharing	3	0	3	0
Exchange differences	- 11	0	63	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	44	0	0	0
Other movements	- 293	- 1	- 270	3
Closing balance	7 669	5	7 608	6
INSURANCE CONTRACTS, NON-LIFE				
Opening balance	3 323	126	3 280	107
Changes in the provision for unearned premiums	39	0	32	0
Payments regarding claims of previous financial years	- 187	- 9	- 236	- 10
Surplus/shortfall of claims provision in previous financial years	- 149	- 4	- 90	- 1
Provision for new claims	306	17	322	26
Exchange differences	- 6	0	14	1
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements	88	- 15	0	4
Closing balance	3 414	115	3 323	126
INVESTMENT CONTRACTS WITH DPF, LIFE				
Opening balance	7 790	0	8 942	0
Deposits excluding fees	407	0	361	0
Provisions paid	- 677	0	- 1 004	0
Accretion of interest	141	0	168	0
Cost of profit sharing	0	0	0	0
Exchange differences	0	0	2	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements ¹	- 355	0	- 679	0
Closing balance	7 305	0	7 790	0

- Technical provisions relate to insurance contracts and investment contracts with a discretionary participation feature (DPF).
- Liabilities under investment contracts without DPF are measured at fair value. These liabilities concern mainly unit-linked contracts, which are recognised under financial liabilities (see Note 4.1).
- Technical provisions for life insurance are calculated using various assumptions. Judgement is required when making these assumptions and the assumptions used are based on various internal and external sources of information. At present, IFRS 4 refers extensively to local accounting principles for the recognition of technical provisions. These provisions are generally calculated using the technical assumptions that were applicable at the inception of the insurance contract and are subject to liability adequacy tests. The key assumptions are:
 - mortality and morbidity rates, which are based on standard mortality tables and adapted where necessary to reflect the group's own experience;
 - expense assumptions, which are based on current expense levels and expense loadings;
 - the discount rate, which is generally equal to the technical interest rate, remains constant throughout the life of the policy, and in some cases is adjusted to take account of legal requirements and internal policy decisions.
- Assumptions for the technical provisions for claims outstanding are based on past claims experience relating to claim numbers, claim payments and claims handling costs, and adjusted to take account of such factors as anticipated market experience, claims inflation and external factors such as court awards and legislation. The technical provision for claims outstanding is generally not discounted except when long-term obligations and/or annuities (industrial accidents, guaranteed income and hospitalisation insurance) are involved.

- In 2018, there were no major changes in assumptions leading to a significant change in the valuation of insurance assets and liabilities.

Note 5.7: Provisions for risks and charges

Note 5.7.1: Overview

(in millions of EUR)	31-12-2018	31-12-2017
Total provisions for risks and charges	6	5
Provisions for off-balance-sheet commitments and financial guarantees	0	0
Provisions for other risks and charges	6	5
Provisions for restructuring	0	0
Provisions for taxes and pending legal disputes	2	3
Other	3	3

Note 5.7.2: Details of off-balance-sheet commitments and financial guarantees

(in millions of EUR)	Subject to 12-month ECL	Subject to lifetime ECL	Subject to lifetime ECL (non-performing)	Total
31-12-2018 IFRS 9				
Provisions on 01-01-2018 (IFRS 9)	0	0	0	0
Movements with an impact on results				
Transfer of financial assets				
Stage 1 (12-month ECL)	0	0	0	0
Stage 2 (lifetime ECL)	0	0	0	0
Stage 3 'non-performing' (lifetime ECL)	0	0	0	0
New financial assets	0	0	0	0
Changes in risk parameters during the reporting period	0	0	0	0
Changes in the model or methodology	0	0	0	0
Derecognised financial assets	0	0	0	0
Other	0	0	0	0
Movements without an impact on results				
Derecognised financial assets (incl. disposals, write-offs and repayments)	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Transfers under IFRS 5	0	0	0	0
Other	0	0	0	0
Provisions on 31-12-2018	0	0	0	0
31-12-2017 IAS 39				
Provisions on 01-01-2017 (IAS 39)	-	-	-	0
Movements with an impact on results				
Amounts allocated	-	-	-	0
Amounts used	-	-	-	0
Unused amounts reversed	-	-	-	0
Movements without an impact on results				
Changes in the scope of consolidation	-	-	-	0
Transfers under IFRS 5	-	-	-	0
Other	-	-	-	0
Provisions on 31-12-2017	-	-	-	0

- Also see Note 6.1.

Note 5.7.3: Details of provisions for other risks and charges

(in millions of EUR)	Provision for restructuring	Provision for taxes and pending legal disputes	Other	Total
2018				
Opening balance	0	3	3	5
Movements with an impact on results				
Amounts allocated	0	0	0	0
Amounts used	0	0	0	0
Unused amounts reversed	0	0	0	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other	0	0	0	0
Closing balance	0	2	3	6
2017				
Opening balance	0	3	8	10
Movements with an impact on results				
Amounts allocated	0	2	1	3
Amounts used	0	- 2	- 4	- 6
Unused amounts reversed	0	0	0	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other	0	0	- 2	- 2
Closing balance	0	3	3	5

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- Other provisions included those set aside for miscellaneous risks.

Note 5.8: Other liabilities

(in millions of EUR)	31-12-2018	31-12-2017
Total	655	688
Breakdown by type		
Retirement benefit obligations or other employee benefits	7	90
Deposits from reinsurers	79	70
Accrued charges (other than from interest expenses on financial liabilities)	57	58
Other	512	470

- For more information on retirement benefit obligations, see Note 5.9 (note that the amount recognised under 'Retirement benefit obligations or other employee benefits' in Note 5.8 relates to a broader scope than the amounts presented in Note 5.9).

Note 5.9: Retirement benefit obligations

(in millions of EUR)	31-12-2018	31-12-2017
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	208	202
Current service cost	9	9
Interest cost	2	3
Plan amendments	0	0
Actuarial gain or loss resulting from changes in demographic assumptions	0	0
Actuarial gain or loss resulting from changes in financial assumptions	- 2	- 3
Experience adjustments	4	2
Past-service cost	0	0
Benefits paid	- 5	- 5
Exchange differences	0	0
Curtailments	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	1
Other	- 6	- 1
Defined benefit obligations at the end of the period	210	208
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	163	141
Actual return on plan assets	- 10	17
<i>Expected return on plan assets</i>	2	2
Employer contributions	5	8
Plan participant contributions	0	0
Benefits paid	- 5	- 5
Exchange differences	0	0
Settlements	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	1
Other	- 1	1
Fair value of plan assets at the end of the period	151	163
of which financial instruments issued by the group	0	0
of which property occupied by KBC	1	1
Funded status		
Plan assets in excess of defined benefit obligations	- 59	- 45
Reimbursement rights	0	0
Asset ceiling limit	0	0
Unfunded accrued/prepaid pension cost	- 59	- 45
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 45	- 60
Amounts recognised in the income statement	- 10	- 10
Amounts recognised in other comprehensive income	- 9	16
Employer contributions	5	8
Exchange differences	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	0	2
Unfunded accrued/prepaid pension cost at the end of the period	- 59	- 45

(in millions of EUR)	31-12-2018	31-12-2017
DEFINED BENEFIT PLANS		
Amounts recognised in the income statement	10	10
Current service cost	9	9
Past-service cost	0	0
Interest cost	0	1
Plan participant contributions	0	0
Curtailments	0	0
Settlements	0	0
Changes in the scope of consolidation	0	0
Changes to the amounts recognised in other comprehensive income	9	- 16
Actuarial gain or loss resulting from changes in demographic assumptions	0	0
Actuarial gain or loss resulting from changes in financial assumptions	- 2	- 3
Actuarial result on plan assets	12	- 16
Experience adjustments	4	2
Adjustments to asset ceiling limits	0	0
Other	- 5	0
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	0	0

- The pension claims of the Belgian-based staff of the various KBC group companies are covered by pension funds and group insurance schemes. Retirement benefits that are actively accrued for the current workforce of KBC Bank, KBC Insurance and most of their Belgian subsidiaries are accrued exclusively through the KBC pension funds. Up until year-end 2018, employer-funded retirement benefits had accrued primarily through a defined benefit plan, where the benefit is calculated based on the final salary of employees before they retire, the number of years they had been in the plan and a formula that applies a progressive rate scale. A defined contribution plan was introduced on 1 January 2014 for all new employees and any employees who had chosen to switch to it. In this plan, a contribution is deposited based on the current monthly salary and the amounts deposited are paid out together with the (guaranteed) return on retirement. Both types of pension plan are managed by the OFP Pensioenfond KBC (merged with the former OFP Pensioenfond Senior Management), which uses the services of KBC Asset Management for the investment strategy. In addition, there are a number of smaller, closed group insurance schemes from the past that will continue to be funded, some of which were transferred to the pension fund in 2018.

Additional information on retirement benefit obligations (in millions of EUR)	2018	2017	2016	2015	2014
Changes in main headings in the main table					
Defined benefit obligations	210	208	202	150	166
Fair value of plan assets	151	163	141	115	111
Unfunded accrued/prepaid pension cost	- 59	- 45	- 60	- 34	- 55

Note 5.10: Parent shareholders' equity

Quantities	31-12-2018	31-12-2017
Ordinary shares	1 050 906	1 050 906
<i>of which ordinary shares that entitle the holder to a dividend payment</i>	<i>1 050 906</i>	<i>1 050 906</i>
<i>of which treasury shares</i>	<i>48 889</i>	<i>48 889</i>
Additional information		
Par value per share (in EUR)	62.00	62.00
Number of shares issued but not fully paid up	0	0

- The share capital of KBC Insurance NV consists of ordinary shares of no nominal value.

Note 5.11: Non-current assets held for sale and discontinued operations (IFRS 5)

No principal insurance companies fell under the scope of IFRS 5 in 2017 and 2018.

6.0 Other notes

Note 6.1: Off-balance-sheet commitments and financial guarantees given and received

(in millions of EUR)	31-12-2018 (IFRS 9)			31-12-2017 (IAS 39)		
	Nominal amount	Provision	Net exposure	Nominal amount	Provision	Net exposure
Undrawn portion of credit lines granted						
Stage 1	0	0	0	-	-	-
Stage 2	0	0	0	-	-	-
Stage 3 – non-performing	0	0	0	-	-	-
Total	0	0	0	0	0	0
of which irrevocable credit lines	0	0	0	0		
Financial guarantees given						
Stage 1	3	0	3	-	-	-
Stage 2	0	0	0	-	-	-
Stage 3 – non-performing	0	0	0	-	-	-
Total	3	0	3	1	0	1
Other commitments given						
Total	62	0	62	45	0	45
Off-balance-sheet commitments and financial guarantees	64	0	64	47	0	47

- Fair value of financial guarantees: based on the available market value.
- The carrying value of financial assets pledged by KBC as collateral came to 932 million euros for liabilities and 0 euros for contingent liabilities (1 256 million euros and 0 euros, respectively, in 2017).
- There is an obligation to return collateral received (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will organise the foreclosure itself or take possession of the collateral. Collateral received that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table). More details are provided in Note 4.3.

Collateral received (which may be sold or repledged in the absence of default by the owner) (in millions of EUR)	Fair value of collateral received		Fair value of collateral sold or repledged	
	31-12-2018	31-12-2017	31-12-2018	31-12-2017
Financial assets	1 106	0	0	0
Equity instruments	0	0	0	0
Debt securities	1 106	0	0	0
Loans and advances	0	0	0	0
Cash	0	0	0	0
Other	0	0	0	0
Property, plant and equipment	0	0	0	0
Investment property	0	0	0	0
Other	0	0	0	0

Note 6.2: Leasing

There are no significant cases in which KBC Insurance is the lessee or lessor.

Note 6.3: Related-party transactions

Transactions with related parties, excluding key management (in millions of EUR)	2018						2017					
	Parent entities with joint control	Subsidiaries and entities of the KBC-group	Associated companies	Joint ventures	Other	Total	Parent entities with joint control	Subsidiaries and entities of the KBC-group	Associated companies	Joint Ventures	Other	Total
Assets	4	622	14	46	2	687	0	675	32	48	7	762
Loans and advances	0	497	0	0	0	497	0	561	0	0	0	562
Equity instruments (including investments in associated companies and joint ventures)	0	50	14	46	2	112	0	85	32	47	7	172
Other	4	75	0	0	0	79	0	28	0	0	0	29
Liabilities	501	1 150	0	0	0	1 651	508	1 594	0	0	0	2 102
Deposits	0	1 034	0	0	0	1 034	0	1 450	0	0	0	1 450
Other financial liabilities	500	0	0	0	0	500	500	0	0	0	0	500
Other	0	116	0	0	0	117	8	145	0	0	0	152
Income statement	- 107	28	0	-5	0	- 84	- 111	- 94	0	- 4	1	- 208
Net interest income	- 8	146	0	0	0	138	- 8	75	0	0	0	66
Interest income	0	154	0	0	0	154	0	76	0	0	0	76
Interest expense	- 8	- 8	0	0	0	- 16	- 8	- 1	0	0	0	- 10
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0
Technical insurance charges (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0
Dividend income	0	2	0	0	0	2	0	2	0	0	1	3
Net fee and commission income	0	- 122	0	- 5	0	- 127	0	- 152	0	- 4	0	- 156
Fee and commission income	0	50	0	0	0	50	0	1	0	0	0	1
Fee and commission expense	0	- 172	0	- 5	0	- 177	0	- 153	0	- 4	0	- 157
Other net income	2	34	0	0	0	36	3	5	0	0	0	9
General administrative expenses	- 101	- 32	0	0	0	- 133	- 106	- 24	0	0	0	- 130
Undrawn portion of loan commitments, financial guarantees and other commitments												
Given by the group	0	0	0	0	0	0	0	0	0	0	0	0
Received by the group	0	0	0	0	0	0	0	0	0	0	0	0

Transactions with key management (members of the Board of Directors and Executive Committee of KBC Insurance NV) (in millions of EUR)*	2018	2017
Total*	0,4	0,4
Breakdown by type of remuneration		
Short-term employee benefits	0,4	0,4
Post-employment benefits	0,0	0,0
Defined benefit plans	0,0	0,0
Defined contribution plans	0,0	0,0
Other long-term employee benefits	0,0	0,0
Termination benefits	0,0	0,0
Share-based payments	0,0	0,0
Stock options (units)		
At the beginning of the period	0,0	0,0
Granted	0,0	0,0
Exercised	0,0	0,0
Composition-related changes	0,0	0,0
At the end of the period	0,0	0,0
Advances and loans granted to key management and partners	0,0	0,0

* Remuneration to key management or partners of the consolidating company on the basis of their activity in that company, its subsidiaries and associated companies, including the amount of retirement pensions granted to former key management staff on that basis.

- The 'Subsidiaries and other entities from the same group' heading in the first table includes transactions with unconsolidated subsidiaries (transactions with consolidated subsidiaries have already been eliminated from the consolidated financial statements) and transactions with KBC Group sister companies (primarily KBC Bank NV).
- All related-party transactions occur at arm's length.
- Key management comprises the members of the Board of Directors and Executive Committee of KBC Insurance.
- There were no significant impairment charges vis-à-vis related parties.

Note 6.4: Statutory auditor's remuneration

Statutory auditor's remuneration In millions of EUR	31-12-2018	31-12-2017
Standard audit services	1 129 366	1 092 891
<i>of which KBC Insurance NV</i>	<i>534 532</i>	<i>529 240</i>
Other services	131 500	128 994
<i>of which KBC Insurance NV</i>	<i>10 000</i>	<i>20 309</i>
Other certifications	99 501	120 309
Tax advice	0	8 290
Other non-audit assignments	31 999	395

Note 6.5: Subsidiaries, joint ventures and associated companies at year-end 2018

KBC Insurance Group: complete list of companies included in or excluded from the scope of consolidation, situation as at 31-12-2018				
Company	Registered office	Company number	Consolidation percentage	Activity
KBC Insurance: subsidiaries that are fully consolidated				
KBC Verzekeringen NV	Leuven - BE	0403.552.563	100	insurance company
ADD NV	Heverlee - BE	0406.080.305	100	insurance broker
KBC Group Re SA	Luxembourg - LU	--	100	reinsurance company
ČSOB Pojišťovna a.s.	Pardubice - CZ	--	99,76	insurance company
ČSOB Poist'ovňa a.s.	Bratislava - SK	--	100	insurance company
Double U Building BV	Rotterdam - NL	--	100	real estate
DZI Life Insurance Jsc	Sofia - BG	--	100	life insurance
DZI - GENERAL INSURANCE JSC	Sofia - BG	--	100	non-life insurance
Groep VAB NV	Zwijndrecht - BE	0456.920.676	95	holding company
VAB NV	Zwijndrecht - BE	0436.267.594	95	roadside assistance
VAB Rijsschool NV	Sint-Niklaas - BE	0448.109.811	95	driving school
K&H Biztosító Zrt	Budapest - HU	--	100	insurance company
KBC Verzekeringen Vastgoed Nederland 1 BV	Rotterdam - NL	--	100	real estate
KBC Insurance: subsidiaries that are not fully consolidated (1)				
Algemene Maatschappij voor Risicobeheer NV	Merelbeke - BE	0420.104.030	100	insurance broker
ČSOB Pojišťovací servis, s. r. o.	Pardubice - CZ	--	100	insurance broker
Depannage 2000 NV	Hoboken - BE	0403.992.429	95	vehicles
KBC Zakenkantoor NV	Leuven - BE	0462.315.361	100	insurance broker
Maatschappij voor Brandherv verzekering cvba	Leuven - BE	0403.552.761	90	reinsurance
Omnia NV	Leuven - BE	0413.646.305	100	travel agency
Pardubická Rozvojová, a.s.	Pardubice - CZ	--	100	real estate
Probemo Dubbele Bedieningen NV	Sint-Niklaas - BE	0435.357.180	95	driving school
Rijsscholen Sanderus NV	Mechelen - BE	0413.004.719	95	driving school
Sportcomplex Aalst NV	Brussels - BE	0506.736.215	100	real estate
Sportcomplex Heist-op-den-Berg NV	Brussels - BE	0841.432.438	100	real estate
VAB Banden Peeters NV	Overijse - BE	0459.070.118	80,81	vehicles
Lubaco BVBA	Ranst - BE	0426.985.189	80,81	vehicles
VAB Fleet Services NV	Zwijndrecht - BE	0866.583.053	66,50	vehicles
24+ NV	Zwijndrecht - BE	0895.810.836	47,50	customer care center
KBC Insurance: joint ventures accounted for using the equity method				
NLB Vita d.d.	Ljubljana - SI	--	50	life insurance
KBC Insurance: joint ventures not accounted for using the equity method (1)				
Macadam VAB Inspection NV	Vilvoorde - BE	0836.746.447	33,25	vehicles
KBC Insurance: companies accounted for using the equity method				
KBC Asset Management SA	Luxembourg - LU	--	10,71	asset management
KBC Insurance: companies not accounted for using the equity method (1)				
AIA-Pool cvba	Brussels - BE	0453.634.752	33,47	insurance broker
AssurCard NV	Leuven - BE	0475.433.127	20,00	computerised third-party payment system
Olympus Mobility NV	Brussels - BE	0638.809.930	49,76	computer programming activities
Optimobil Belgium NV	Brussels - BE	0471.868.277	24,06	vehicles
Traject NV	Gent - BE	0448.394.475	47,50	mobility

- Companies eligible for consolidation are effectively included in the consolidated accounts if two of the following criteria are met:
 - (i) the group share in equity exceeds 2.5 million euros;
 - (ii) the group share in the results exceeds 1 million euros;
 - (iii) the balance sheet total exceeds 100 million euros.

The combined balance sheet total of the companies excluded from consolidation may not amount to more than 1% of the consolidated balance sheet total.

- Interests in unconsolidated structured entities
 - *Sponsored unconsolidated structured entities are defined as structured entities where KBC or one of its subsidiaries acts as arranger of the issuance programme, but where the decision-making power of the entities does not reside with KBC or one of its subsidiaries. As a result, these entities are not consolidated.*
 - At year-end 2018, KBC Insurance had received income from unconsolidated structured entities in the form of management fees (38 million euros).
 - At year-end 2018, KBC Insurance held 5.2 billion euros' worth of notes issued by the unconsolidated structured entities.
 - Any potential decrease in the value of the notes is passed on to the end-client, which means it will have no impact on KBC.

Note 6.6: Main changes in the scope of consolidation

Company	Consolidation method	Ownership percentage at group level		Remarks
		31-12-2018	31-12-2017	
Additions				
None				
Exclusions				
None				
Changes in ownership percentage and internal mergers				
UBB Zhivotozastrahovane EAD (previous)	From Equity Method to Full	100,00%	59,95%	Acquisition of remaining 40% and shift of existing stake from UBB to DZI in 1Q 2018 and name change; merge with DZI Life Insurance Jsc in 4Q 2018
Kredietcorp SA	Full	100,00%	-	Shift of stake from KBC Groep NV to KBC Group Re in 3Q 2018. Merged with KBC Group Re SA in 4Q 2018

Note 6.7: Risk management and capital adequacy

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

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

ICAAP (Internal Capital Adequacy Assessment Process) consists of numerous business and risk processes that together contribute to the aim of being adequately capitalised at all times in view of our risk profile and the quality of our risk management and control environment. In addition to the integrated approach at group level, KBC Insurance and its insurance and reinsurance subsidiaries have conducted an Own Risk and Solvency Assessment (ORSA) on a regular basis, in accordance with Solvency II requirements.

We report the solvency of the insurance company based on IFRS data and according to the rules imposed by the regulator. The solvency of KBC Insurance is calculated on the basis of Solvency II (the regulatory minimum requirement is 100%). At year-end 2018, the Solvency II ratio came to 217%, which represented a capital buffer of 1 939 million euros relative to the minimum requirement of 100%.

Key solvency figures for KBC Insurance

(in millions of EUR)	31-12-2018	31-12-2017
Total regulatory capital, after profit appropriation	3 590	3 865
Tier-1 capital	3 090	3 365
<i>Common equity</i>		
Parent shareholders' equity	2 728	3 051
Solvency adjustments	362	314
Additional going concern capital		
Tier-2 capital	500	500
Solvency capital requirement (insurance)	1 651	1 823
Solvency II ratio (insurance)	217%	212%

More detailed information is provided in the 'Risk management and capital adequacy' section.

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

Note 6.8: Post-balance-sheet events

The most significant non-adjusting events between balance sheet date and the date on which the financial statements were approved for publication by the Board of Directors (14 March 2019):

- None.

Note 6.9: General information on the company

- Name: KBC Insurance NV.
- Incorporated: 24 October 1922.
- Country of incorporation: Belgium.
- Registered office: Professor Van Overstraetenplein 2, 3000 Leuven, Belgium
- VAT: BE 0403.552.563.
- RLP: Leuven.
- Legal form: *naamloze vennootschap* (company with limited liability) under Belgian law; the company is an insurance company that is subject to the prudential supervision of the National Bank of Belgium.
- Life: undefined.
- Object: the company has as object the transaction of all insurance, co-insurance, reinsurance and capitalisation business and the management of group pension funds (Article 2 of the Articles of Association).
- Documents open to public inspection: The Articles of Association of the company are open to public inspection at the Registry of the Leuven Commercial Court. The financial statements are filed with the National Bank of Belgium. Decisions on the appointment and the termination of the offices of members of the Executive Committee and of the Board of Directors are published in the Appendices to the Belgian Official Gazette. Copies of the company's annual reports are available at its registered office. They are sent annually to the holders of registered shares and to those who have requested a copy.
- General meeting of shareholders A General Meeting is held every year at the company's registered office or at any other place indicated in the convening notice, at 2 p.m. on the Wednesday immediately prior to the last Thursday of April, or, if this day is a statutory public holiday or bank holiday, at 2 p.m. on the business day immediately before it.

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

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

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

Statutory auditor's report



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STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING OF THE COMPANY KBC VERZEKERINGEN NV ON THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2018

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

We have been appointed as statutory auditor by the general meeting of 27 April 2016, following the proposal formulated by the board of directors and following the recommendation by the audit committee and the proposal formulated by the workers' council. Our mandate will expire on the date of the general meeting which will deliberate on the annual accounts for the year ended 31 December 2018. We have performed the statutory audit of the consolidated accounts of KBC Verzekeringen NV for 3 consecutive years.

Report on the consolidated accounts

Unqualified opinion

We have performed the statutory audit of the Group's consolidated accounts, which comprise the consolidated balance sheet as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cashflow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information, and which is characterised by a consolidated balance sheet total of EUR 36.586 million and a profit for the year (share of the Group) of EUR 469 million.

In our opinion, the consolidated accounts give a true and fair view of the Group's net equity and consolidated financial position as at 31 December 2018, and of its consolidated income and its consolidated cashflows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Belgium. Furthermore, we have applied the International Standards on Auditing (ISAs) as approved by the IAASB for the years ending as from 31 December 2018, which are not yet approved at the national level. Our responsibilities under those standards are further described in the "Statutory auditor's responsibilities for the audit of the consolidated accounts" section of our report. We have fulfilled our ethical responsibilities in accordance with the ethical requirements that are relevant to our audit of the consolidated accounts in Belgium, including the requirements related to independence.

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

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

Key audit matters

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

Estimation uncertainty with respect to technical insurance provisions

Description of the Key Audit Matter

At year-end 31 December 2018 the technical insurance provisions (before reinsurance) amount to EUR 18,388 million. For detailed information regarding the valuation of the technical insurance provisions, please refer to disclosure Note 1.2. of the Summary of significant accounting policies on technical provisions and Note 5.6 to the consolidated accounts, as well as to the Technical insurance risk section of the Annual Report.

A liability adequacy test is performed by the Group in order to confirm that the technical insurance provisions are sufficient to cover the estimated future cashflows of the insurance contracts. The calculation of the cashflows arising from insurance contracts is complex, highly judgmental and is based on assumptions which are affected by future economic and political conditions and is also affected by government regulations. The assumptions used for the life insurance business relate to risks regarding mortality, longevity, lapse and expense and other assumptions used in the liability adequacy test. The assumptions used for non-life insurance liabilities mainly relate to the amount of the claim, the number of incurred but not yet reported claims and general expenses. The assumptions and uncertainties also apply for the reinsured part.

Our audit approach regarding the Key Audit Matter

We used our internal actuarial specialists to assist us in performing our audit procedures. We performed tests on the design and operating effectiveness of the Group's controls to ascertain that the data used in the valuation of the technical provisions arising from insurance contracts are adequate and complete. These procedures include data analysis based on business rules and follow-up procedures on exceptions.

We performed testing of the Group's procedures regarding the determination of the assumptions, testing of the assumptions based on market observable data and actuarial analysis through backtesting of the assumptions used. We discussed the outcome of the actuarial analysis with the internal actuaries and the actuarial function holder. Our procedures have allowed us to assess the valuation and the setting of the technical insurance provisions.



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Finally, we assessed the completeness and accuracy of the disclosures regarding technical insurance provisions to assess compliance with disclosure requirements included in the International Financial Reporting Standards as adopted by the European Union.

Estimation uncertainty with respect to financial instruments measured at fair value

Description of the Key Audit Matter

Details regarding the financial instruments measured at fair value at year-end 31 December 2018 are included in Note 4.5 to the consolidated accounts. For information regarding the determination of fair value please refer to Note 1.2. of the Summary of significant accounting policies on IFRS 9 and Note 4.4 to the consolidated accounts.

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

The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. An overview of the main valuation techniques used is disclosed in Notes 4.4 and 4.5 to the consolidated accounts. Furthermore, market value adjustments are recognized on certain positions that are measured at fair value with fair value changes reported in profit or loss or in equity. These adjustments are determined by the current market conditions, the evolution in credit risk parameters, the interest rate environment and cost of funding, all impacting the fair value measurements of the Group's portfolio measured at fair value. The main market value adjustments applied are disclosed in Note 1.2 to the consolidated accounts. As the use of different assumptions could produce different estimates of fair value, we consider this as a key audit matter.

Our audit approach regarding the Key Audit Matter

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

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



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

Responsibilities of the board of directors for the preparation of the consolidated accounts

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

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

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

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

In performing our audit, we comply with the legal, regulatory and normative framework applicable to the audit of the consolidated accounts in Belgium.

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

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



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

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

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

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Responsibilities of the board of directors

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

Statutory auditor's responsibilities

In the context of our mandate and in accordance with the Belgian standard (Revised in 2018) which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, the directors' report on the consolidated accounts and to report on these matters.



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Aspects related to the directors' report on the consolidated accounts

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

In the context of our audit of the consolidated accounts, we are also responsible for considering, in particular based on the knowledge acquired resulting from the audit, whether the directors' report is materially misstated or contains information which is inadequately disclosed or otherwise misleading. In light of the procedures we have performed, there are no material misstatements we have to report to you.

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

Statement related to independence

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

Other statements

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

Sint-Stevens-Woluwe, 19 March 2019

The statutory auditor
PwC Bedrijfsrevisoren cvba
represented by



Yves Vandenplas
Accredited auditor



Tom Meuleman
Accredited auditor

Company annual accounts

Additional information

Ratios used

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	2018	2017
Net technical insurance charges, including the internal cost of settling claims (A)	Note 3.7	878	813
/			
Net earned insurance premiums (B)	Note 3.7	1 553	1 465
+			
Operating expenses (C)	Note 3.7	505	482
/			
Net written insurance premiums (D)	Note 3.7	1 597	1 493
= (A/B)+(C/D)		88%	88%

Solvency ratio

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

Calculation	2018	2017
Detailed calculation in the 'Risk management and capital adequacy' section	217%	212%

Management certification

'I, Rik Scheerlinck, Chief Financial Officer of KBC Insurance, certify on behalf of the Executive Committee of KBC Insurance NV that, to the best of my knowledge, the financial statements, which are based on the relevant standards for annual accounts, fairly present in all material respects the assets, the financial condition and results of KBC Insurance NV and its consolidated subsidiaries, and that the annual report provides a fair overview of the development, results and the situation of KBC Insurance NV and its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed.'