KBC INSURANCE

Annual report
of the Board of Directors
for financial year 2019 to the General
Meeting of 29 April 2020

To the reader

Company name

'KBC', 'the group', 'we' or 'KBC Insurance as used in this annual report refer (unless otherwise indicated) to the consolidated insurance entity, i.e. KBC Insurance NV including all group companies included in the scope of consolidation. 'KBC Insurance NV' refers solely to the non-consolidated entity. The 'Company annual accounts' section deals only with 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 has 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. A number of KBC Insurance NV's debt instruments are exchange-listed. 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 mid-March 2020. By their nature, forward-looking statements involve uncertainty. Various factors, in particular the recent corona crisis, could cause actual results and developments to differ from the initial statements. As far as the macroeconomic outlook is concerned, our baseline scenario – when it comes to Brexit – rests on the assumption of difficult trade negotiations between the EU and the UK in 2020, leading in turn to uncertainty for the British and European economies.

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.

Articles 3:6 and 3:32 of the Belgian Companies and Associations Code (CAC)

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. KBC Insurance has combined the reports for the company and consolidated financial statements. The Risk 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 3:6 §4 and 3:32 §2 of the CAC, 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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Ratios used

A list of the most important ratios and terms used in this document (including the alternative performance measures) can be found at the back of this report.

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Table of contents

Report of the Board of Directors

Consolidated financial statements

Company annual accounts

Additional information

Report of the Board of Directors

Dear reader,

2019 turned out to be a year of challenges for KBC. We had to come up with solutions to deal with far-reaching regulations, new financial players, rapid digitalisation, persistently low interest rates and external factors like Brexit, without being distracted from our main task of helping our clients achieve their dreams and meeting the needs of society. At the same time, further important steps were taken on the sustainability and environment fronts, which you can read about throughout this report.

And then we were confronted with the outbreak and spread of coronavirus, which quickly made society's priorities very clear. As an employer and service provider, KBC is doing everything in its power to safeguard the health of its staff and clients, while ensuring that services continue to be provided as usual. We are doing our bit to limit the spread of the virus by allowing as many staff as possible to work from home and by providing clients with advice through a wide range of phone and digital channels. Meanwhile, it is clear that the coronavirus crisis is also having an enormous impact on the economy. At present, we are currently working with the government and other stakeholders to see how we can help deal with the matter at hand. Because, regardless of how the situation pans out, we will continue assuming our responsibility towards society.

Johan Thijs
Chief Executive Officer

Thomas Leysen
Chairman of the Board of Directors

Brief presentation of KBC Insurance (year-end 2019)

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 Pojišt'ovna 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)	4.9 million
Number of staff (2019 average in FTEs)	3 996
Insurance network	355 agencies in Belgium various distribution channels in Central and Eastern Europe

Our long-term credit ratings (29-11-2019)

	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

Business model and strategy

Our business model

The strategy, business model and management structure of KBC Insurance 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 2019.

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 the best guarantee for the creation of long-term value for all these stakeholders.

As a banker, 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 our expertise to assist them. We use the money from the deposits our clients entrust to us to provide loans to individuals, businesses and public authorities. 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.

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.

The role we play, especially as a deposit-taker, a lender and an insurer 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. In the process, we also pay close attention to areas such as cyber risk, anti-corruption measures and climate change risks.

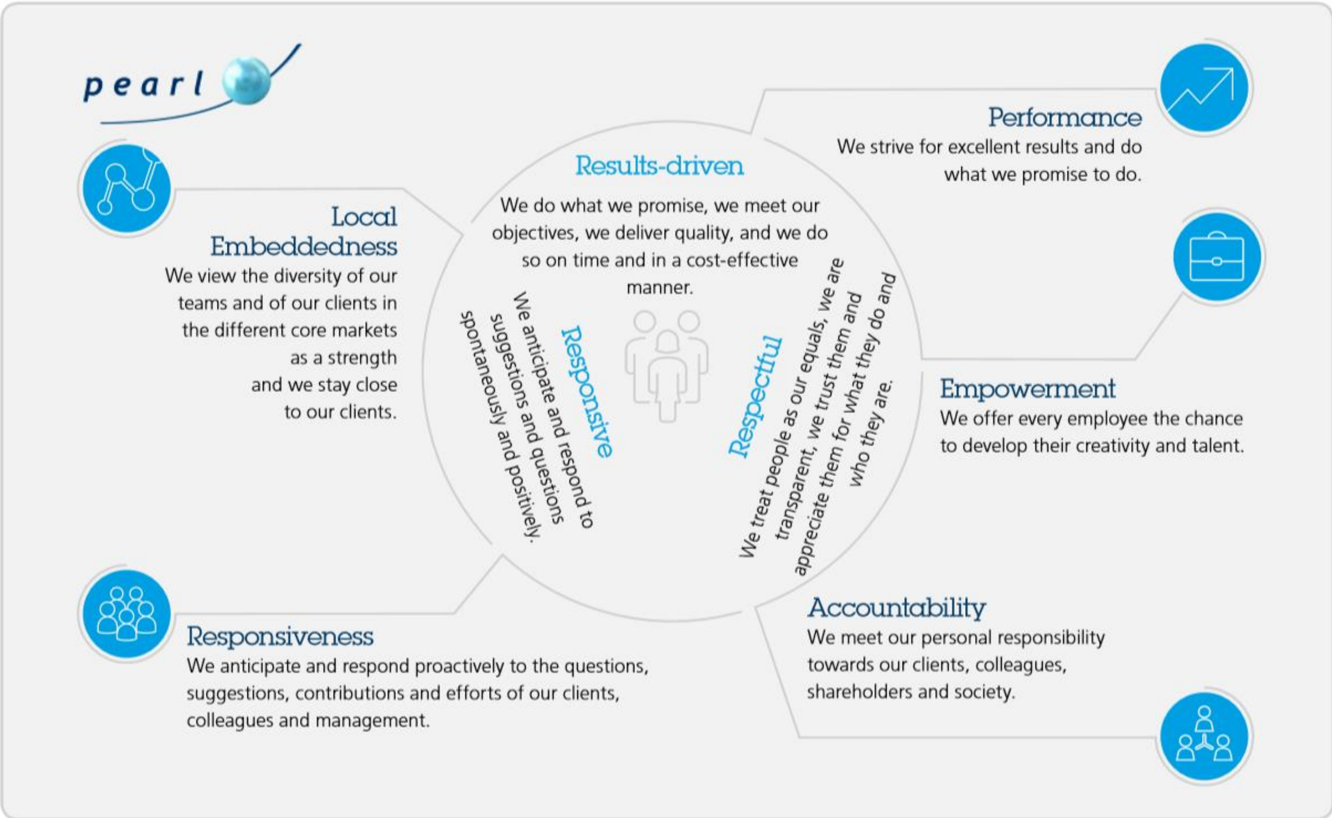
At the same time, we have made a conscious choice to enhance our positive impact on society – where possible – by focusing on areas where we can make a difference as a bank-insurer. The areas in question include financial education, environmental awareness, entrepreneurship and the issue of demographic 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's more, as a major player in each of our core countries, we form part of the local economic and social fabric. We make an important contribution to employment in all our core markets and, as such, recognise that we have a significant direct impact on the lives of our staff. We encourage responsible behaviour on the part of our employees and offer them a fair reward for their work, thereby contributing to the welfare of the countries in which we operate.

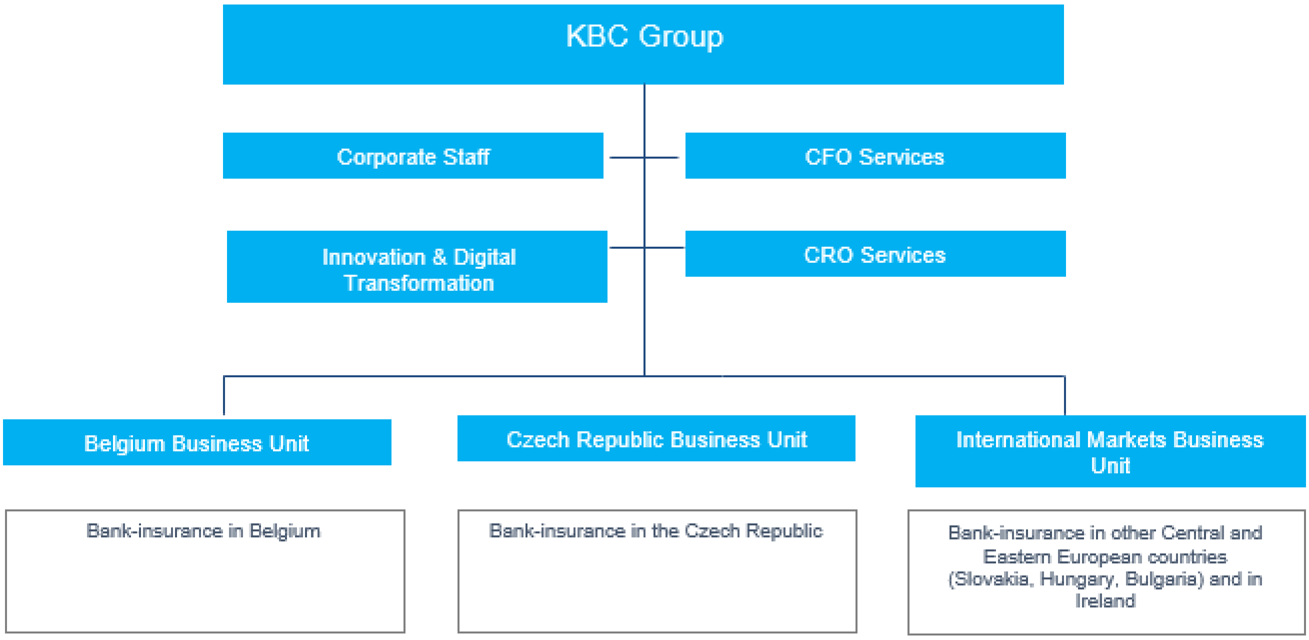
What makes us who we are? (KBC Group)

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 2019. These shareholders act in concert, thereby ensuring shareholder stability in our group.

Our strengths

A well-developed and unique omnichannel bank-insurance and innovative digital strategy, which enables us to respond immediately to our clients' needs	Strong commercial banking and insurance franchises in all our business units	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 and geopolitical and climate-related challenges	Stricter regulation in areas like client protection, solvency and the environment	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 influence our results. Persistently low interest rates have become an important factor in recent years, exerting significant pressure on income and prompting a search for yield. Demographic ageing is also a challenge, for our life insurance business, for instance. There is a risk, moreover, of corrections in markets where an imbalance may have built up. Geopolitical developments could also have significant implications for the economy and hence our results. The same goes for global health risks, 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.
- ✓ The environment and climate change form an important part of our sustainability strategy.
- ✓ We take proactive measures. Examples include adjusting our offering to take account of demographic ageing (such as insurance policies relating to health care) and of demand for sustainable products like Green Bonds and sustainable pension saving.
- ✓ We calculate the potential impact of changes in key parameters and estimate the impact of material events as effectively as possible.
- ✓ We aim to diversify our income sources further to include more fee business, for example, alongside interest income.

Shifting client behaviour and competition

We face strong competition, technological changes and shifting client behaviour. Besides the traditional players, there is intensifying competition from online banks, fintechs, bigtechs and e-commerce in general. This potentially means pressure on cross-sell opportunities and is influencing client expectations, including speed and digital interaction. All this is increasing the significance of digitalisation and innovation within our group 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/diversity of our employees is exceptionally important when it comes to equipping ourselves to deal with competition and technological change.
- ✓ 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 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 'Our business units' section).
- ✓ Where possible, applications are copied across the group's different home markets. We are also open to partnerships with fintech firms or even sector peers.
- ✓ In addition to innovation and digitalisation, we are working hard to simplify products and processes.

Regulation

Increasing regulation is an issue for the financial sector as a whole. In addition to legislation already in force, such as GDPR, MiFID II, MiFIR and PSD2, it includes the following in the years ahead:

- The further implementation of the Benchmark Regulation, which entails a thorough reform of the interest-rate benchmarks used for market transactions, credit contracts, accounts and securities issues.
- The reform of the European Market Infrastructure Regulation (EMIR), which will have an operational impact on our group-wide derivatives trading activities.
- EU measures to mobilise financial resources for sustainable growth (including a duty to report on environmental, social and governance factors).
- The draft Regulation on privacy and electronic communication, which is expected in 2020–21 and which will include tighter rules for the use of electronic communication data.
- Enshrining EU procurement guidelines (EBA, EAVB) in national law.
- Amendments to the Bank Recovery and Resolution Directive (BRRD2) and the Capital Requirements Regulation (CRR2) and Capital Requirements Directive (CRD5), as well as the ongoing implementation of the Basel IV legislation at both EU and national level.
- New IFRS, including IFRS 17, which applies to insurance activities and will become effective in a few years' time.

How are we addressing them?

- ✓ We are making thorough preparations for the new regulations. Specialised teams keep close track of the rules and propose the necessary responses in terms of the group's capital planning, for instance.
- ✓ We study the impact of regulations 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 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.
- ✓ 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 2019 (KBC Group)

Belgium

Market environment

- The Belgian economy maintained a path of steady but moderate expansion, with real GDP growth of 1.4%.
- Belgian growth was still favourable overall, but supported exclusively by domestic demand.
- Inflation stood at 1.2%, down substantially on its 2018 level.
- Forecast real GDP growth* in 2020 of -9.5% and in 2021 of +12.3%

KBC Group in Belgium

- Main brands: KBC, KBC Brussels and CBC 355 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 clients)
- 29.4 billion euros in technical provisions and liabilities under investment contracts

Czech Republic

Market environment

- Real GDP growth eased to 2.4%.
- Consumer spending was supported by wage increases and job creation, but less so than in previous years.
- Inflation averaged 2.6% in 2019.
- Forecast real GDP growth* in 2020 of -10% and in 2021 of +4%

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
- 4.2 million clients (insurance alone: 1.6 million clients)
- 1.7 billion euros in technical provisions and liabilities under investment contracts

Slovakia

Market environment

- Real GDP growth eased to 2.3%.
- The cooling down of industry and a slowdown in German growth had a clearly negative impact on the Slovakian economy.
- Slovakian inflation rose further to 2.8%.
- Forecast real GDP growth* in 2020 of -10% and in 2021 of +5%

KBC Group in Slovakia

- Main brand: ČSOB
- Various distribution channels for insurance, electronic channels
- Estimated 3% share of the market for life insurance and 4% for non-life insurance
- 0.6 million clients (insurance alone: 0.4 million clients)
- 0.3 billion euros in technical provisions and liabilities under investment contracts

The world economy

The worldwide slowdown in growth that began in 2018 continued in 2019. US protectionism triggered escalating trade disputes and put a damper on global economic sentiment. The drawn-out Brexit negotiations weighed similarly on economic growth in Europe. On the other hand, domestic consumer spending continued to contribute substantially to growth in most regions, thanks primarily to strong labour markets with robust job creation and pay growth and healthy consumer confidence.

Euro area inflation fell again in 2019, due in particular to volatile components like the oil price. Underlying inflation remained broadly constant at a low level. Combined with deteriorating economic performance in the euro area and increasing risks, the ECB revived its policy of quantitative easing in November 2019. The deposit rate was also cut further to -0.50%. Interest rates – especially at the longer end – and rate spreads within the EMU remained very low as a result. The above risks and uncertainties also prompted investors to seek refuge in ‘safe haven’ debt securities. Consequently, the yield on ten-year German and US government paper recorded a historical low at the end of the summer of 2019.

The European economy then staged a gradual general recovery, making the outlook for 2020 somewhat brighter. Unfortunately, the outbreak and global spread of the coronavirus changed this outlook. It is now generally expected that the world economy will grow at a significantly slower pace in 2020 and that the recovery will start in the second half of the year at the earliest. As an open economy, Europe is quite vulnerable to the direct and indirect economic consequences of the corona crisis. The policy response to this crisis has been robust. However, the extent to which the measures involved will counteract the slowdown is still largely uncertain.

US economic growth also slowed down in 2019, but remained surprisingly stable in the second half of the year. The positive impact of government stimulation measures and a tax reform in 2017 petered out. What’s more, trade conflicts and the deteriorating economic climate put a brake on US activity. The Federal Reserve responded by relaxing its monetary policy once again, cutting its key rate by 25 basis points three times. The unwinding of its balance sheet was also halted earlier than planned. Fearing the economic consequences of the corona crisis, the Fed surprisingly cut rates again, the first time by 50 basis points in early March 2020 and then by 100 basis points in mid-March 2020. The Fed hopes that, by making this move, it will limit the impact of the corona crisis on the US economy. In the meantime, budgetary stimulus measures are being taken in the US to supplement the more flexible monetary policy there. The Chinese economy was hit hard by the US-Sino trade war, but will take a much bigger bruising from the coronavirus crisis and the drastic measures implemented by the Chinese government to fight the virus. The additional stimulus provided by China's government and central bank will soften the downturn only to a limited extent. The gradual recovery of the Chinese economy will support a vigorous economic recovery in Europe, though the continuing slowdown of growth in the US is bad news for Europe's economy too. At present, the European economy can count on some support from lower oil prices caused by the recent oil price war between Saudi Arabia and Russia.

Our forecasts are based on the assumption that the coronavirus and the measures taken to limit its spread will have a significant – but temporary – negative economic impact. Under current assumptions, the European economy will contract in the first and second quarters of 2020 before gradually recovering in the second half of the year. The corona crisis will continue to adversely affect the US economy in the third quarter, as well. The long-term outlook for both economies remains unchanged and points to a period of modest growth.

Hungary

Market environment

- Real GDP growth remained strong at 4.9%.
- This robust economic performance was the result of a combination of factors, especially the strong monetary stimulus, the absorption of EU funds and fiscal stimuli.
- Inflation rose further to 3.4%, at the upper end of the band of one percentage point either side of 3%, which the Hungarian National Bank has set as its target.
- Forecast real GDP growth* in 2020 of -9% and in 2021 of +4%

KBC in Hungary

- Main brand: K&H
- Various distribution channels for insurance, electronic channels
- Estimated 3% share of the market for life insurance and 8% for non-life insurance
- 1.6 million clients (bank alone: 1.1 million clients)
- 0.5 billion euros in technical provisions and liabilities under investment contracts

Bulgaria

Market environment

- Bulgarian real GDP growth remained relatively stable at 3.4% despite a number of challenges for the country, including the economic situation in Turkey.
- The average annual increase in Bulgarian consumer prices amounted to 2.4%, due in part to strong wage growth caused by the increasingly tight labour market.
- Forecast real GDP growth* in 2020 of -10% and in 2021 of +5%

KBC in Bulgaria

- Main brands: UBB and DZI Insurance.
- Various distribution channels for insurance, electronic channels
- Estimated 23% share of the market for life insurance and 10% for non-life insurance
- 1.3 million clients (bank alone: 1 million clients)
- 0.3 billion euros in technical provisions and liabilities under investment contracts

* Factoring in the impact of the coronavirus crisis (27 March 2020). Economic forecasts are more than ever subject to considerable uncertainty. We recognise that and take account of different potential scenarios – some more optimistic and others more pessimistic – depending on how the Covid-19 virus could continue to spread and what the policy responses to it would be. Our most recent base case scenario is based on a longer period of lockdown and more quarantine-related measures being taken in all European countries. This will lead to a very deep economic downturn in the first half of 2020. However, policy measures will underpin the economic recovery at the same time and, therefore, we expect this recovery to be equally as vigorous, starting in the second half of 2020 and continuing in 2021. On an annual basis, this will be reflected in sharp negative GDP growth for 2020, followed by sharp positive growth for 2021. As regards our home markets, we expect the smoothest recovery to be in Belgium thanks to robust automatic stabilisers and intensive ad hoc measures taken by the government.

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 branches, agencies and electronic networks, and our ICT infrastructure.

Our employees

Our HR policy features individual focuses in each country, so that we can respond in an optimum way to the local labour market. Our values group-wide, however, are the same and are founded on our PEARL business culture. 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 and to deploy it towards accomplishing our business strategy. Not only by learning, but also by communicating ideas and taking responsibility. We actively stimulate the PEARL culture amongst our employees. Team Blue' is KBC's way of uniting employees from different countries, to make them proud of their team and their company and enable them to draw on each other's experience and engage in 'smart copying'. We also promote this collective awareness in a light-hearted way, including our 'Team Blue Challenges', in which the group CEO sets the company a task to complete. Between 20 May and 18 October, for instance, KBC staff were challenged to set up as many initiatives as possible that would have a positive impact on climate and the environment. In return, KBC planted a tree for every employee who took part. A total of almost 29 000 trees were planted across the various core countries in which KBC operates.

Our staff are working together increasingly within multidisciplinary teams. Projects are approached in an agile manner and deliver results in a series of short throughput cycles. This translates into more rapid innovations for our clients. It also encourages our staff to think creatively and to take on new roles, which in turn opens up the prospect of a richer career path aligned with each person's individual talents. We are well aware that this resilience on the part of our employees also enables us to anticipate our client's wishes and respond proactively to increasing digitalisation.

In May 2019, we began optimising our group-wide governance model on a large scale, aimed at further improving our operational efficiency. This exercise is designed to help our organisation become more agile, with fewer management layers and a more rapid decision-making process, so that client solutions can be delivered faster and our employees become more involved. This optimisation exercise will affect some of our employees. The changes are being implemented in Belgium between September 2019 and the end of 2022, during which period they will result in a reduction in the workforce of approximately 1 400 (including 300 positions that will be transferred to KBC's internal Shared Service Centres in the Czech Republic and Bulgaria). In addition, the contracts of 400 external contracted workers will be terminated. This reduction in FTEs will be fully absorbed through natural attrition. At ČSOB in the Czech Republic, we expect workforce downsizing to continue over the next three years at a rate of at least 250 employees a year. We aim to keep compulsory redundancies in the Czech Republic to a minimum thanks to normal staff turnover and measures to promote the internal redeployment of staff. In the other core countries, operational efficiency exercises have already been performed in recent years or are still ongoing.

We realise that good managers are key when it comes to bringing out the best in our employees and implementing our strategy successfully.

To enable them to pursue a common vision, senior managers from across the group take part in the 'KBC University', an ambitious development programme with different speakers and modules focusing on bank-insurance, leadership, client-centricity and digitalisation. At the same time, we are 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. The theme of gender will be given special attention in this.

We invest in the training of all managers through leadership programmes that are regularly tested against developments within our company and society. There is an increased focus, for instance, on coaching and progression management.

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 to acquire new skills. New digital skills certainly form a challenge in that respect.

At the Shared Services Centre in the Czech Republic, for instance, this new learning culture has been given tangible shape in 2019 through 'Unlock your potential' events with a strong focus on new trends and digital skills. Client advisers at the branches in Belgium are being trained via apps with continuous learning information aligned to their expertise. Due to the significant increase in the number of cashless branches at K&H in Hungary, the focus there was on reskilling employees who previously acted as cashiers.

It remains our firm ambition to make our organisation and staff as future-proof as possible. To that end, we will continue to invest heavily in the training and skills of our employees. In Belgium, for instance, we are currently setting up an AI-controlled learning and talent platform, which will enable employees to take stock of their current functional and digital skills and to compare them with future needs. This will allow them to take the necessary steps and to follow relevant training in good time to hone their future-proof skills. We seek by means of life-long learning, retraining and internal redeployment to maintain the employability of staff members, including those whose job no longer exists.

We are also committed to keeping our employees active for longer where jobs are being run down and people expected to work until a later age. In Belgium, for instance, we have run an innovative late-career policy (Minerva) for several years now, in which employees can spend the final years of their career working at an external, socially relevant organisation. An initiative was also launched at sector level in 2019 (Talent Mobility) to retrain people from the financial sector and guide them into new employment in another sector.

We take the well-being of our employees very seriously. 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. KBC runs a comprehensive well-being programme in Belgium, with a focus on exercise, healthy eating, mental health and a positive working atmosphere. Attention is paid preventively to stress and burn-out through initiatives such as presentations, training and interactive sessions with managers.

We keep close track of our employees' opinions. 2019 was an important transitional year with many changes, which prompted us to focus on short, action-oriented surveys.

In Belgium, we organised a 'Shape your Future' survey in 2019, which had a 53% response rate. We received many different answers to the question of what employees would like to learn, as might be expected against the backdrop of the governance exercises. The majority of employees stated that what they needed most was functional training. Some 72% of the workforce is satisfied with the support they receive in their development. The also show that 84% of employees understand KBC's strategic focus and know where KBC wants to go. Staff at ČSOB in the Czech Republic also had the opportunity to provide their feedback via a survey in 2019, and 84% of them did so. Of these respondents, 78% stated that they enjoyed working at the ČSOB group, 91% found it important that the business was successful, and 68% were prepared to make an extra effort over and above their everyday duties to help achieve this. Based on these results, ČSOB has decided to strengthen its change management communication, to focus more on corporate culture and to make it possible to collaborate even more effectively through simplified administration and enhanced processes.

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. One specific focus of attention is raising the gender diversity at higher levels of our organisation, where women are currently still insufficiently represented.

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.

We invest 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 2019. 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 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 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 outsourcing, a variety of laws on remuneration policy (including the variable wage component) and the General Data Protection Regulation (privacy law). 2019 was the first full year in which the European GDPR rules were in force. A great deal of attention was therefore paid to their implementation within internal HR processes, and to the external parties with whom we work, so that all HR contractors are GDPR-compliant and our personal data is subject to the maximum protection. We ensure that all employees are in compliance with the legal training requirements in the various countries in which we are active, in areas such as the distribution of insurance policies, loans and investment products. We also raise risk-awareness among our staff through targeted information campaigns and training.

'People risk' is an important operational risk for human resources, which we closely track in collaboration with our risk department via a 'people risk dashboard'. In a financial sector that is changing very quickly, we would not be able to remain a reference in the European financial sector without the right employees with the right skills. We therefore recruit in a highly targeted manner, so that we can deploy our employees in optimum fashion within the organisation and hence motivate and retain them. In 2019, for instance, we recruited around 300 people including both starters and specialist profiles (e.g., data analysts, IT people and commercial talent).

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 2019, KBC Group's total equity came to 20.4 billion euros. Its capital was represented by 416 394 642 shares at year-end 2019, an increase of 238 966 shares on the previous year, due to the capital increase reserved for staff in December each year.

At year-end 2019, KBC Insurance total equity was 3.4 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 2019'.

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

The strategy, business model and management structure of KBC Insurance 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 2019.

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 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. 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.

We continue to provide a proactive and 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 in digital transformation between 2017 and year-end 2020 and continue to align our omnichannel distribution network with changing client behaviour. In doing so, KBC has firmly opted for a gradual approach. In 2019, for instance, we converted a number of smaller branches in Flanders into self-service branches and also closed several existing self-service branches, as the number of cash withdrawals there had declined substantially and sufficient KBC alternatives are available nearby. At the same time, we are continuing to invest in branches, in KBC Live and in its digital channels. KBC will further monitor changing client behaviour in the years ahead and will gradually adjust its distribution network in response. This will naturally affect our employees (see ‘Our employees, capital, network and relationships’).

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 ‘Our business units’ section.

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. 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. 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. Examples of the actions we take with the aim of addressing shifting client expectations, competition and technological challenges can be found under ‘In what environment do we operate?’.

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 range of products and services. We advise them based on needs that transcend pure banking or insurance, including family, the home and mobility. We are organised in such a way that we approach the client with both insurance and banking solutions tailored to their individual needs. 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 offer them an answer to each of those concerns.

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 country’s degree of digital maturity.

We have developed a unique bank-insurance co-operation concept within our group, a model that goes much further than a bank that sells insurance products. It is all about complete back-office integration, which delivers operational and commercial optimisation for both the client and for KBC itself. The way we work means, for instance, that we only need one communications department, one marketing department, and so on. It is only the underlying product factories that operate independently, as these are specific professions.

The roll-out of the model 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. This means at the same time that we are seeing the greatest growth in bank-insurance in those countries, as witnessed by our targets for bank-insurance clients (see table). 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 2019 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 2019 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 2019.

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 our core 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. At the end of May, for instance, we acquired the remaining 45% stake in ČMSS for 240 million euros. The revaluation of the group's existing 55% stake in ČMSS generated a one-off gain of 82 million euros. As a consequence of this transaction, ČSOB now owns 100% of ČMSS, thereby consolidating its position as biggest provider of financial solutions for housing purposes in the Czech Republic.

Our focus in Ireland is on the retail segment, to which end we sold our residual corporate loan portfolio in 2019, to the value of approximately 260 million euros, having already disposed of a substantial proportion of our legacy non-performing portfolio in 2018. This transaction had a negligible impact on our results. The sale of these corporate loans will ensure that KBC is able to focus even more in Ireland on its retail and micro-SME core business.

At the end of 2019, we signed an agreement to sell our 50% interest in the Slovenian life insurer NLB Vita, as a result of which we have now fully withdrawn from Slovenia. This transaction, which has a negligible impact on our results, is still subject to regulatory approval.

Lastly, we signed an agreement in February 2020 to acquire OTP Banka Slovensko. This deal will allow us to further strengthen our position on the Slovakian banking market.

The pursuit of sustainable and profitable growth also coincides with the search for 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, alongside our interest income. We are also diversified in geographical terms: almost half of our net profit, for instance, was already derived in countries other than the Belgium Business Unit in 2019.

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. We are co-operating with TreasurUp, for example, Rabobank's fintech scale-up. Thanks to this collaboration, medium-sized enterprises can now use an entirely new online currency platform, accessible via the Internet and mobiles. The platform also enables these firms to hedge their exchange rate risks and even to automate their hedging strategy either partially or in full. We are co-operating in Belgium with the telecoms firm Proximus by offering financing solutions in Proximus shops and also by incorporating the Proximus telecoms offering in our KBC Deals programme. Conversely, Proximus will facilitate payments in its My Proximus app and will make it possible to view and pay their bills in KBC Mobile. Another example is the co-operation agreement that ČSOB signed in the Czech Republic with Mall Group (Mallpay) to allow deferred payment to be offered to online shopping clients.

Moreover, 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)

We are determined at KBC to pursue a sustainable path – one that puts the client at the centre of what we do and will enable us to satisfy our stakeholders' expectations. We want to establish contact with all our stakeholders and to earn and strengthen their trust by listening to them about the role we can play in society and how we can serve them better.

Wherever possible, we will offer financial solutions that have a positive impact on society and the local economy. We are also focusing on limiting any adverse impact we might have on society and encouraging responsible behaviour on the part of our employees. For that reason, sustainability has been integrated throughout our business operations and is supported by all our employees. Doing business sustainably also means, lastly, that we must have the necessary financial resilience and strictly manage our risks. We constantly pursue a balance, therefore, between healthy profitability and fulfilling our role as a socially responsible business.

We were already an Early Endorser in 2018 of the UNEP FI Principles on Responsible Banking (PRB) and so it makes sense that we became a Founding Signatory of the UNEP FI Principles on Responsible Banking at the UN Climate Conference in September 2019. We also endorsed the Climate Conference to the Collective Commitment to Climate Action enshrined in the UNEP FI Principles on Responsible Banking. More detailed information in this regard is provided in the 'Focus on climate' section.

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

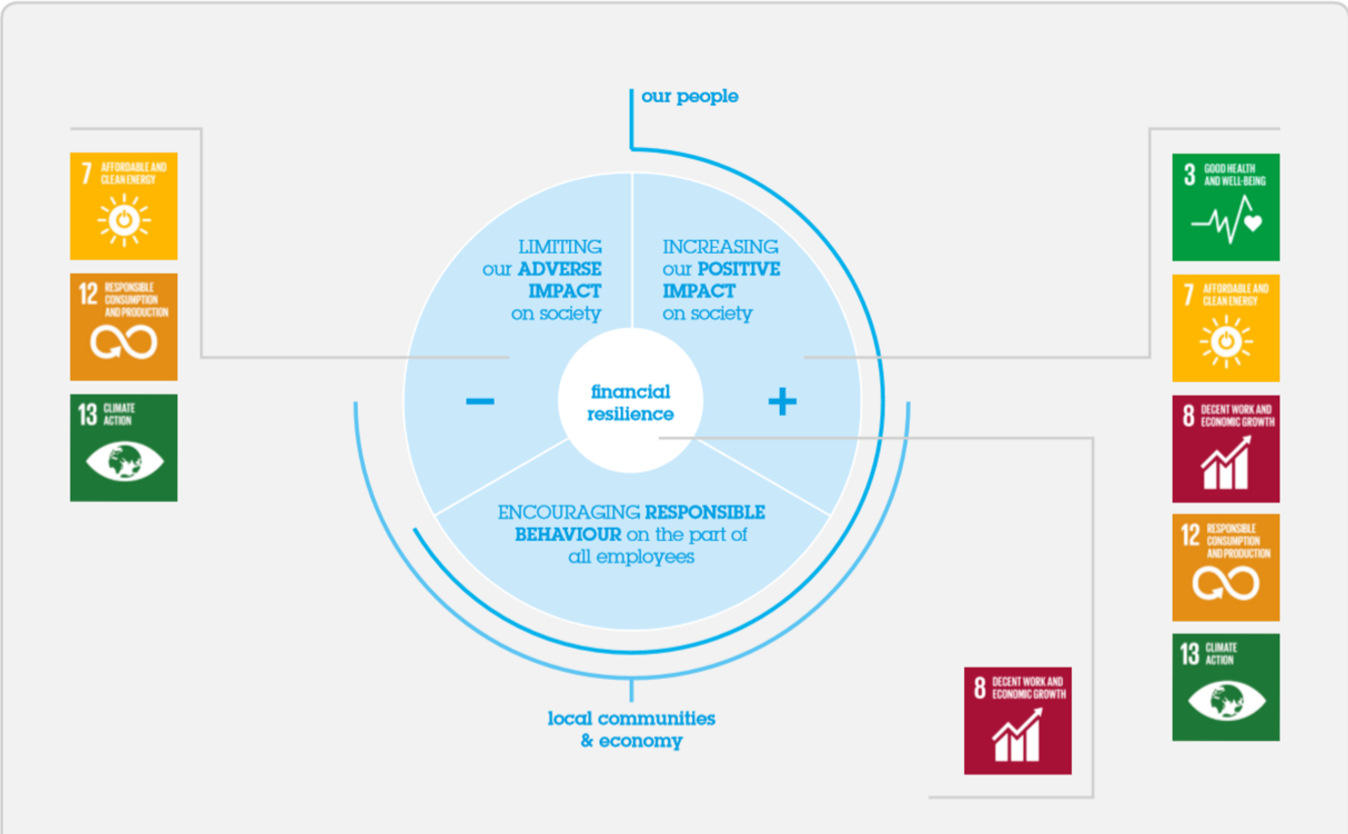
The basis of responsible behaviour is integrity, which requires honesty, fairness, transparency and confidentiality, as well as a healthy awareness of risk. Integrity and ethical values are also reflected in our 'Code of Conduct for KBC Group Employees'.

Responsible behaviour is especially relevant for a bank-insurer when it comes to appropriate advice and sales. We pay particular attention, therefore, to training (including testing) 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. Roughly 81% of our top 300 managers (at year-end 2019) have completed the responsible business course at the KBC University. The fact that the figure is not 100% partly reflects recent senior management appointments.

We communicate transparently on our rules and policy guidelines, which are published at www.kbc.com/en/policies.

Sustainable Development Goals (SDGs)

In 2015, the United Nations drew up a development plan with 17 ambitious targets for 2030. We acknowledge our role as an important actor in society and we want to contribute to the economic well-being of companies, private individuals and governments and to support them in achieving better social outcomes. Although the 17 SDGs are all interconnected and relevant, we have selected five goals on which we can have the greatest impact through our core businesses of banking, insurance and asset management. The five goals are set out in the diagram and table below. You can find more information in this regard in our 2019 Sustainability Report, that will be published shortly after the annual report on www.kbc.com.



3 GOOD HEALTH AND WELL-BEING

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.

7 AFFORDABLE AND CLEAN ENERGY

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.

8 DECENT WORK AND ECONOMIC GROWTH

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.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

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 enhance our positive impact on society

We want to enhance our positive impact on society to which end we are focusing on areas in which we, as a bank-insurer, can create added value: financial literacy, entrepreneurship, environmental awareness and demographic ageing and/or health. In doing so, we take account of the local context in our different home markets. We likewise support social projects that are closely aligned with our policy and through which we can play our role in society. These areas are used to incorporate the SDGs into our sustainability strategy and everyday activities. More information and examples are provided below.

We take a closer look elsewhere at our specific approach to climate and human rights.

Sustainability ratings, KBC group	2019	2018
FTSE4Good	4,6/5	4,4/5
CDP	A-	A-
RobecoSAM (DSJI)	72/100	69/100
Sustainalytics	86/100	85/100
ISS-oekom	C Prime	C Prime

Focus areas	Description	How? A few recent examples:
Financial literacy	• Helping clients make the right choices through good and transparent advice, and clear communication. • Improving general public knowledge of financial concepts and products.	• 'Get-a-teacher' at KBC Belgium, which gives schools the opportunity to extend financial knowledge by 'ordering' a teacher from KBC. • Primary and secondary school lessons by ČSOB colleagues in the Czech Republic; • Bolero's B-coach programme, which focuses on young people's financial knowledge of the stock market; • K&H e-dukacio cyber security programme in Hungary; • Organising projects to simplify and improve our client communication.
Environmental awareness	• 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.	• Issuing the Green Bond and SRI pension savings fund in Belgium. • Expanding multi-mobility at KBC Autolease, including bicycle leasing for companies. • Endorsing the Collective Commitment to Climate Action. • Launching SRI funds in Ireland. • Providing ČSOB EU Smart Energy Credit in the Czech Republic.
Entrepreneurship	• Contributing to economic growth by supporting innovative ideas and projects.	• Development of KBC Vindr, the first online matchmaker for entrepreneurs in Belgium, alongside existing meeting platforms like Start it @KBC (for start-ups), KBC Match'it (for company transfers), KBC Trade Club (for internationally active businesses) and FarmCafe (for farmers and horticulturalists). • Roll-out of KBC Match'it, the digital platform for business transfers, to Slovakia (ČSOB Match'it). • Partnership with BRS, which supports microfinance and microinsurance businesses in the Southern Hemisphere. • Roll-out of Start it @KBC to the Czech Republic and Hungary.

Demographic ageing and health	• 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.	• Providing free training to familiarise clients with digital trends. • 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. • Signing the 'Tobacco-Free Finance Pledge'. • Providing financial and material assistance to sick children through the 'K&H MediMagic Programme' in Hungary. • Launch of the DZI e-SOS app 'Follow me' – an electronic health care dossier with an SOS button for emergencies.

Limiting any negative impact we might have on society

We apply strict sustainability rules to our business activities in respect of human rights, the environment, business ethics and sensitive or controversial social themes. In the light of constantly changing societal expectations and concerns, we review and update our sustainability policies at least every two years. The table sets out the most important of these policies.

We take a closer look at our specific approach to climate and human rights later in this section.

Important KBC sustainability policies		Applies to
Blacklist of companies and activities	We place stringent ethical restrictions on businesses involved with controversial weapons systems (including nuclear and white phosphorous weapons) and on businesses viewed as 'serious' infringers of UN Global Compact Principles.	Lending, insurance, advice, 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, advice, 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, advice, own investments, SRI and traditional funds, suppliers
Sustainable and responsible banking, advisory and insurance policy	We have imposed restrictions on providing loans, advice and insurance to controversial and 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, tobacco, mining, animal welfare and prostitution.	Lending, insurance, advice
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 controversial regimes. What's more, investment products involving food-price speculation are entirely excluded. We have additionally decided to exclude the tobacco industry from KBC Asset Management's conventional investment funds and from KBC's own investment portfolio. For SRI funds, we go even further in the exclusion and restriction of controversial activities like gambling, defence and fur.	SRI funds

We monitor compliance with our sustainability policy in a number of ways:

- Active internal screening of the application of our sustainability policy to our lending, insurance and investment operations;

- A general ESG assessment of the sustainability performance of the relevant companies by external parties, with the emphasis on sustainability strategy and companies' public sustainability strategy and on any recent controversies in which they have been involved.

Examples of measures in the event that infringements are detected:

- Zero tolerance across all our business activities for companies on the blacklist;
- Exclusion of companies that do not comply with the UN Global Compact Principles, as assessed by an external ESG evaluator, for loans, insurance and own assets;
- Enforcement, in consultation with the relevant parties, of an exit strategy or specific conditions on existing credit or insurance relationships and advisory services, and the rejection of new applications.

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. You can find more details later in this report regarding specific governance in respect of climate change.

The Group Executive Committee reports to the **Board of Directors** on sustainability matters, including policy on climate change.

The **Executive Committee** is the highest level with direct responsibility for sustainability, including policy on climate change. The CFO has been designated as Executive Committee member responsible for climate.

The **Corporate Sustainability Division** is responsible for developing the sustainability strategy and implementing it across the group. The team monitors implementation of the strategy and informs the Executive Committee and the Board of Directors on progress twice per year via the KBC Sustainability Dashboard.
A special team with representatives from different divisions focuses on climate change (Sustainable Finance programme).

The **Internal Sustainability Board** is chaired by the CEO and comprises senior managers from all business units and core countries and the Corporate Sustainability General Manager. The sustainability strategy is drawn up, implemented and communicated under the authority of the Internal Sustainability Board.

The local sustainability departments in each of the core countries support the senior managers on the Internal Sustainability Board with integrating the sustainability strategy and organising and communicating local sustainability initiatives. **CSR committees** in each country supply and validate non-financial information.

Business units and countries: Sustainability is anchored in the core activities.

In addition to our internal organisation, we have set up external advisory boards to advise KBC on various aspects of sustainability. They consist of experts from the academic world:

- An **External Sustainability Board** advises the Corporate Sustainability Division on KBC sustainability policies.
- An **SRI Advisory Board acts as an independent body for the SRI funds and oversees screening of the socially responsible character of the SRI funds offered by KBC Asset Management.**

Our objectives

We also use Key Performance Indicators (KPIs) in the KBC Sustainability Dashboard to see whether we are focusing sufficiently on socially relevant themes and whether we are meeting stakeholder expectations.
The most important Key Performance Indicators (KPIs) relating to our role in society are set out in the KBC Group annual report.

Focus on climate (KBC Group)

Climate change is one of the greatest challenges facing the world in the 21st century, which is why we have committed ourselves to the transition to a low-carbon society. We recognise that our activities have an impact on the environment and that climate change can affect our business model. We are aware at the same time of the leverage we can exert on behalf of the sustainable development of the planet. For that reason, we will pursue constant progress in our policy and our targets. 2019 saw a milestone in our climate strategy, when we signed up to the Collective Commitment to Climate Action and pursuit of the Paris climate accord targets. We also launched a structural approach to the management and reporting of climate-related risks and opportunities via our Sustainable Finance Programme.

We are convinced that communicating transparently on climate-related effects will encourage the progress needed to limit global warming. In December 2017, therefore, we endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The climate aspect in our business model

As a bank-insurer, we have an influence on climate change in two ways. Firstly directly: through our own energy consumption, for example. Our dependence on natural resources is relatively limited compared to industrial companies, but we nevertheless manage our direct greenhouse gas emissions with the goal of steadily reducing them in line with fixed targets.

More important is our indirect influence, through lending, holding an investment portfolio, providing investments to clients and insuring other parties who could have a direct impact (whether positive or negative) on the climate. We want to limit this indirect negative impact through clear policies, by supporting sectors and companies that take account in their investment decisions of environmental, social and administrative aspects and by developing new, innovative business solutions in all our core countries to stimulate a low-carbon and circular economy.

We ourselves also feel the impact of climate change as a bank-insurer. Examples include potential risks due to acutely or chronically changing weather patterns (severe storms, prolonged droughts, etc.) which can lead to higher levels of claims under the insurance we provide or impact our loans or investments when relevant counterparties are affected by climate change or the transition to a lower-carbon society, which can prompt direct losses through repayment problems). It also relates to the influence we experience from possible changes to the relevant legislation and capital requirements, litigation, changes in client behaviour (including the risk of missed opportunities) and technological innovations.

We actively adjust our business model, not only to mitigate or avoid negative consequences (see elsewhere for our targets in this regard), but also to respond to new opportunities. This entails both further expanding our sustainable product and service offering in the field of investment, insurance, leasing and so on, and actively supporting clients in their transition to lower-carbon operations by, for instance, bringing them into contact with partner organisations that can help them achieve energy-saving initiatives. In 2019, for example, we initiated a pilot project in Belgium to support business clients in their transition to a greener economy. It will be developed further in 2020.

The aim is to chart the resilience of our business model in the longer term, taking account of different climate scenarios and time horizons. To achieve this, we are co-operating with external parties (see elsewhere in this report).

We closely track our environmental impact performance, to which end we apply specific targets, which are explained in the KBC Group annual report.

Sustainability integrated into our remuneration policy

Sustainability, including climate and the associated targets, is integrated into the remuneration systems of our employees and especially our senior management.

- The variable remuneration of Executive Committee members is linked to factors including the achievement of a number of collective targets. One such target is specifically related to progress in the area of sustainability, which is evaluated every six months via the KBC Sustainability Dashboard report. More information in this regard is provided under ‘Remuneration report for financial year 2019’ in the ‘Corporate governance statement’ section of the KBC Group annual report.
- Sustainability is also integrated into management's variable remuneration. At least 10% of the variable remuneration received by senior management depends on the achievement of individual targets agreed in advance as part of the group’s sustainability policy, including climate policy.
- The non-recurrent results-based bonus KBC pays its employees in Belgium has been partially linked to environmental targets since 2012. Two of the five targets in 2019 were directly linked to our own ecological footprint, namely reducing paper consumption and waste generation (use of paper coffee cups). This resulted in a 28% reduction in paper consumption and 26% fewer paper cups compared to the previous year.

Climate governance

Climate governance forms part of our general sustainability governance. You can find a diagram of the latter under 'Our sustainability governance'.

A Sustainable Finance programme has been set up within the group as part of the sustainability policy to focus on integrating the climate approach in the group. The programme oversees and supports the business as it develops its climate-resilience in line with the TCFD recommendations and the EU Action Plan.

The project is led by a programme manager who forms part of the Corporate Sustainability division, together with a team of specialists from Corporate Sustainability, Risk and Credit Risk. This core team is in contact with various other departments, including Insurance, Asset Management and Corporate Banking. We have also appointed climate contacts in each core country.

The programme is overseen by a Steering Committee chaired by the Group CFO. Progress on the programme is discussed regularly within the Internal Sustainability Board (ISB), the Executive Committee and Board of Directors, including via the KBC Sustainability Dashboard. The latter is used to evaluate the programme's status report once a year. The current status is also discussed annually by the supervisory boards of the key entities in the group's different core countries.

Climate risks and opportunities are gradually being embedded in our risk management policy too (see 'How do we manage our risks?') and in our planning, through the establishment of clear targets and policies. Climate-related aspects have, moreover, been integrated into our product development processes. New products and changes to existing ones are subject to a specific New and Active Products Process (NAPP), which also takes account of the sustainability framework and related risks.

The environmental and climate aspects of our sustainability policy

An overview of our key KBC sustainability policies is set out in the 'Our role in society' section.

Environmental responsibility means that we have committed ourselves to managing the direct and indirect environmental impact of our activities in a responsible manner. In doing so, we wish – where possible and in line with our sustainability strategy – to enhance our positive impact and mitigate our negative impact on the environment in order to support the transition towards a sustainable and low-carbon economy.

Important elements of our climate and environmental policy include:

- developing specific banking, insurance and investment products and services to support a sustainable, low carbon and climate resilient society (see table for examples);
- applying and regularly revising a strict policy to limit the negative ecological impact of our activities through measures such as specific policies on energy and other socially sensitive sectors (palm oil, soy, mining, deforestation, land acquisition, etc.), abiding by the Equator Principles on project funding and the KBC Blacklist;
- setting ambitious targets for reducing our direct greenhouse gas emissions and communicating on this;
- creating awareness of environmental responsibility amongst our internal (employees) and external (clients, suppliers, etc.) stakeholders;
- adjusting our activities in line with the Paris climate accord to limit the global temperature increase;
- tracking TCFD recommendations: we catalogue our climate risks while also responding to the opportunities offered by the climate issue. We contribute to the development of methodologies to measure the impact of the climate on our business model with a view to formulating evidence-based targets.

We report on our approach, progress and challenges in the area of the environment through channels such as our Sustainability Report and this annual report and via sustainability questionnaires (including CDP, RobecoSAM, Sustainalytics and Vigeo). We regularly tighten up our approach, taking account of scientific and technological developments, social trends and the changing views of our stakeholders.

Through our upstream and downstream value chain, we pursue a dialogue based on our policies with different stakeholders. We also engage in an active discussion with our clients with a view to raising their awareness of climate change and commitment to combat it. We focus too on developing business solutions that have a positive impact on the environment and interact with our clients to this end. The table contains several examples of environment-related products, services and initiatives.

Examples of sustainability-related products and services (KBC group)	
KBC Green Bond	500-million-euro issue with a term of five years, 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.
SRI funds	Wide range of SRI funds, varying from best-in-class funds and funds with sustainable themes to 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. As of this year, moreover, all companies that can be linked to fossil fuels have been excluded from all sustainable investment funds.
Green project finance	When it comes to project finance in Belgium, KBC focuses on energy projects and public-private partnerships in essential public infrastructure. At the end of 2019, KBC participated in renewable energy projects generating green energy for 2.5 million households. An example of an infrastructure project agreed in 2019 is PPS DBFM Smart Lighting in the Walloon Region, in which KBC was mandated as lead arranger, financier, facility and security agent and co-account bank. The Lumière Wallonie project entails the modernisation and maintenance of public lighting along motorways and main roads in the Walloon Region and sets out to reduce energy consumption by no less than 76%. KBC is also active in the financing of renewable energy projects in other core countries.
Light as a service (LaaS)	KBC in Belgium and Signify launched a full-service concept for businesses in 2019 to help them switch to energy-efficient lighting. In return for a fixed monthly amount, the LaaS approach takes care of everything for them, from study and installation to everyday management and maintenance. The model enables clients to switch to low-energy lighting without incurring substantial start-up initial costs.
ČSOB EU Smart Energy Credit	Loan programme to fund investment in energy efficiency in the Czech Republic, in which finance with a margin discount for the end client is provided with EIB support. Between the middle of 2017 and the end of 2019, ČSOB allocated 30 million euros to qualifying projects.
ČSOB Green Grants	To support its clients' energy-efficiency projects, ČSOB in the Czech Republic has been providing certain of them with green grants to apply for EC funding with the help of the ČSOB EU Centre. These grants cover up to 80% of the cost of the energy audits and other documentation required to apply for and use EU funds. 28 energy-saving projects were supported by green grants in 2019.
Non-life insurance: climate-related product features	Examples in the area of home insurance in Belgium include standard cover for solar panels and covering the additional cost of construction in accordance with new building regulations when reconstruction is required after damage. From January 2020 onwards, KBC clients can insure themselves against damage to crops and fruit caused by extreme and unfavourable weather conditions via a contract with Onderlinge hagelverzekering Maatschappij AgriVer B.A. and Onderlingen Fruittelers Hagelverzekering.
Proxy voting by KBC Asset Management	KBC Asset Management lives up to its responsibility to represent clients who invest in companies via our equity funds at shareholders' meetings. KBC AM also wants to encourage businesses to use engagement to promote sustainable enterprise or to address a controversy. Further details can be found in the 'Proxy voting and Engagement Policy' on the KBC website.
Low-carbon transport initiatives	KBC is contributing to the Flemish 'Future Alliance' (*Toekomstverbond*) initiative, which is targeting a 50/50 split between cars and public transport/bikes/pedestrians. Through its bicycle leasing activity, KBC has already got 15 000 bikes on the road for both itself and its clients. Consisting primarily of electric bikes and speed e-bikes, these are ideal for commuters.
Green Loans and Green Bonds for corporate clients	KBC Bank is promoting sustainable financial solutions amongst its corporate clients, including by means of Green and Sustainability Bonds and Green Loans and Sustainability-Linked Loans. They are structured in accordance with the ICMA Green/Sustainability Bond Principles and the LMA Green/Sustainability-Linked Loan Principles. KBC Bank acted, for instance, as the joint book-runner in 2019 for the issue of a Sustainable Loan by the Flemish Community and coordinated a Green Loan for the marine engineering group Jan De Nul.

We recently shifted our engagement ambitions up a gear. We want to be a partner for our clients in their transformation to a more sustainable future. We launched a pilot project in Belgium, for instance, in 2019 to support business clients in their transition to a greener economy. Our approach consists of the following steps:

- Raising our employees' awareness and knowledge;
- Raising our clients' awareness;
- Collaborating with clients in their transition to a low-carbon business;
- Drawing where necessary on external support (through partnerships).

Our suppliers are important stakeholders too and we want them to integrate social, ethical and environmental criteria. Information on our code of conduct for suppliers and our internal procedure for screening suppliers can be found in the 'Focus on human rights' section. Product-related environmental requirements have also been embedded in the process, including the duty to notify KBC about new environmentally friendly products and the use of environmentally friendly packaging.

One of the pillars of our sustainability and climate policy is our focus on sustainable investment. Our employees offer sustainable investments alongside traditional investments, thereby raising awareness amongst our clients and enabling them to make properly founded choices. We have been a pioneer in sustainable investment since 1992, supported by an external SRI Advisory Board that acts as an independent body. The entire range of KBC SRI funds have been awarded Febelfin quality certification for sustainable investment

We meet our responsibility through various international organisations and initiatives:

- As noted already, we have endorsed the TCFD recommendations since December 2017.
- We support the EU Action Plan for Sustainable Finance to mobilise private capital in support of a resilient, low-carbon, resource-efficient and inclusive Europe.
- We are a member of the UN Environment Programme Finance Initiative (UNEP FI) and a Founding Signatory of the UNEP FI Principles on Responsible Banking (PRBs). We likewise endorse the Collective Commitment to Climate Action embedded in the PRBs. In this way, we have committed ourselves – in cooperation with our clients – to stimulate the greening of the economy as much as possible and so limit global warming to well below 2°C, striving for 1.5°C, in line with the Paris climate agreement. We will achieve this by co-operating with relevant parties on the development of methodologies to measure climate impacts and by aligning ourselves with climate targets. Within a maximum of three years, we will establish and publish sector-specific, scenario-based targets for this portfolio alignment. The first trial projects have already been initiated to this end. We also endorse the UNEP FI Principles for Responsible Insurance (PSI) and the Principles for Responsible Investment (PRI).
- We are actively involved in a number of pilot projects (see elsewhere in this section) in collaboration with other banks to further develop shared methodologies for mapping the impact of climate change. In the process, we continue to build our internal expertise too.
- As a board member of the International Capital Markets Association (ICMA), we are playing our part in the ICMA's position with regard to developments in the area of green bonds in the EU.
- We have been a signatory to the Equator Principles since 2004 and have integrated them in our lending policy.

Our climate risk management

More information on how we address climate-related risks can be found under 'Climate-related risks' in the 'How do we manage our risks?' section.

Our benchmarks and targets

To support the transition to a low-carbon society and hence to contribute to the Paris climate targets, we have defined a number of targets in the area of sustainability and climate for several years now. An overview of these targets and the results is provided in the KBC Group annual report. It relates to targets on limiting our own direct environmental impact (reducing our own greenhouse gas emissions) as well as targets for our indirect impact (volume of SRI funds, share of loans for renewable energy and the run-down of coal-related lending).

What's more, as we once again met a number of targets ahead of time in 2019, we have updated and tightened our ambitions.

One of the most important challenges facing financial institutions when implementing TCFD is the lack of objective data and metrics with which to assess the climate risks associated with their portfolios and their indirect carbon impact as a bank, insurer and asset manager, and to set targets in that regard. Several parties are currently developing a variety of methodologies, three of which appear to be evolving into a kind of standard. Each has a different scope and complementary objectives.

New data will also be needed to identify green assets (other than renewable energy) based on technical environmental criteria, including the forthcoming EU Taxonomy. This represents a major challenge and we are starting out in this regard too with a structured approach.

In keeping with the undertakings we endorsed in 2019, we are co-operating on the development of these methodologies and we have already begun work, in collaboration with other banks, on three different pilot projects:

- Paris Agreement Capital Transition Assessment (PACTA): as part of a group of 17 international banks, we are measuring the extent to which our large industrial clients and their assets are aligned with the Paris climate goals. This methodology measures credit exposure to transitional technologies in some of the most carbon-intensive sectors, such as the steel, automotive, shipping, aviation, electricity, oil and gas, coal and cement sectors. The first results of the project are anticipated in 2020. We also launched a PACTA pilot project at the beginning of 2020 for our asset management activities and investment portfolios.

- UNEP FI: we are involved with a project to further develop the methodology used within the UNEP FI programme, the goal of which is to identify the physical and transition risks arising from certain climate scenarios for the most significantly affected sectors in our loan portfolios. We have begun the analysis of physical risks for mortgage loans in Flanders and transition risks for the metals sector.
- Platform Carbon Accounting Financials (PCAF): we are committed to evaluating and communicating the greenhouse gas emissions of our portfolios of the most carbon-intensive loans and investments within a period of three years. To that end, we signed up in 2019 to the PCAF initiative, which has evolved into a carbon accounting standard for financial institutions. We reported for the first time in 2019 on the emissions avoided through the KBC Green Bond issued in 2018 (the underlying assets of which consist of green mortgage loans and project finance for renewable energy in Belgium). We publish this impact report on our corporate website. On 31 March 2019, the emissions avoided annually through the KBC Green Bond totalled 44 960 tonnes of CO_2e or 89.9 tonnes per 1 million euros invested. We also began a pilot project to measure our greenhouse gas emissions in Belgium relating to mortgage loans, car loans, car leasing and commercial real estate.

When methodologies of this kind have been further elaborated and implemented, we will be able to measure our indirect impact via the most carbon-intensive sectors and fields, formulate and track new targets, and report on this. Each pilot project will be thoroughly evaluated before further steps are taken.

Our own environmental footprint

Data relating to our own environmental footprint are set out below. Greenhouse gas emission data and calculations have been verified by Vinçotte in accordance with ISO 14064-3. More information on our environmental footprint, including further details, methodology and the scope of the calculations, can be found in our Sustainability Report.

Own environmental footprint, KBC group*	2019	2018
Electricity consumption (in thousands of GJ)	548	595
Gas and heating-oil consumption (in thousands of GJ)	295	314
Commuter and business travel (in millions of km)	371	377
Paper consumption (in tonnes)	2 821	3 391
CO_2e emissions (in thousands of tonnes, see next table)	73	86

Own environmental footprint (greenhouse gas emissions in tonnes of CO_2e), KBC group*	2019	2018
Scope 1 emissions are those from direct energy consumption, emissions from coolants and own-fleet emissions from business and commuter travel	34 739	37 629
Scope 2 emissions are those from indirect energy consumption (electricity, district heating, cooling and steam)	17 006	22 955
Scope 3 emissions as listed here 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	21 024	25 004
Total	72 769	85 588
Total per FTE	2.0	2.3
Covered by the reduction target (see above)	51 207	64 101
Covered by the reduction target per FTE	1.4	1.7
ISO 14001 in each core country	✓	✓

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

Focus on human rights (KBC Group)

We meet our responsibility to respect human rights, social justice and employment rights throughout the group, and we undertake to respect the letter and the spirit of: (i) the Universal Declaration of Human Rights; (ii) 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; (iii) the UN Declaration on the Rights of Indigenous Peoples; and (iv) the UK Modern Slavery Act, to which end KBC has published a Modern Slavery Statement since 2017. We are also UN Global Compact signatories and have incorporated the ten principles on human rights, labour, environment and anti-corruption in our policies, so that they are applied throughout our activities. We have published our progress since 2006 in the annual UN Global Compact Statement of Continued Support. It goes without saying that we comply with local laws, rules and regulations wherever we operate and with international and regional human rights treaties containing internationally recognised standards by which the business sector must abide.

We use the UN Guiding Principles Reporting Framework to monitor our human rights policy, as described in the KBC Group Policy on Human Rights. Our human rights policy applies to our business activities (clients and suppliers) and also to our own internal operations (employees).

KBC views its employees' rights to freedom of association, collective bargaining, a healthy and safe workplace, and freedom from discrimination as fundamental.

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'). We also have specific procedures in place to guarantee compliance and to deal with complaints, including the 'Policy for the Protection of Whistleblowers'.

Our suppliers are an important stakeholder in our value chain and so we work closely with them too. Our stringent rules and frameworks for procurement, sale and subcontracting activities with suppliers are summarised in the 'KBC Code of Conduct for Suppliers' and apply in all our core countries. This provides our suppliers with a clear understanding of our sustainability expectations.

We have translated our Code of Conduct for Suppliers into an internal procedure in the shape of a step-by-step plan that our procurement department can use. All the suppliers we work with are screened against the KBC Blacklist of controversial firms with which KBC does not wish to do business. We also refer to Worldcheck and apply a standard questionnaire when screening key suppliers. Suppliers that meet our expectations receive a positive evaluation and sign the KBC Sustainability Code of Conduct for Suppliers. A total of over 2 600 suppliers have signed the code to date. If any infringements are detected within the contract period that cannot be put right fundamentally within an appropriate amount of time, we terminate the agreement.

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, for instance, a serious infringement of human rights or with controversial weapons systems. We also pay considerable attention to privacy and data protection (see 'The client is at the centre of our business culture') and monitor this closely.

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, insurance activities and advice (Credit Risk Standards on Sustainable and Responsible Lending, the KBC Sustainable and Responsible Insurance Policy and the Standards on Sustainable and Responsible Advisory Services). 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.

In the event of doubt, the advice is sought of the Corporate Sustainability division. A total of 221 requests for advice on environmental, social and governance issues were submitted in 2019. Of these, 148 received positive recommendations, six received positive recommendations with strict conditions and 67 given negative recommendations. Our investment activities (asset management and own investments) are also subject to internal screening. SRI funds, moreover, have to meet additional controls.

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 'How do we manage our risks?' 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.

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.

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 risk and compliance functions, 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 Audit Committee and the Risk & Compliance Committee in monitoring the effectiveness and efficiency of the internal control and risk management system

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 risks.

A list of these risks can be found in the table.

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.	• 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.	• 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.

Risk and description	Management
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. Compliance risk is the risk of losses or sanctions due to failure to comply with laws and regulations promoting integrity, and with internal policies and codes of conduct reflecting the institution’s own values. It includes conduct risk, i.e. the current or prospective risk of losses arising from inappropriate supply of financial services, including cases of wilful or negligent misconduct. Climate risk is the risk associated with the transition to a low-carbon economy and the risk from climate-related physical events that impact our business. Other non-financial risks include reputational risk, business risk and strategic risks.	• Existence of a robust management framework • Group key controls, risk scans, key risk indicators, etc. • Risk scans and developing new methodologies together with external parties • Strict acceptance policy, stress tests, monitoring, 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, are risks inherent to the commercial activity or long-term positions.	• 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.	• 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.	• 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.

Our financial report

- We review the consolidated results and the balance sheet 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’.
- An overview of the impact of the ‘overlay’ approach on the consolidated income statement is provided under ‘Consolidated income statement’ in the ‘Consolidated financial statements’ section.

Consolidated income statement

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

(in millions of EUR)	Note	2019	2018
Net interest income	3.1	462	507
Interest income	*3.1*	*513*	*559*
Interest expense	*3.1*	*- 51*	*- 52*
Non-life insurance (before reinsurance)	3.7	774	775
Earned premiums	*3.7*	*1 741*	*1 601*
Technical charges	*3.7*	*- 967*	*- 826*
Life insurance (before reinsurance)	3.7	- 5	- 20
Earned premiums	*3.7*	*1 324*	*1 361*
Technical charges	*3.7*	*- 1 329*	*- 1 382*
Ceded reinsurance result	3.7	- 25	- 41
Dividend income	3.2	47	53
Net result from financial instruments at fair value through profit or loss	3.3	103	63
of which result on equity instruments (overlay approach)	*3.3*	*93*	*51*
Net realised result from debt instruments at fair value through OCI	-	0	1
Net fee and commission income	3.5	- 349	- 341
Fee and commission income	*3.5*	*165*	*142*
Fee and commission expense	*3.5*	*- 515*	*- 483*
Net other income	3.6	67	78
TOTAL INCOME		1 075	1 074
Operating expenses	3.8	- 471	- 476
Staff expenses	*3.8*	*- 230*	*- 232*
General administrative expenses	*3.8*	*- 226*	*- 230*
Depreciation and amortisation of fixed assets	*3.8*	*- 15*	*- 14*
Impairment	3.10	- 3	- 2
on financial assets at AC and at FVOCI	*3.10*	*1*	*3*
on goodwill	*3.10*	*0*	*0*
other	*3.10*	*- 4*	*- 5*
Share in results of associated companies and joint ventures	3.11	6	19
RESULT BEFORE TAX		607	615
Income tax expense	3.12	- 127	- 145
Net post-tax result from discontinued operations	-	0	0
RESULT AFTER TAX		480	470
attributable to minority interests	-	0	0
of which relating to discontinued operations	-	*0*	*0*
attributable to equity holders of the parent	**-**	**480**	**469**
of which relating to discontinued operations	-	*0*	*0*

Net result

The consolidated result of the KBC Insurance group came to 480 million euros in 2019, as opposed to a year-earlier figure of 469 million euros.

This 10-million-euro increase came about primarily because of a higher technical result in the life insurance business, offset by a lower level of investment income:

- Overall, earned premiums in non-life insurance went up by 9%, with all entities recording an increase. Technical charges rose slightly more than premiums but remained at an excellent level, considering the payments made in relation to storm damage and the higher number of large claims. In addition, the ceded reinsurance result was better than in 2018 (more recoveries due to more large claims). These items were instrumental in achieving the combined ratio of 89.9% (88.2% for financial year 2018).

- Earned premiums in life insurance amounted to 1 324 million euros in 2019. 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, 2% higher than in 2018. Guaranteed-rate products went up by just 0.4%, owing to robust growth in Bulgaria and a more or less stable trend in the other countries. Growth in Belgium was depressed by the fact that Life Future 8 products were suspended from August on. Unit-linked products grew by 4% year-on-year, with the robust increase in Belgium and Bulgaria being largely offset by performances in the other countries.

  The lower expense related to claims incurred was attributable primarily to positive fair value adjustments and, to a lesser extent, to lower 'uprenting' costs due to scaling back the Life Capital portfolio in Belgium and a lower guaranteed interest rate (both recurring and single premium policies), offset to a large extent by higher provisioning for (non-unbundled) unit-linked products relating to premium income and higher claims fees.
- Investment income was down on its level for 2018, which reflected primarily the decline in interest income, due to falling returns on bonds linked to lower market interest rates and to less dividend income than in 2018. This was partly offset by higher realised gains and lower impairment on shares held in portfolio due to the good year on the stock market.
- Operating expenses were 1% lower than in 2018, owing mainly to the deconsolidation of VAB Rijschool, despite higher staff expenses in Central Europe (indexation).

Review of the technical and non-technical results

(in millions of EUR)	Life	Non-life	Non-technical account	Total
2019				
Earned premiums, insurance (before reinsurance)	1 324	1 741	0	3 065
Technical charges, insurance (before reinsurance)	- 1 329	- 967	0	- 2 296
Net fee and commission income	- 18	- 332	0	- 349
Ceded reinsurance result	- 3	- 22	0	- 25
General administrative expenses	- 145	- 253	- 3	- 400
Internal claims settlement expenses	- 8	- 62	0	- 70
Indirect acquisition costs	- 35	- 76	0	- 110
Administrative expenses	- 102	- 116	0	- 218
Investment management fees	0	0	- 3	- 3
Technical result	- 170	167	- 3	- 6
Investment Income (*)	479	88	39	606
Technical-financial result	309	255	37	601
Share in results of associated companies and joint ventures	-	-	6	6
RESULT BEFORE TAX	309	255	43	607
Income tax expense	-	-	-	- 127
RESULT AFTER TAX	-	-	-	480
attributable to minority interest	-	-	-	-
attributable to equity holders of the parent	-	-	-	**480**
2018				
Earned premiums, insurance (before reinsurance)	1 361	1 601	0	2 962
Technical charges, insurance (before reinsurance)	- 1 382	- 826	0	- 2 208
Net fee and commission income	- 30	- 311	0	- 341
Ceded reinsurance result	- 2	- 39	0	- 41
General administrative expenses	- 147	- 249	- 3	- 399
Internal claims settlement expenses	- 9	- 59	0	- 67
Indirect acquisition costs	- 31	- 70	0	- 100
Administrative expenses	- 108	- 120	0	- 228
Investment management fees	0	0	- 3	- 3
Technical result	- 199	176	- 3	- 26
Investment Income (*)	508	79	36	622
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**

* Investment income (in millions of EUR, for 2019 and 2018, respectively) comprises: 'Net interest income' (462, 507), 'Net dividend income' (47, 53), 'Net result from financial instruments at fair value through profit or loss' (103, 63), 'Net realised result from debt instruments at fair value through OCI' (0, 1), 'Other net income' (-3, 0) and 'Impairment' (-3, -2). The 'Non-technical account' also includes the results from non-insurance subsidiaries, such as VAB group and ADD, and a number of real estate companies. They have been included in the note for the 'insurance business' given that they are KBC Insurance subsidiaries (but as they cannot be recognised under 'Life' or 'Non-life', they are included under 'Non-technical account'). The 'Non-technical account' also includes the investment income from equity (i.e. mainly interest income from bonds).

Results from the non-life insurance business

The result (before tax) generated by the non-life insurance business for 2019 (255 million euros) was unchanged on its level for 2018.

In 2019, earned premiums in non-life insurance totalled 1 741 million euros, a considerable increase of 9% on the year-earlier figure. They grew by 4% in Belgium, by 14% in the Czech Republic, and by 24% in the three other Central and Eastern European markets combined. The increase was recorded in 'car insurance' and in 'property insurance'.

Technical charges for non-life insurance came to -967 million euros in 2019, going up more sharply than premiums, but remaining at an excellent level despite the payments made in relation to storm damage and the higher number of large claims. In addition, 2018 was a favourable year for insurance.

General administrative expenses remained virtually unchanged on their year-earlier level.

Taking account of higher earned premiums, stable administrative expenses and the increase in technical charges, the combined ratio at group level came to a healthy 89.9% (as opposed to 88.2% in 2018). The combined ratio in all markets was below 95%.

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Non-life in %	2019	2018
Net claim ratio	59.4%	56.6%
Net cost ratio (vs written premium)	30.5%	31.6%
Net combined ratio	89.9%	88.2%

Results from the life insurance business

At 309 million euros, the result (before tax) generated by the life insurance business was 0.3% higher than the figure for 2018 (308 million euros).

In 2019, earned premiums in life insurance totalled 1 324 million euros, a decline of -3% on the year-earlier figure.

Sales of life insurance (including unit-linked products) were up 2% on the previous year, with guaranteed-rate products rising by just 0.4% (owing to less-attractive guaranteed interest rates and the suspension of Life Future 8 products, and thanks to the inclusion of UBB Life's results for the full year in 2019 as opposed to nine months in 2018). On the other hand, sales of unit-linked products increased by 4% (attributable to robust growth in Belgium that was driven by a lack of investment alternatives for guaranteed-rate products in a low interest-rate environment). This trend was observed mainly in Belgium (guaranteed-rate products up 0%, unit-linked products up 16%), unlike the Czech Republic, Slovakia and Hungary, where there was a sharp decline in unit-linked products and more or less stable growth of rate-guaranteed products. Bulgaria bucked the trend here, recording strong growth of both guaranteed-rate and unit-linked products. Overall, products offering guaranteed rates accounted for just over 60% of sales in 2019 and unit-linked life insurance for almost 40% (whereas the share was 61% guaranteed-rate and 39% unit-linked in 2018).

The lower expense related to claims incurred was attributable primarily to positive fair value adjustments and, to a lesser extent, to lower 'uprenting' costs due to scaling back the Life Capital portfolio in Belgium and a lower guaranteed interest rate (both recurring and single premium policies), offset to a large extent by higher provisioning for (non-unbundled) unit-linked products relating to premium income and higher claims fees.

Investment income was down on its level for 2018, which reflected primarily the decline in interest income, due to falling returns on bonds linked to lower market interest rates and to less dividend income than in 2018. This was partly offset by higher realised gains and lower impairment on shares held in portfolio due to the good year on the stock market.

Non-technical result

The non-technical result (43 million euros) in 2019 was down on its year-earlier level and did not include any exceptional items.

Income tax expense

The income tax expense for 2019 totalled -127 million euros, or almost 21%, down on its year-earlier level (24% in 2018) which came about primarily on account of higher tax-exempt results on shares.

Consolidated balance sheet

(in millions of EUR)	Note	31-12-2019	31-12-2018
ASSETS			
Cash, cash balances with central banks and other demand deposits with credit institutions	-	227	246
Financial assets	4.0	36 824	35 026
Amortised cost	*4.0*	*7 582*	*7 481*
Fair value through OCI	*4.0*	*13 183*	*12 418*
Fair value through profit or loss	*4.0*	*16 058*	*15 125*
of which held for trading	*4.0*	*13*	*11*
Hedging derivatives	*4.0*	*1*	*3*
Reinsurers' share in technical provisions, insurance	5.6	121	120
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	-	0	0
Tax assets	5.2	45	43
Current tax assets	*5.2*	*37*	*32*
Deferred tax assets	*5.2*	*9*	*10*
Non-current assets held for sale and disposal groups	5.11	28	0
Investments in associated companies and joint ventures	5.3	3	46
Property, equipment and investment property	5.4	298	300
Goodwill and other intangible assets	5.5	142	143
Other assets	5.1	681	663
TOTAL ASSETS		**38 369**	**36 586**
LIABILITIES AND EQUITY			
Financial liabilities	4.0	15 211	14 532
Amortised cost	*4.0*	*1 555*	*1 535*
Fair value through profit or loss	*4.0*	*13 621*	*12 965*
of which held for trading	*4.0*	*12*	*17*
Hedging derivatives	*4.0*	*35*	*33*
Technical provisions, before reinsurance	5.6	18 565	18 388
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	-	0	0
Tax liabilities	5.2	368	277
Current tax liabilities	*5.2*	*36*	*76*
Deferred tax liabilies	*5.2*	*332*	*201*
Liabilities associated with disposal groups	5.11	0	0
Provisions for risks and charges	5.7	5	6
Other liabilities	5.8	797	655
TOTAL LIABILITIES		34 947	33 858
Total equity	5.10	3 422	2 728
Parent shareholders' equity	5.10	3 422	2 728
Minority interests	-	0	0
TOTAL LIABILITIES AND EQUITY		**38 369**	**36 586**

At the end of 2019, the consolidated total assets of KBC Insurance came to 38 369 million euros, up 4.9% 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 remained quite stable compared to their level at the end of 2018.

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

(In millions of EUR)	31-12-2019	31-12-2018
Amortised cost	4 767	4 679
OCI	13 183	12 418
Fair value through profit or loss	1 461	1 277
Total	19 411	18 374
Shares	7.7%	7.2%
Bonds	92.3%	92.8%

The securities portfolio (excluding investments related to unit-linked products) rose by 1.0 billion euros year-on-year, due primarily to an increase in the market value of the portfolio, combined with additional investments. Most of the securities portfolio continues to be invested in bonds.

Investments in associated companies and joint ventures' and 'Non-current assets held for sale and disposal groups

At year-end 2019, 'Investments in associated companies and joint ventures' no longer included NLB Vita, the Slovenian 50/50 life insurance joint venture, due to the fact that Nova Ljubljanska banka ('NLB') and KBC Insurance NV had signed an agreement at that time to sell their respective stakes in that venture to Sava Re. This marks our complete withdrawal from Slovenia, which is not a core market for KBC. The deal, which is expected to close in the second quarter of 2020, is subject to approval by the regulatory authorities and has a negligible impact on the results. Until then, NLB Vita will be recognised in the balance sheet under 'Non-current assets held for sale and disposal groups'.

Technical provisions and financial liabilities for unit-linked products

Financial liabilities related to unit-linked products grew by just over 5% (or 661 million euros), primarily because of the positive revaluation of the portfolio.

Non-life technical provisions rose by almost 5% (or 164 million euros), reflecting the sharp increase in non-life insurance premiums.

(In millions of EUR)	31-12-2019	31-12-2018
Liabilities Unit Linked	13 610	12 949
Technical provisions, before reinsurance (other than Unit Linked)	18 565	18 388
Provisions Non Life	3 578	3 414
Provisions Life	14 988	14 974
Total	32 175	31 337

The reinsurers' share in technical provisions remained fairly stable.

Tax liabilities

Deferred tax liabilities rose by 131 million euros, mainly on account of the increase in the market value of financial assets measured at fair value through OCI.

Equity

(In millions of EUR)	31-12-2019	31-12-2018
Total parent shareholders' equity	3 422	2 728

Consolidated equity increased by 694 million euros, with a number of items offsetting each other, as shown in the table below.

(In millions of EUR)	31-12-2019
Total	694
Share of the group in profit for the period	480
Dividends paid	- 368
Unrealized gains and losses	583

These items were:

- The group's share (+480 million euros) in the result for the financial year.
- A payment of an interim dividend for 2019 in the amount of 235 million euros and a final dividend of 132 million euros in relation to the previous financial year.
- A 583-million-euro increase in the revaluation reserves, primarily relating to bonds (+359 million euros) and shares (+192 million euros).

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)	31-12-2019	31-12-2018
Available capital	3 496	3 590
Solvency Capital Requirement (SCR)	1 727	1 651
Solvency II ratio	202%	217%
Solvency surplus	1 769	1 939

The main factors behind the decrease in the solvency ratio from 217% at year-end 2018 to 202% at year-end 2019 were:

- The drop in interest rates (-38 basis points at the 10-year point), which had an adverse impact on the ratio, with the effect being exacerbated by long-term rates falling more than short-term ones.
- Lower volatility adjustment (caused by narrower European spreads), which reduced the ratio.
- The bullish stock markets (the Eurostoxx 600 gained 23%), which increased the amount of capital available and the amount required. Given that the capital required weighs more heavily, the gains on shares caused the ratio to fall.
- Parameter updates of costs, contract expiry and profit-sharing, which reduced the available capital and therefore the ratio.
- With effect from the second quarter of 2019, the hedging strategy for mitigating the exchange risk on participating interests ended, increasing the amount of capital required and reducing the ratio.
- These effects were partly offset by the application of the Solvency II review of 2018, which eliminates the spread risk capital charge for loans guaranteed by regional authorities and local authorities.

Appropriation of the results of KBC Insurance NV for 2019

The result available for appropriation came to +395 million euros for financial year 2019 (based on the company annual accounts). The Board of Directors will propose to the General Meeting that 392 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 2019.

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 opened a branch office in Ireland in 2019.

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 among others) and in the 'Risk management' section.

How do we manage our risks?

KBC Insurance is exposed to a number of typical industry-specific risks such as movements in interest rates and exchange rates, liquidity risk, insurance underwriting risk, credit risk, operational and other non-financial risks.
In this section, we focus on our risk governance model and the most material sector-specific risks we face. The general business risks (relating to the macroeconomic situation, competition, regulations, etc.) are also 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 April 2020 and in KBC's Risk Report, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor).

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

- the 'Risk governance' section;
- the 'Technical insurance risk' section;
- parts of the 'Credit risk' section: the introduction, 'the 'Investment portfolio of KBC group insurance entities' table and the 'Credit exposure to (re)insurance companies by risk class' table;
- 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 swap 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), the 'Exposure to sovereign bonds' table and 'Foreign exchange risk';
- the 'Solvency KBC Insurance table (the audited parts are indicated in a footnote to the table), ORSA' and 'Stress testing.'

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.

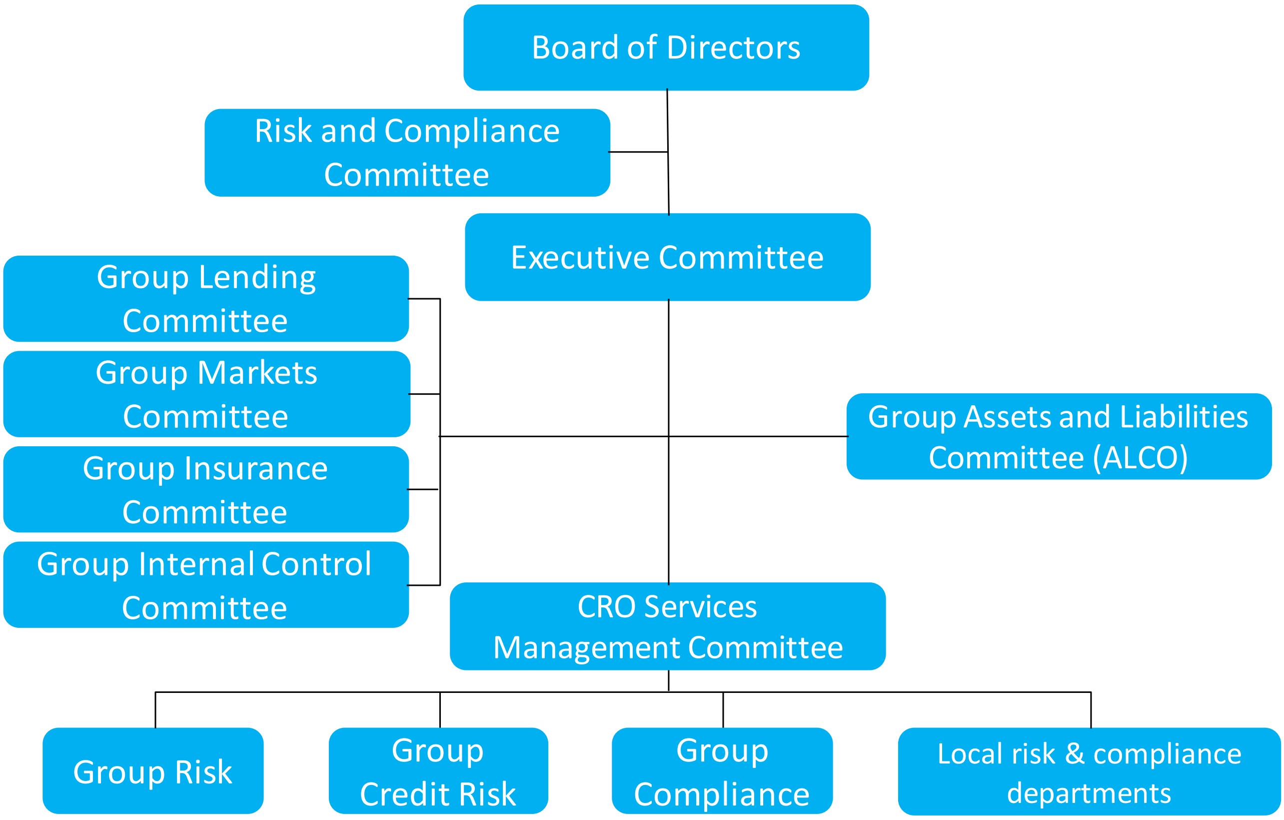
Main elements in our risk governance model:

- The Board of Directors (BoD), 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, how they are managed and the group risk appetite.
- The Executive Committee – supported by activity-based risk committees – which is the senior management level committee responsible for integrating risk management with risk appetite, strategy and performance goal setting.
- The CRO Services 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.
- 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 of defence.

Relevant risk management bodies and control functions:

- Executive Committee:
  - makes proposals to the Board of Directors about risk appetite – including the risk strategy - 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;
  - 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 CRO Services 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 vetoright. Independence of the CROs is achieved through a direct reporting line to the Group CRO. For each main risk type, a Risk Competence Centre is established at Group level. The majority of these competence centres are extended virtual teams composed of both group and local experts working together.



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

Risk appetite

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.

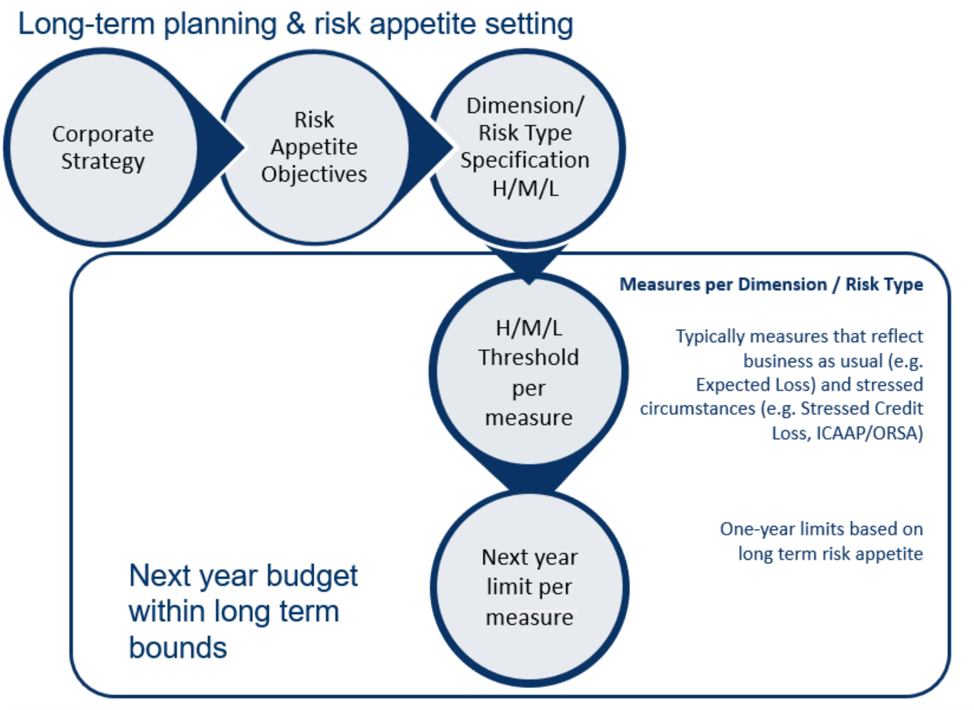
The overall management responsibility of a financial institution can be defined as managing capital, liquidity, return (income versus costs) and risks, which in particular arise from the special situation of banks and insurers as risk transformers. Taking risks and transforming risks is an integral part – 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 KBC, 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.

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 KBC'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 specified 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. Finally the risk appetite is translated into risk type specific group limits/targets, which are further cascaded down to the entities

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



Technical insurance risk

Managing technical insurance risk

Technical insurance risks stem from uncertainty about the frequency and severity of losses. 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.

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.
- Stress testing and sensitivity analysis.
- Regular reporting and follow-up of the risk measurements in insurance risk reports.
- Determination of insurance risk limits and conducting compliance checks, as well as providing advice on reinsurance programmes.

Risk modelling

Within KBC, models are developed bottom up for all material group-wide insurance liabilities, i.e.:

- future claims that will occur over a predefined time horizon, as well as the claims settlement pattern;
- 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;
- the impact of the reinsurance programme on these claims.

The Group risk function uses these models to steer the group's insurance entities towards creating more shareholder value, support decisions on reinsurance, calculate the *ex post* profitability of specific sub-portfolios and set off 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 by:

- limits per policy;
- diversification of the portfolio across product lines and geographical regions;
- reinsurance.

Reinsurance programmes can be divided into three main groups, i.e. property insurance, liability insurance and personal insurance. Most of the reinsurance contracts are concluded on a non-proportional basis, which provides specific cover against the impact of large loss events.

The independent insurance risk management function is responsible for:

- advising on the restructuring of the reinsurance programme during the annual negotiations;
- informing management on a quarterly basis of the top natural catastrophe claims and how these were managed and mitigated;
- conducting *ad hoc* analyses/deep dives following risk signals or management requests to analyse possible trends in natural catastrophe events.

Adequacy of technical provisions

As part of its mission to independently monitor insurance risks, the Group risk function regularly carries out in-depth analyses and deep dives. These confirm that there is a high degree of probability that the life and non-life technical provisions at subsidiary level are adequate.

Firstly, Liability Adequacy Tests (LAT) are conducted that meet local and IFRS requirements for technical provisions. Starting from the best estimate model, calculations are made using a discount rate that is set for each insurance entity based on local macroeconomic conditions and regulations.

Secondly, loss triangles are developed that show claims settlement figures in the non-life business over the past few years:

- 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;
- all provisions for claims to be paid at the close of 2019 have been included and are before reinsurance, adjusted to eliminate intercompany amounts related to KBC Group Re.

The loss triangles are provided in the table below. 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 2019.

Loss triangles, KBC Insurance	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
(in millions of EUR)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Estimate at the end of the year of occurrence	811	809	851	915	991	942	1 027	1 004	1 076	1 153
1 year later	718	711	744	770	881	798	891	885	943	–
2 years later	682	655	709	700	826	753	828	852	–	–
3 years later	679	637	684	678	805	721	813	–	–	–
4 years later	673	624	670	674	789	710	–	–	–	–
5 years later	664	617	664	665	782	–	–	–	–	–
6 years later	658	614	657	663	–	–	–	–	–	–
7 years later	658	609	645	–	–	–	–	–	–	–
8 years later	653	601	–	–	–	–	–	–	–	–
9 years later	649	–	–	–	–	–	–	–	–	–
Current estimate	649	601	645	663	782	710	813	852	943	1 153
Cumulative payments	585	542	561	580	672	571	615	615	625	481
Current provisions	63	59	84	83	109	139	198	236	318	671

Actuarial function

Solvency II requires an actuarial function to be installed in each insurance entity and at insurance group level. An actuarial functionholder is appointed as person responsible for the activities of the actuarial function. 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 actuarial function:

- coordinates the calculation of technical provisions;
- ensures the appropriateness of the methodologies and underlying models used, as well as the assumptions made, in the calculation of technical provisions;
- assesses the sufficiency and quality of the data used in the calculation of technical provisions;
- compares best estimates against experience;
- informs the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;
- oversees the calculation of technical provisions when there is insufficient data of appropriate quality to apply a reliable actuarial method.
- expresses an opinion on the overall underwriting policy;
- expresses an opinion on the adequacy of reinsurance arrangements; and
- contributes to the effective implementation of the risk management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements.

> *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.*

Credit risk

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. Credit risk thus encompasses default risk and country risk, but also includes migration risk, which is the risk resulting from adverse changes in credit ratings.

In line with the Credit Risk Management Framework, credit risk is managed 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 under Solvency II, while the lower part provides more details of the bond and other fixed-income securities component of the portfolio.

Investment portfolio of KBC Insurance (in millions of EUR, market value)[1]	31-12-2019	31-12-2018
Per asset type (Solvency II)		
Securities	20 331	19 249
Bonds and alike	18 988	18 036
Shares	1 341	1 211
Derivatives	1	3
Loans and mortgages	3 133	3 131
Loans and mortgages to clients	2 513	2 479
Loans to banks	619	652
Property and equipment and investment property	286	286
Unit-linked investments[2]	14 477	13 685
Investments in associated companies	264	271
Other investments	13	9
Total	38 503	36 632
Details for bonds and other fixed-income securities		
By external rating[3]		
Investment grade	98%	99%
Non-investment grade	2%	1%
Unrated	0%	0%
By sector[3]		
Governments	64%	63%
Financial[4]	23%	23%
Other	13%	14%
By remaining term to maturity[3]		
Not more than 1 year	11%	11%
Between 1 and 3 years	15%	18%
Between 3 and 5 years	17%	15%
Between 5 and 10 years	31%	34%
More than 10 years	27%	21%

[1] The total carrying value amounted to 37 053 million euros at year-end 2019 and to 35 275 million euros at year-end 2018. Figures differ from those appearing in Note 4.1 of the 'Consolidated financial statements' section, due to asset class reporting under Solvency II.
[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 (EL), among other techniques. Name concentration limits apply. Probability of Default (PD) –

and by extension – expected loss is calculated using internal or external ratings. We determine the exposure at default (EAD) by adding up the net loss reserves and the premiums, and the loss given default (LGD) 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 2019	EL 2019	EAD 2018	EL 2018
AAA up to and including A-	218	0.09	188	0.08
BBB+ up to and including BB-	11	0.01	11	0.01
Below BB-	0	0	0	0
Unrated	1	0.01	1	0.02
Total	230	0.11	200	0.11

[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.

Market risk in non-trading activities

Managing market risk in non-trading activities

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).

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. The Group Executive Committee decides on the non-trading market risk framework, which sets out specific risk guidance.

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. Major limits for interest rate risk, equity risk, real estate risk and foreign exchange 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.

Group Risk and the local risk departments, being the second line of defence, measure ALM risks and flag current and future risk positions. A common rulebook, supplementing the Framework for technical aspects, and a shared group measurement infrastructure ensure that these risks are measured consistently throughout the group..

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., fair value through other comprehensive income);
- 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).

Impact of a parallel 10-basis-point increase in the swap[2] curve for KBC Insurance (in millions of EUR)	Impact on value[1]	
	2019	2018
Insurance	23	16

[1] Full market value, regardless of accounting classification or impairment rules.
[2] 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 (branch 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 (branch 23) are not dealt with here, since this activity does not entail any market risk for KBC.

In the table below, we have summarized 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
31-12-2019						
Fixed-income assets backing liabilities, guaranteed component	7 073	3 797	1 923	1 875	880	15 548
Liabilities, guaranteed component	5 599	3 602	2 358	1 789	2 978	16 326
Difference in expected cashflows	1 474	195	-435	86	-2 099	-778
Mean duration of assets						7.29 years
Mean duration of liabilities						10.03 years
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

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	31-12-2019	31-12-2018
5.00% and higher	3%	3%
More than 4.25% up to and including 4.99%	8%	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%	4%	6%
2.50% and lower	69%	65%
0.00%	2%	2%
Total	100%	100%

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 2019, carrying value[1] (in millions of EUR)						
Total (by portfolio)						Economic impact of +100 basis points[3]
	At amortised cost	At fair value through other comprehensive income (FVOCI)	Held for trading	Total	*For comparison purposes: total at year-end 2018*	
KBC core countries						
Belgium	1 573	2 868	0	4 441	*4 152*	-397
Czech Republic	315	530	0	845	*721*	-53
Hungary	102	103	0	205	*182*	-9
Slovakia	162	219	0	381	*377*	-23
Bulgaria	15	189	1	205	*166*	-13
Ireland	39	167	0	206	*116*	-19
Other countries						
France	736	1206	0	1942	*1 759*	-198
Spain	54	297	0	351	*295*	-20
Italy	32	616	0	648	*676*	-36
Poland	44	259	0	303	*322*	-16
US	0	0	0	0	*10*	0
Germany	225	113	0	338	*393*	-35
Austria	113	121	0	234	*258*	-23
Rest[2]	374	831	0	1 205	*1 332*	-59
Total carrying value	3 785	7 518	1	11 305	*10 759*	–
Total nominal value	3 845	6 566	1	10 412	*10 269*	–

1 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 2019 (at Group level)
3 Theoretical economic impact in fair value terms of a parallel 100-basis-point upward shift in the spread over the entire maturity structure. Only a portion of this impact is reflected in profit or loss and/or equity.

Revaluation reserve at fair value through other comprehensive income (FVOCI) at year-end 2019:

- The carrying value of the total government bond portfolio measured at FVOCI incorporated a revaluation reserve of 0.7 billion euros, before tax (319 million euros for Belgium, 154 million euros for France, 61 million euros for Italy, 25 million euros for Slovakia and 178 million euros for the other countries combined).

At year-end 2019, Belgian sovereign bonds accounted for 39% of our total government bond portfolio, reflecting the importance to KBC of Belgium, the group’s primary core market.
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 2019), we apply two approaches:

- The theoretical full economic impact approach, which assumes a potential sale of the entire portfolio at market prices. The impact of a 100-basis-point shift would then result in a change in value of -397 million euros (see previous table).
- The IFRS approach, whose impact on IFRS profit or loss is marginal since part of the portfolio of Belgian sovereign bonds is classified as ‘At amortised cost’ implying that sales prior to maturity are unlikely (35%; impact only upon realisation), and the remaining part is classified as ‘FVOCI’ (65%; no impact on profit or loss); the impact of a 100-basis-point increase on IFRS unrealised gains is -146 million euros (after tax) for FVOCI assets.

Exposure to non-sovereign bonds at year-end, by rating: economic impact of +100 basis points (in millions of EUR)	31-12-2019	31-12-2018
Bonds rated AAA	-44	-38
Bonds rated AA+, AA, AA-	-75	-77
Bonds rated A+, A, A-	-103	-95
Bonds rated BBB+, BBB, BBB-	-47	-31
Non-investment grade and non-rated bonds	-10	-7
Total carrying value	6 606	6 298

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. A large part of the equity portfolio is held for the Discretionary Profit Sharing (DPS) component 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. More information on total non-trading equity exposures is provided below..

Equity portfolio of KBC Insurance (breakdown by sector, in %)	31-12-2019	31-12-2018
Financials	23%	24%
Consumer non-cyclical	9%	10%
Communication	3%	3%
Energy	4%	6%
Industrials	43%	38%
Utilities	3%	2%
Consumer cyclical	11%	12%
Materials	4%	5%
Other and not specified	0%	0%
Total	100%	100%
In billions of EUR	1.45	1.33
of which unlisted	0.02	0.01

* The limited difference between the 1.45 billion euros in this table and the 1.51 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	
	2019	2018
Insurance activities	-362	-332

Non-trading equity exposure (in millions of EUR)	Net realised gains (in income statement)		Net unrealised gains on year-end exposure (in equity)	
	31-12-2019	31-12-2018	31-12-2019	31-12-2018
Insurance activities	117	110	370	173

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	
	2019	2018
Insurance portfolios	-98	-81

Inflation risk

Inflation – as an econometric parameter – indirectly affects the life of companies in many respects, as do other parameters (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 2019, the undiscounted value of the inflation-sensitive cashflows was estimated at 561 million euros, against which a 369-million-euro portfolio of indexed bonds was held. In the years ahead, investments in inflation-linked bonds will be increased further. The banking activities are not exposed to a significant inflation risk.

Foreign exchange risk

We pursue a prudent policy as regards our structural currency exposure. Material foreign exchange exposures in the ALM books of banking entities with a trading book are transferred via internal deals to the trading book, where they are managed within the allocated trading limits. The foreign exchange exposure of banking entities without a trading book and of insurance and other entities has to be hedged, if material. However, non-euro denominated equity holdings in the investment portfolio are not required to be hedged, as foreign exchange volatility is considered part of the investment return.

In 2019, KBC changed its strategy towards foreign exchange exposures stemming from the value of strategic participations held in foreign currencies. In the past, such participations were fully hedged, so that shareholder value was immune to foreign exchange volatility. As a consequence, the common equity ratio (expressing the relationship between capital and risk weighted assets) was sensitive to this type of volatility. In 2019, KBC decided to focus on stabilising the common equity ratio against foreign exchange fluctuations, which has improved KBC's capacity to cushion external shocks and is beneficial to all stakeholders. This implied a reduction in hedging participations. In conformity with Article 322(2) of the Capital Requirement Regulation, KBC requested and obtained a waiver for the unhedged part of the banking participations. The waiver amounts are reviewed every three months and excluded from the exposure for calculating risk weighted assets. To ensure consistency between banking and insurance entities, strategic insurance participations are no longer hedged either, as they do not affect the common equity ratio under the Danish compromise.

Impact of a 10% decrease in currency value* (in millions of EUR)	Impact on value Insurance	
	31-12-2019	31-12-2018
CZK	-17.17	-0.10
HUF	-4.55	0.00
BGN	-8.76	-0.01
RON	0.00	0.00
USD	-32.74	-29.66
CHF	-8.10	-7.72
GBP	-16.22	-16.16
SEK	-1.67	-2.46
DKK	-1.65	-1.18

* Exposure for currencies where the impact exceeds 1 million euros.

Non-financial risks

Operational risk

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 process risk, legal risk, outsourcing risk, information security risk, information technology risk, model risk, 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 sub-types of operational risk in all entities of the group.

The Competence Centre for Operational Risk, which consists of independent risk experts at both group and local level, works with other expert functions in specific domains to cover the full spectrum of operational risk. Therefore, a working environment is created where risk experts cooperate with other experts in different domains (such as information risk management, business continuity and disaster recovery, anti-fraud, legal, tax and accounting). The competence centre defines the operational risk management framework and the minimum standards for operational risk management processes for the group. It provides oversight and advice on the strength of the control environment for keeping the operational risk profile in line with the risk appetite and informs senior management and oversight committees of the operational risk profile.

The building blocks for managing operational risks

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 up on legislation, as well as using the Product Approval Process, analysing key risk indicators, risk challenges, deep dives, root cause analysis of losses and other trigger-based risk observations. A structured, process-based repository of Group Key Risks and related mitigating Group Key Controls (GKCs) is in place to set top-down minimum standards for risk and control self-assessments performed by the business side. The current set of GKCs covers the complete process universe of the KBC group and is designed to manage key operational risk types. A review process is in place to keep the repository in line with new or emerging operational risk types. Entities translate these group control objectives into their operational process environment and supplement them with additional, local operational controls, if necessary.
- Risk and control metrics: as operational risk is embedded in all aspects of the organisation, unified group metrics and scales are in place to define and support not only the underpinning of the risk profile of an entity, but also the process and individual operational risk levels. The maturity status of individual control objectives within the processes are also defined on a unified scale. 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 (business side) and challenges by the second line of defence (risk, compliance) and assurance by the third line of defence (internal audit) – is in place with risk-based follow-up at both local and group level.
- Challenge and control monitoring: second line of defence functions (risk, compliance, legal, etc.) carry out independent control monitoring to challenge the risk and control environment and the self-assessments performed by the business side.
- 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 NBB, the FSMA and ECB via the annual Internal Control Statement.
- Stress testing: an annual stress test is performed to assess the adequacy of pillar 1 operational risk capital.

Group-wide tools are used by the three lines of defence to support the core activities of operational risk management (risk and control self-assessments, control monitoring, risk responses and action plans, reporting on near misses and operational losses, etc).

The broad spectrum of operational risks is categorised into a number of sub-risk types, in accordance with Basel requirements and industry practice. In 2019, specific attention was paid to the top sub-risk types set out below.

Information risk management

Information risks encompass information security, IT-related risks and business continuity management, including crisis management. Information security risk, especially 'cyber crime-related fraud', is one of the most material risks that financial institutions face these days.

The mission of KBC's Competence Centre for Information Risk Management (IRM) is to protect KBC against threats to data and information, such as loss of integrity, loss of confidentiality and unplanned availability. The competence centre includes an internationally recognised and certified Group Cyber Expertise & Response Team (CERT).

The core activities of information risk management are:

- Steer: developing and measuring group-wide information security and IT-related methodology, risk tooling, key controls, standards and facilitating regulatory assignments;
- Report: driving risk governance via group-wide risk reporting and oversight;
- Support: strengthening the risk capabilities of our entities by offering on-site coaching, threat intelligence and support;
- Challenge: ensuring risks are effectively controlled via group-wide investigations, via ethical hacking exercises, technical Cyber Resilience & Readiness Testing, detailed investigations ('deep dives') and continuous validation;
- Communicate: turning the information risk community into an active, strong alliance via training and awareness, events, roundtables and information sharing;
- Respond: enabling entities to deal with local cyber crises and handle major incidents, managing group-wide crises, providing group-wide oversight, and performing crisis simulations and other incident drills.

Outsourcing risk management

Increased cooperation with third parties, on the one hand, and strategic nearshoring within the KBC group, on the other, have increased the focus on outsourcing risk. From a supervisory perspective, nearshoring is fully equated to outsourcing.

In order to manage outsourcing risk, KBC has a group-wide standard to ensure the risk is properly managed in all entities, in accordance with EBA Guidelines on Outsourcing. Key control objectives are defined when managing both internal and external outsourcing risk during the full life cycle. Several initiatives are in place to ensure that the quality of overall governance and management of outsourced activities is guaranteed, that the group-wide outsourcing register is properly managed and that qualitative advice is provided to support business decisions.

Model risk management

The expanding use of complex models in the financial sector and at KBC is increasing model risk. New types of complex (AI) models are being developed and will increasingly be put to use in most, if not all, business domains.

The model risk management standard is applied across business domains (banking, insurance, asset management) and across the different types of modelling techniques (regression, machine learning, expert-based, etc.). As such, KBC has a model inventory, providing a complete overview of all models used, including an insight into the related risk. For the purposes of labelling model risk, KBC considers intrinsic model uncertainty, materiality, the use and the maturity of governance applying to a model. This provides the basis for defining priorities and establishing domain and country-specific action plans.

Compliance risk

Compliance risk is the risk of losses or sanctions due to failure to comply with laws and regulations presenting an integrity dimension and with internal policies and codes of conduct reflecting the institution's own values, as defined in the Group Compliance Framework. It includes conduct risk, i.e. the current or prospective risk of losses arising from inappropriate supply of financial services, including cases of willful or negligent misconduct. This covers aspects of both hard law and soft law.

The Compliance function's role is twofold: on the one hand, it provides advice from an independent viewpoint on the interpretation of laws and regulations pertaining to the domains it covers. This preventive role materialized a.o. through Group Compliance Rules that define minimum requirements for the entire group, the provision of procedures and instructions, tailored training courses, daily advice and independent opinions in the Product Approval Process, information on new regulatory developments to the governance bodies and support of group strategy, and the implementation of legal and regulatory requirements by the various businesses concerned.

On the other hand – as the second line of defence – it carries out risk-based monitoring to ensure the adequacy of the internal control system. More specifically, monitoring allows it to verify whether legal and regulatory requirements are being correctly implemented in the compliance domains, in line with the three lines of defence model and as described in the Group Compliance Charter and methodology manual. It also aims to ensure the effectiveness and efficiency of the controls performed by the first line of defence. Moreover, quality controls are performed in the main group entities to assure the Board of Directors that the compliance risk is being properly assessed.

The governance of the Compliance function, as described in the Group Compliance Charter, was revised during 2019 to make it more future proof and scalable. This was achieved by simplifying processes, fostering group-wide cooperation among the teams, and through automation and artificial intelligence, which are currently being developed to enhance management of the money laundering risk. Resources have been significantly increased group-wide and monitoring strongly reinforced. Coordination of the Group Fraud Management Framework has also been integrated within Group Compliance.

The values defended by the group and the key requirements are set out in detail in the Integrity Policy. They are complemented by a content-based strategy and by backward and forward-looking, qualitative and quantitative key risk indicators to better underpin the risk profile of the organisation and to reflect the ultimate aim of conforming with the letter and spirit of the law.

Like many other financial institutions, the prevention of money laundering and terrorism financing, including embargoes, was a top priority for the Compliance function in 2019. It is an area where, as several press articles referred to, the knowledge of the client (Know Your Customer (KYC)), updating their profiles and monitoring transactions are essential. Efforts are continuously made to adapt the organisation to a constantly changing regulatory environment, particularly with regard to clients who present an increased risk and for whom additional information is required. Recent developments regarding KYC utilities that enable large banks to share harmonised KYC data on companies are promising and could facilitate client onboarding.

KBC will also continue its group-wide programme to fine-tune implementation of the EU's Fourth Anti-Money Laundering Directive and is taking due consideration of the Fifth Directive, while enhancing artificial intelligence modelling to better target unusual transaction patterns.

It goes without saying that the interests of the client comes first. Given this position, the control functions ensure that, under the Product Approval Process, the launch of any new products conforms with the many legal and regulatory provisions in place, such as MiFID II, the Insurance Distribution Directive and other local and EU Regulations, as well as being in line with KBC's values.

Data protection aspects have been central in 2019 to maximising conformity with GDPR and highlighting its importance through targeted awareness campaigns, while maintaining the right balance with the technological developments inherent in the digitalisation strategy now and going forward.

Reputational risk

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

Business and strategic risks

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.

A number of significant business events that have impacted risk management at KBC over the past year are given below.

Risk innovation and transformation

The fast-changing competitive environment and shifting client behaviour are sending the financial industry into unknown territory. This uncertainty gives rise to new risks, but brings about new opportunities at the same time for serving our customers.

To understand the risks, the technologies and trends deemed relevant to KBC are continuously assessed. Experiments are carried out to fully comprehend the consequences of a new technology or trend. The risk function adapts and further strengthens KBC's Risk Management Framework and its underlying risk management processes in order to properly and pro-actively assess and mitigate the risks. New services like 'contactless payment with wearables' have gone through this Product Approval Process.

When evaluating risks attached to experiments throughout the group, we identify best practices across the risk function. New trends are also monitored closely and translated into the risk framework, if deemed necessary. For example, the use of advanced data analytics and artificial intelligence is becoming increasingly more widespread and, therefore, has prompted KBC to strengthen its model risk management standards (see 'Model risk management' above). Since we have heavily invested in automating our business processes at KBC, we have integrated a set of management practices on robotic process automation into our existing Risk Management Framework.

Apart from embedding new trends and technologies into our risk processes and frameworks, we also use them to expand our risk toolkit and improve the efficiency of risk management processes. Robotic process automation is used in several risk domains to automate reporting and enhance efficiency, amongst other things, in operational risk management. It also helps us to automate standard, repetitive administrative tasks, while artificial intelligence is able to deal with more complex problems. We evaluate the use of artificial intelligence to better pro-actively identify and segment risk.

The risk function focuses on staying connected at all times through internal partnerships and by working with partners outside KBC. We have launched a number of projects that have resulted in a fruitful collaboration with fintech companies for Solvency II reporting, cyber risk reporting, regulatory update services and assessing the impact of climate change. We also raise awareness of and build up knowledge and expertise in new technologies. This knowledge is bundled into staff training sessions, such as holistic courses on artificial intelligence and robot process automation.

We continue to invest in knowledge to further reinforce our risk management practices and to ensure our risk professionals have the skills required for the future.

Interest rate benchmarks

Interest rate benchmarks play a key role in the smooth functioning of the financial markets and are widely used by banks and other market participants. These benchmarks are currently undergoing in-depth reforms. After the scandals surrounding the setting of LIBOR, the UK's Financial Conduct Authority announced that it would no longer oblige banks to contribute to the LIBOR-setting panel from the end of 2020.
In the European Union, the Benchmark Regulation (EU 2016/1011 (BMR), which has been delayed and is now scheduled to come into effect by the end of 2021) sets revised guidelines and regulations on 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 has set up a working group to quantify the risks associated with these changes and to follow up any new developments. KBC has prepared implementation plans for ESTER in its different business segments and will start activating them in the course of 2020.

Corona virus

The recent emergence of COVID-19 (more commonly known as the 'coronavirus') has required additional attention. At the time this report was being prepared, KBC was monitoring the situation on a daily basis. Business continuity plans and epidemic contingency plans have been activated and are in different phases depending on the KBC group entity concerned. Besides monitoring increased operational risk, we are keeping a very close eye on the related macroeconomic impact, including the impact on KBC's home markets from decreasing GDP growth in China at a time when its economy is already in a fragile state. The financial markets also appear to be highly sensitive to the risks relating to the coronavirus, with stock markets, interest rates and oil prices all falling. A broad range of companies may be directly affected due, for instance, to their reliance on imports or exports, their exposure to vulnerable sectors and – for Central European borrowers – their link with the German economy, leading to a potential worsening of their credit profile. The coronavirus might also affect KBC's insurance business, as pandemics/epidemics are usually covered by our insurance policies, though reinsurance cover is available for mortality risk at KBC Insurance NV.

Climate-related risks

The risk associated with the transition to a low-carbon economy and the risk from climate-related physical events that impact our business.

The KBC Risk Management Framework defines the group-wide standards for risk management. Since this framework covers all risks that KBC is exposed to, climate-related risks are being gradually embedded in existing risk management processes.

Governance

The KBC Risk Management Framework is supported by a solid risk governance:

- The management of climate-related risks is fully embedded in our existing Risk Management Governance.
- Risk is actively addressed by the core team of the Sustainable Finance Programme, which focuses on integrating climate-related matters throughout the group.
- The senior general managers of the Group (Credit) Risk Department are members of the Sustainable Finance Programme Steering Committee and one of them also sits on the Internal Sustainability Board.

Risk identification and classification

We continuously scan the internal and external environment for new and emerging risks we are exposed to in the short term (1 to 3 year horizon), in the medium term (3 to 20 year horizon) and in the long term (20 to 30 year horizon). This group-wide process involves all necessary stakeholders, including entities from the business side, corporate sustainability and asset management. To ensure pro-active climate-related risk identification in an integrated environment, we:

- organise internal communication and training for (risk) staff and management.
- have set up a Sustainable Finance Legal Working Group to follow up new and changing regulations.
- take into account sustainability and climate-related policies when deciding on new products or services.
- have identified and defined climate risk in our risk taxonomy.
- regularly report on climate-related risk signals to senior management.

Climate change was identified as a top risk in the past and is becoming increasingly important, triggered in part by the increased sense of urgency regarding transition risks. The identified top risks are used as input for several other risk management exercises and tools, such as risk appetite setting, stress testing, the aligned planning cycle, etc.

Cascading and setting risk appetite

Our risk appetite objectives support the group in defining and realising its strategic sustainability goals of, inter alia, maintaining a strong corporate culture that encourages responsible environmental and social behaviour, achieving long-term sustainable growth and ensuring stable earnings. To be less vulnerable to changes in the external environment – including climate change – we seek diversity and flexibility in our business mix, client segments, distribution channels and geographies, where we refrain from focusing on short-term gains at the expense of long-term stability.

These high-level risk appetite objectives are further specified for a number of risk types in line with our climate-related policies (see 'Focus on climate') and will be gradually improved based on new insights (see 'Risk measurement'):

- A group-wide zero tolerance policy is in place for new business with a company on the KBC blacklist. This policy is fully embedded in the organisation as part of the operational risk management framework.
- Controversial activities identified in our standards for sustainable and responsible lending are managed through sound lending and insurance processes, acceptance policies and product characteristics, and are actively screened by the business side, with quality controls performed by the second and third lines of defence. They also define the playing field for credit and insurance risks.

Risk measurement

We are working together with external parties on a series of tools and methodologies to strengthen our ability to identify and measure climate-related risks (see 'Focus on climate'). These tools will provide further insights into the impact of climate change on our business model, but also the impact of our activities on the environment.

Risk analysis, monitoring and reporting

Indicators for climate-related risks and opportunities are integrated into the KBC Sustainability Dashboard, which allow us to monitor progress in the implementation of our sustainability strategy and to make adjustments when necessary. Climate-related risks will be further integrated into our internal risk reports, ORSA and external reports. Stress testing will also be used as a key tool to gain insights into climate-related vulnerabilities.

The impact of more extreme weather conditions has already been incorporated into the insurance activities, as we use a number of internal and external measures, along with stress tests, to analyse the potential impact of (acute) natural catastrophe events on our non-life (property) portfolio. For the modelling of natural catastrophe events, external broker and vendor models are used in all KBC insurance entities. KBC actively engages and enforces a dialogue on the consideration of climate change in the scenario analysis of these providers.

Forward-looking trends, such as changes in storm and precipitation patterns and changes in the frequency of floods are monitored as part of the Insurance Risk Management Framework and related processes (see ‘Technical insurance risks’). Physical risks in other regions around the world are also closely monitored as they can have an impact on the global reinsurance market on which KBC relies., Climate change does not represent a significant technical insurance risk for KBC in the short to medium term, due mainly to the well-diversified nature of KBC Insurance’s life and non-life activities, the focus on our core markets in Belgium and Central Europe, and the annual renewal of policies and related reinsurance contracts.

Liquidity risk

Liquidity risk is the risk that an organisation will be unable to meet its liabilities and obligations as they become 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 industry. 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.*

How do we manage our capital?

Capital Management is a key management process relating to all decisions on the level and composition of our capital. It aims to achieve the best possible balance between regulatory requirements, rating agencies' views, market expectations and management ambitions.

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 (Solvency II, in millions of EUR)	31-12-2019	31-12-2018
Own funds	3 496	3 590
Tier-1	2 996	3 090
IFRS parent shareholders' equity	3 422	2 728
Dividend payout	-156	-132
Deduction of intangible assets and goodwill (after tax)	-128	-124
Valuation differences (after tax)	-196	341
Volatility adjustment	104	313
Other	-49	-35
Tier-2	500	500
Subordinated liabilities	500	500
Solvency capital requirement (SCR)	1 727	1 651
Solvency II ratio	202%	217%
Solvency surplus above SCR	1 769	1 939

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 conduct 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 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;
- the levels of 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 reverse stress tests, 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.

Composition of the Board and its committees at year-end 2019**

Name	Office held	Period served on the Board in 2019	Expiry date of current term of office	Board meetings attended	Non-executive directors	Share-holders' representatives	Independent directors	Members of the EC	AC	RCC
Number of meetings in 2019				10					6	9
LEYSEN Thomas	Chairman	Full year	2023	10	●					
DEPICKERE Franky	Deputy Chairman of the Board	Full year	2023	10	●	●				9 (c)
THIJS Johan	President of the Executive Committee /Executive Director	Full year	2021	10				● (c)		
FALQUE Daniel	Executive Director	Full year	2020	10				●		
HOLLOWS John	Executive Director	Full year	2021	7				●		
LUTS Erik	Executive Director	Full year	2021	8				●		
POPELIER Luc	Executive Director	Full year	2021	9				●		
SCHEERLINCK Hendrik	Executive Director	Full year	2021	9				●		
VAN RIJSSEGHEM Christine	Executive Director	Full year	2022	10				●		
BOSTOEN Alain	Non-Executive Director	Full year	2020	10	●	●				
CALLEWAERT Katelijn	Non-Executive Director	Full year	2021	10	●	●				
DE BECKER Sonja	Non-Executive Director	Full year	2020	9	●	●				
DEBACKERE Koenraad	Non-Executive Director	From 24 April	2023	6	●					
DONCK Frank	Non-Executive Director	Full year	2020	10	●	●				
HÜBBE Morten	Independent Director	Full year	2021	9	●		●		5	8
LANGFORD Andrew	Independent Director	Full year	2022	10	●		●		6	9
ROUSSIS Theodoros	Non-Executive Director	Full year	2020	9	●	●				
VANHOVE Matthieu	Non-Executive Director	Full year	2021	10	●	●				
VLERICK Philippe	Non-Executive Director	Full year	2020	10	●	●				
WITTEMANS Marc	Non-Executive Director	Full year	2020	10	●	●			6 (c)	

** Walter Nonneman, who was a director until 24 April 2019, attended four meetings.

Statutory auditor: PwC Bedrijfsrevisoren BV, 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 2019

Thomas Leysen and Franky Depickere were re-appointed as directors for a new four-year term of office.

Koenraad Debackere was appointed as director for a term of four years.

Changes in the composition of the committees of the Board in 2019

The composition of the AC and RCC remained unchanged in 2019.

Proposed changes in the composition of the Board in 2020

- Thomas Leysen will resign from the Board following the General Meeting. The Board would like to express its sincere gratitude and appreciation for the contribution he has made to KBC.

  The Board will appoint Koenraad Debackere as Chairman of the Board of Directors of KBC Insurance NV later this year, when he hands over his duties as Managing Director of KU Leuven.
- On the advice of the Nomination Committee, it will be proposed that Alain Bostoen, Sonja De Becker, Frank Donck, Theo Roussis, Philippe Vlerick, Marc Wittemans and Daniel Falque be re-appointed as directors for a new four-year term of office.
- On the advice of the Nomination Committee, the Board will propose that Erik Clinck be appointed as director for a four-year term of office that will end after the General Meeting of 2024. He will succeed Matthieu Vanhove, who intends to resign his directorship following the General Meeting. The Board would like to express its gratitude to Matthieu for his contribution to the Board's work.
- On the advice of the Nomination Committee, the Board will propose that Liesbet Okkerse be appointed as director for a four-year term of office that will end after the General Meeting of 2024.

Brief CVs for the new directors:

- Born in Antwerp on 21 June 1961, Erik Clinck holds Master's Degrees in Applied Economics (University of Antwerp) and in Internal Audit and Corporate Governance (Aix-Marseille Graduate School of Management). Between 1989 and 2018, he worked as an auditor in Belgium where he was accredited by the Belgian Financial Services and Markets Authority and the National Bank of Belgium to audit financial institutions, investment funds, insurance companies, pension funds and listed companies. He is currently an Executive Director at Enactus Belgium and at Marie-Elisabeth Belpaire. Besides being a member of the Board of Directors and Chairman of the Audit Committee of the Thomas More College of Higher Education, he chairs the Consultation Committee for Audit Committee Chairmen of the KU Leuven Association. He sits as an independent member on the Audit Committee of Groep Stad Antwerpen and on the Finance Committee of the Jesuits European Low Countries. He also has a seat on the Advisory Board of Boost for Talent. He has been a member of the Board of Directors – in the capacity of 'external director' – and Chairman of the Audit Committee of Cera Beheersmaatschappij since 29 November 2019.

- Born in Lier on 1 November 1978, Liesbet Okkerse holds a PhD in Applied Economics (University of Antwerp). She started her academic career there as a researcher and assistant (2000-2007), before becoming a lecturer and postdoctoral researcher (2007-2009). Ms Okkerse has worked for the municipality of Zoersel since August 2009, initially as a financial expert (late 2009) before taking up the position of financial director (January 2010 to date). She has been a member of the Board of Directors of Cera Beheersmaatschappij since 29 April 2016 and a member of the Board of Directors of Almancora Beheersmaatschappij since 25 November 2016.

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 Rijsseghem (Chief Risk Officer).

Statutory auditor

The statutory auditor, PwC Bedrijfsrevisoren BV (PwC), was represented by Messrs Yves Vandenplas and Tom Meuleman.

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 524*ter* of the Belgian Companies Code. There were no such conflicts in 2019.
- 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 2019.
- At year-end 2019, 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. He is also Vice-Chairman of the Board of Directors of SimCorp.
  - 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 corporate 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 2019, the RCC comprised the following members:
  - Franky Depickere (deputy chairman of the Board), 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 2019

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 Bostoen, Director					
Quatorze Juillet BVBA	Belgium	Accountancy & consulting	Executive Director	N	N
Katelijn 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
Koenraad Debackere, Director					
Umicore	Belgium	Materials technology	Director	N	N
Group Joos	Belgium	Printing	Chairman of the Board of Directors	N	N
Better3Fruit NV	Belgium	Agriculture & seeds	Chairman of the Board of Directors	N	N
LRM/Mijnen	Belgium	Investment company	Director	N	N
Gemma Frisius-Fonds K.U. Leuven	Belgium	Investment company	Chairman of the Board of Directors	N	N
ZB Sports Development	Belgium	Sport & coaching	Non-Statutory Director	N	N
Essenscia Innovation Fund	Belgium	Investment company	Director	N	N
Televic Group NV	Belgium	Technology & software, communication	Director	N	N
Bio Incubator Leuven NV	Belgium	Biotechnology (infrastructure)	Chairman of the Board of Directors	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

Company name	Registered office	Sector	Office held	Listed	Share of capital held
				(N= not/none)	
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
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 Investeringen 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
Elias Transmission Belgium NV	Belgium	Electricity & gas production,	Director	N	N
ForAtenor SA	Belgium	Leasing	Chairman	N	N
Dossche Immo NV	Belgium	Real estate	Director	N	N
Morten Hübbe, Director					
Tryg Limited	Denmark	Insurance	Executive Director	Y	N
Simcorp as	Denmark	IT	Director	Y	N
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
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
Version 1 Analytics UK Limited	UK	ICT	Director	N	N
Version 1 Analytics Ireland Limited	Ireland	ICT	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
Booischot NV	Belgium	Real estate	Director	N	N
Mediahuis NV	Belgium	Publishing	Chairman of the Board of Directors	N	N
INM	Ireland	Media	Director	N	N
Theo Roussis, Director					
Asphalia NV	Belgium	Management	Executive Director	N	N
Pentahold	Belgium	Investment company	Director	N	N
Matthieu Vanhove, Director					

Company name	Registered office	Sector	Office held	Listed	Share of capital held
				(N= not/none)	
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
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
Mediahuis Partners nv	Belgium	Media group	Deputy Chairman of the Board of Directors	N	N
Mediahuis NV	Belgium	Publishing	Director	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
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
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
Aveve 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
VAB NV	Belgium	Driving school/ roadside assistance	Director	N	100,00%
Groep VAB NV	Belgium	Driving school/ roadside assistance	Chairman of the Board of Directors	N	100,00%
VAB Fleet Services NV	Belgium	Driving school/ roadside assistance	Chairman of the Board of Directors	N	70,00%

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	2019	2018
Net interest income	3.1	462	507
Interest income	*3.1*	*513*	*559*
Interest expense	*3.1*	*- 51*	*- 52*
Non-life insurance (before reinsurance)	3.7	774	775
Earned premiums	*3.7*	*1 741*	*1 601*
Technical charges	*3.7*	*- 967*	*- 826*
Life insurance (before reinsurance)	3.7	- 5	- 20
Earned premiums	*3.7*	*1 324*	*1 361*
Technical charges	*3.7*	*- 1 329*	*- 1 382*
Ceded reinsurance result	3.7	- 25	- 41
Dividend income	3.2	47	53
Net result from financial instruments at fair value through profit or loss	3.3	103	63
of which result on equity instruments (overlay approach)	*3.3*	*93*	*51*
Net realised result from debt instruments at fair value through OCI	-	0	1
Net fee and commission income	3.5	- 349	- 341
Fee and commission income	*3.5*	*165*	*142*
Fee and commission expense	*3.5*	*- 515*	*- 483*
Net other income	3.6	67	78
TOTAL INCOME		1 075	1 074
Operating expenses	3.8	- 471	- 476
Staff expenses	*3.8*	*- 230*	*- 232*
General administrative expenses	*3.8*	*- 226*	*- 230*
Depreciation and amortisation of fixed assets	*3.8*	*- 15*	*- 14*
Impairment	3.10	- 3	- 2
on financial assets at AC and at FVOCI	*3.10*	*1*	*3*
on goodwill	*3.10*	*0*	*0*
other	*3.10*	*- 4*	*- 5*
Share in results of associated companies and joint ventures	3.11	6	19
RESULT BEFORE TAX		607	615
Income tax expense	3.12	- 127	- 145
Net post-tax result from discontinued operations	-	0	0
RESULT AFTER TAX		480	470
attributable to minority interests	-	0	0
of which relating to discontinued operations	-	*0*	*0*
attributable to equity holders of the parent	**-**	**480**	**469**
of which relating to discontinued operations	-	*0*	*0*

- Overview of the impact of the overlay approach on the consolidated income statement: this approach has been applied to 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, 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 191 million euros in unrealised changes in fair value in 2019 (195 million euros before taxes). That is the difference between (i) the result under IFRS 9 (without applying the overlay approach), i.e. 284 million euros, of which 288 million euros in realised and unrealised changes in fair value recognised in 'Net result from financial instruments at FVPL' and -4 million euros in taxes, and (ii) the result under IAS 39, i.e. 93 million euros, comprising a net realised result of 117 million euros and an impairment of -24 million euros. More details are provided in Note 1.2.
- We have dealt with the main items in the income statement in the 'Report of the Board of Directors' under the 'Our financial report' section (which has not been audited by the statutory auditor).
- 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.

Investment shares of the insurer in 2019: Illustration of the overlay approach (in millions of EUR)	**Under IAS39**	**Under IFRS 9 without overlay (choice FVPL)**	**Impact overlay**	**Under IFRS 9 with overlay**
Realised results in profit or loss	117	117	-	117
Unrealised results in profit or loss	-	171	171	-
Impairments in profit and loss	- 24	-	24	- 24
Realised and unrealised results in profit or loss via OCI	195	-	- 195	195
Income taxes (in profit and loss or OCI)	- 4	- 4	-	- 4
Total in profit or loss and OCI	284	284	0	284

Consolidated statement of comprehensive income

(in millions of EUR)	2019	2018
RESULT AFTER TAX	480	470
attributable to minority interests	0	0
attributable to equity holders of the parent	480	469
OCI THAT MAY BE RECYCLED TO PROFIT OR LOSS	554	- 394
Net change in revaluation reserve (FVOCI debt instruments)	365	- 165
Fair value adjustments before tax	484	- 214
Deferred tax on fair value changes	- 118	52
Transfer from reserve to net result	- 1	- 4
Impairment	- 1	- 3
Net gains/losses on disposal	0	- 1
Deferred taxes on income	0	0
Net change in revaluation reserve (FVPL equity instruments) - overlay	191	- 228
Fair value adjustments before tax	288	- 176
Deferred tax on fair value changes	- 4	0
Transfer from reserve to net result	- 93	- 51
Impairment	24	58
Net gains/losses on disposal	- 117	- 110
Deferred taxes on income	0	0
Net change in hedging reserve (cashflow hedges)	0	0
Fair value adjustments before tax	0	0
Deferred tax on fair value changes	0	0
Transfer from reserve to net result	0	0
Gross amount	0	0
Deferred taxes on income	0	0
Net change in translation differences	3	- 3
Gross amount	3	- 3
Deferred taxes on income	0	0
Hedge of net investments in foreign operations	- 1	4
Fair value adjustments before tax	- 7	6
Deferred tax on fair value changes	2	- 2
Transfer from reserve to net result	4	0
Gross amount	4	1
Deferred taxes on income	0	0
Net change in respect of associated companies and joint ventures	- 5	- 3
Gross amount	- 7	- 3
Deferred taxes on income	1	1
Other movements	2	0

(in millions of EUR)	2019	2018
OCI THAT WILL NOT BE RECYCLED TO PROFIT OR LOSS	28	- 7
Net change in revaluation reserve (FVOCI equity instruments)	1	0
Fair value adjustments before tax	1	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 defined benefit plans	26	- 7
Remeasurements	35	- 9
Deferred tax on remeasurements	- 9	2
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	1	0
Deferred tax on remeasurements	0	0
TOTAL COMPREHENSIVE INCOME	1 062	68
attributable to minority interests	0	0
attributable to equity holders of the parent	1 062	68

- Revaluation reserves in 2019: the net change in the ‘revaluation reserve (FVPL equity instruments) – overlay approach’ came to +191 million euros and was largely attributable to positive changes in fair value, partly offset by transfers to the net result (gains on sales offset in part by impairment charges). The ‘revaluation reserve (FVOCI debt instruments)’ rose by 365 million euros, boosted by a general decrease in interest rates. The net change in defined benefit plans (+26 million euros) related mainly to the positive returns on plan assets, partly offset by the lower discount rate.
- 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 165 million euros owing to the effect of an increase in long-term rates (including in Italy and, to a lesser extent, also in Belgium) and operations *(unwinding of discount).*

Consolidated balance sheet

(in millions of EUR)	Note	31-12-2019	31-12-2018
ASSETS			
Cash, cash balances with central banks and other demand deposits with credit institutions	-	227	246
Financial assets	4.0	36 824	35 026
Amortised cost	*4.0*	*7 582*	*7 481*
Fair value through OCI	*4.0*	*13 183*	*12 418*
Fair value through profit or loss	*4.0*	*16 058*	*15 125*
of which held for trading	*4.0*	*13*	*11*
Hedging derivatives	*4.0*	*1*	*3*
Reinsurers' share in technical provisions, insurance	5.6	121	120
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	-	0	0
Tax assets	5.2	45	43
Current tax assets	*5.2*	*37*	*32*
Deferred tax assets	*5.2*	*9*	*10*
Non-current assets held for sale and disposal groups	5.11	28	0
Investments in associated companies and joint ventures	5.3	3	46
Property, equipment and investment property	5.4	298	300
Goodwill and other intangible assets	5.5	142	143
Other assets	5.1	681	663
TOTAL ASSETS		**38 369**	**36 586**
LIABILITIES AND EQUITY			
Financial liabilities	4.0	15 211	14 532
Amortised cost	*4.0*	*1 555*	*1 535*
Fair value through profit or loss	*4.0*	*13 621*	*12 965*
of which held for trading	*4.0*	*12*	*17*
Hedging derivatives	*4.0*	*35*	*33*
Technical provisions, before reinsurance	5.6	18 565	18 388
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	-	0	0
Tax liabilities	5.2	368	277
Current tax liabilities	*5.2*	*36*	*76*
Deferred tax liabilies	*5.2*	*332*	*201*
Liabilities associated with disposal groups	5.11	0	0
Provisions for risks and charges	5.7	5	6
Other liabilities	5.8	797	655
TOTAL LIABILITIES		34 947	33 858
Total equity	5.10	3 422	2 728
Parent shareholders' equity	5.10	3 422	2 728
Minority interests	-	0	0
TOTAL LIABILITIES AND EQUITY		**38 369**	**36 586**

Consolidated statement of changes in equity

(in millions of EUR)	Issued and paid up share capital	Share premium	Treasury shares	Retained earnings	Revalu-ation reserve (AFS assets)	Revalu-ation reserve (FVOCI debt instru-ments)	Revalu-ation reserve (FVPL equity instru-ments) - overlay	Revalu-ation reserve (FVOCI equity instru-ments)	Hedging reserve (cash-flow hedges)	Trans-lation diffe-rences	Hedge of net invest-ments in foreign opera-tions	Remeas-urement of defined benefit plans	Own credit risk through OCI	Total revalu-ation reserves	Parent share-holders' equity	Minority interests	**Total equity**
2019																	
Balance at the end of the previous period	**65**	**1 086**	**- 203**	**1 207**	*-*	*422*	*159*	*10*	*0*	*7*	*1*	*- 25*	*0*	**574**	**2 728**	0	**2 728**
Net result for the period	**0**	**0**	**0**	**480**	*-*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**480**	0	**480**
Other comprehensive income for the period	**0**	**0**	**0**	**2**	*-*	*359*	*191*	*2*	*0*	*3*	*- 1*	*26*	*0*	***580***	***583***	0	**583**
Subtotal	**0**	**0**	**0**	**482**	*-*	*359*	*191*	*2*	*0*	*3*	*- 1*	*26*	*0*	**580**	**1 062**	0	**1 062**
Dividends	**0**	**0**	**0**	**- 368**	*-*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 368**	0	**- 368**
Total change	**0**	**0**	**0**	**114**	*0*	*359*	*191*	*2*	*0*	*3*	*- 1*	*26*	*0*	**580**	**694**	0	**694**
Balance at the end of the period	**65**	**1 086**	**- 203**	**1 321**	*-*	*781*	*350*	*12*	*0*	*10*	*1*	*2*	*0*	***1 154***	***3 422***	*0*	***3 422***
of which relating to the equity method	-	-	-	-	-	*0*	*0*	*2*	*0*	*0*	*0*	*0*	*0*	**2**	**2**		**2**
2018																	
Balance at the end of the previous period	**65**	**1 086**	**- 203**	**1 010**	*1 105*	*0*	*0*	*0*	*0*	*10*	*- 3*	*- 18*	*0*	**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*	*0*	**975**	**2 903**	- 1	**2 903**
Net result for the period	**0**	**0**	**0**	**469**	*0*	*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*	*0*	**- 402**	**- 401**	0	**- 401**
Subtotal	**0**	**0**	**0**	**469**	*0*	*- 168*	*- 228*	*0*	*0*	*- 3*	*4*	*- 7*	*0*	**- 402**	**68**	0	**68**
Dividends	**0**	**0**	**0**	**- 243**	*0*	*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*	*0*	**- 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*	*0*	**574**	**2 728**	0	**2 728**
of which relating to the equity method	-	-	-	-	-	*6*	*0*	*1*	*0*	*0*	*0*	*0*	*0*	**7**	**7**		**7**

- For information on the number of shares, see Note 5.10.
- The ‘Dividends’ item in 2019 (368 million euros) includes the final dividend of 132 million euros for 2018 (paid in May 2019) as well as payment of an interim dividend of 235 million euros as an advance on the final dividend for 2019 (the final dividend will be paid in 2020). In 2018, this item (243 million euros) included the final dividend of 8 million euros for 2017 (paid in May 2018) and an interim dividend of 235 million euros as an advance on the final dividend for 2018 (paid in 2019). Subject to the approval of the General Meeting of Shareholders, KBC Insurance plans to pay a final dividend of 156 million euros for financial year 2019.
- Changes in the revaluation reserves: see ‘Consolidated statement of comprehensive income’.

Consolidated cashflow statement

(in millions of EUR)	Note (1)	2019	2018
OPERATING ACTIVITIES			
Result before tax	Consolidated income statement	607	615
Adjustments for:	-	338	- 19
Result before tax from discontinued operations	Consolidated income 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	58	90
Profit/Loss on the disposal of investments	-	- 5	- 1
Change in impairment on loans and advances	3.10	0	0
Change in technical provisions (before reinsurance)	5.6	444	- 28
Change in the reinsurers' share in the technical provisions	5.6	1	10
Change in other provisions	5.7	1	0
Other unrealised gains/losses	-	- 156	- 70
Income from associated companies and joint ventures	3.11	- 6	- 19
Cashflows from operating profit before tax and before changes in operating assets and liabilities	-	945	596
Changes in operating assets (excluding cash and cash equivalents)	-	- 953	841
Financial assets at amortised cost (excluding debt securities)	4.1	- 12	- 324
Financial assets at fair value through OCI	4.1	- 279	553
Financial assets at fair value through profit or loss	4.1	- 645	542
of which financial assets held for trading	*4.1*	*- 1*	*0*
Hedging derivatives	4.1	2	- 1
Operating assets associated with disposal groups, and other assets	-	- 18	70
Changes in operating liabilities (excluding cash and cash equivalents)	-	590	- 1 384
Financial liabilities at amortised cost	4.1	20	- 415
Financial liabilities at fair value through profit or loss	4.1	656	- 620
of which financial liabilities held for trading	*4.1*	*- 5*	*- 17*
Hedging derivatives	4.1	3	- 3
Technical provisions, before reinsurance	5.6	- 267	- 304
Operating liabilities associated with disposal groups and other liabilities	-	177	- 42
Income taxes paid	3.12	- 124	- 137
Net cash from or used in operating activities		457	- 84
INVESTING ACTIVITIES			
Purchase of debt securities at amortised cost	4.1	- 819	- 106
Proceeds from the repayment of debt securities at amortised cost	4.1	717	430
Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held)	6.6	0	- 39
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	17
Purchase of investment property	5.4	- 16	- 45
Proceeds from the sale of investment property	5.4	4	6
Purchase of intangible fixed assets (excluding goodwill)	5.5	- 17	- 12
Proceeds from the sale of intangible fixed assets (excluding goodwill)	5.5	0	0
Purchase of property, plant and equipment	5.4	- 8	- 11
Proceeds from the sale of property, plant and equipment	5.4	13	0
Net cash from or used in investing activities		- 108	241

(in millions of EUR)	Note (1)	2019	2018
FINANCING ACTIVITIES			
Purchase or sale of treasury shares	Consolidated statement of changes	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	Cons. statement of changes in equity	0	0
Issue of additional tier-1 instruments	Consolidated statement of changes in equity	0	0
Proceeds from the issuance of preference shares	Consolidated statement of changes in equity	0	0
Dividends paid	Cons. statement of changes in equity	- 368	- 243
Coupon additional Tier-1 instruments	Consolidated statement of changes in equity	0	0
Net cash from or used in financing activities		- 368	- 243
CHANGE IN CASH AND CASH EQUIVALENTS			
Net increase or decrease in cash and cash equivalents	-	- 19	- 87
Cash and cash equivalents at the beginning of the period	-	247	334
Effects of exchange rate changes on opening cash and cash equivalents	-	0	- 1
Cash and cash equivalents at the end of the period	-	229	247
ADDITIONAL INFORMATION			
Interest paid	3.1	- 51	- 52
Interest received	3.1	513	559
Dividends received (including equity method)	3.2, 5.3	64	70
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash and cash balances with central banks and other demand deposits with credit institutions	Consolidated balance sheet	227	246
Term loans to banks at not more than three months (excl. reverse repos)	4.1	2	1
Reverse repos with credit institutions and investment firms at not more than three months	4.1	0	0
Deposits from banks repayable on demand	4.1	0	0
Cash and cash equivalents belonging to disposal groups	-	0	0
Total	-	229	247
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.

- KBC uses the indirect method to report on cashflows from operating activities.
- Net cash from or used in operating activities:
    - In 2019, this item included the realised result, partly offset by higher outstanding debt instruments at fair value through OCI.
    - In 2018, it included higher mortgage loans, partly offset by the realised result.
- KBC uses the indirect method to report on cashflows from operating activities.
    - In 2019, this item included mainly additional investments in debt securities at amortised cost.
    - In 2018, it included primarily debt securities.
- Net cash from financing activities in 2019 and 2018 related to the dividend payment (-0.4 billion euros and -0.2 billion euros, respectively).

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 29 March 2020 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 2019:

- In January 2016, the IASB issued IFRS 16 (Leases), which became effective on 1 January 2019. The new standard does not significantly change the accounting treatment of leases for lessors and, therefore, its impact is limited for KBC (given that it is mainly a lessor and not a lessee). The impact of the first-time adoption of this standard of IFRS 16 is limited to a balance sheet increase of 12 million euro. See note 5.4.
- The amendments to IAS 39 with regard to IBOR were applied in our hedge accounting, without having any impact. The vast majority of the hedging derivatives is based on EURIBOR. We refer to note 4.8.2 for the positions in hedging derivatives. As part of the IBOR reform, the IASB made a number of amendments to IAS 39, which provide temporary relief from adopting specific hedge accounting requirements for hedging relationships directly affected by this reform. KBC elected to early apply these amendments. For more information regarding the IBOR reform, see 'Market risk in non-trading activities' in the 'How do we manage our risks?' section.

The following IFRS standards were issued but not yet effective in 2019. KBC will apply these standards when they become mandatory.

- 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 2023 (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 tool. 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). The focus over the past year has been on arriving at a clear interpretation of the standard for KBC and the implementation of an IFRS-17-compliant processing of the accounts. Where necessary, the interpretation of IFRS 17 will be gradually adjusted when new information becomes available from external sources (the IASB or the market) or in-house sources (further detailed analyses). As far as the processing of the accounts is concerned, considerable efforts over the past year have continued to be put into developing an IFRS 17 calculation tool, setting up data flows to fuel that tool and examining the impact of IFRS 17 on the accounting process. These activities are progressing according to plan.
- 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

General/Basic principle

The general accounting principles of KBC Insurance 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, with the exception of derivatives.

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 – overlay approach (FVPL – overlay);*
- 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. 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 (including interest) 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 investments in equity instruments.

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. The relative change in PD that triggers staging is an increase of two PD notches.
- Management assessment: lastly, management review and assess the significant increase in credit risk for financial assets at an individual (i.e. counterparty) and portfolio level, when it is concluded that idiosyncratic events are not adequately captured in the first two tiers of the MTA. Examples of idiosyncratic events are unexpected developments in the macroeconomic environment, uncertainties about geopolitical events and the secondary impact of material defaults (e.g., on the suppliers, clients and employees of a defaulted company).

If none of these triggers results in a move into 'Stage 2', the bond remains in 'Stage 1'. A financial asset is considered as '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 the level of the facility (i.e. contract) for each reporting period. The relative change in PD that triggers staging is an increase of two PD notches.
- Forbearance: forborne financial assets are always considered as 'Stage 2' unless they are already defaulted, 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 (i.e. counterparty) and portfolio level, when it is concluded that idiosyncratic events are not adequately captured in the first four tiers of the MTA (see above for a number of examples).

A financial asset is considered as '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.

As regards loans that are in default, the ECL is also calculated as the product of the PD, EAD and LGD. In this specific case, however, the PD is set at 100%, the EAD is known given the default status and the LGD takes into account the net present value of the (un)recoverable amount.

KBC uses the IRB and Standardised models to assign the Basel PD, which then serves as input for IFRS 9 ECL calculations and staging. If there is no Basel PD model with a similar scope to the IFRS 9 model, the long-term observed default rate is used as the PD for all facilities in the portfolio. For low default portfolios, there may have been no or only a small number of defaults in the period being considered, in which case the PD is determined based on expert input and external ratings.

Forward looking information is reflected in macroeconomic variables, which are determined separately for each country, and in management's assessment of any idiosyncratic events.

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 (and the significant increase in credit risk since initial recognition) 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.

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.

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). KBC classifies most of its financial liabilities under this category, including those used to fund trading activities where no trading intent is present in them (e.g., issued bonds). These financial liabilities are initially measured at cost, which is the fair value of the consideration received including transaction costs. Subsequently, they are measured at amortised cost, which is the amount at which the funding liability was initially recognised minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount. The difference between the amount made available and the nominal value is recorded on an accruals basis as an interest expense. Interest expenses accrued but not yet paid are recorded under accruals and deferrals.

Financial liabilities – own credit risk

For financial liabilities designated at fair value, IFRS 9 requires the financial liability to be measured at fair value upon initial recognition. Any changes in fair value are subsequently recognised in the income statement, except for those relative to changes in own credit risk, which are presented separately in OCI.
Accordingly, movements in the fair value of the liability are presented in different places: changes in own credit risk are presented in OCI and all other fair value changes are presented in the income statement under 'Net result from financial instruments at fair value through profit or loss'. Amounts recognised in OCI relating to own credit risk are not recycled to the income statement even if the liability is derecognised and the amounts realised. Although recycling is prohibited, KBC does transfer the amounts in OCI to retained earnings within equity upon derecognition. The only situation in which presentation of own credit risk in OCI is not applied is where this would create an accounting mismatch in the income statement. This could arise if there is a close economic relationship between the financial liability designated at fair value (for which the own credit risk is recognised in OCI), while all changes in fair value of the corresponding financial asset are measured and recognised at fair value through profit or loss. This is the case with unit-linked investment contracts, where changes in fair value of the liability position are fully offset by the asset position.

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.

Reverse repos and repos

A reverse repo is a transaction in which KBC purchases a financial asset and simultaneously enters into an agreement to sell the asset (or a similar asset) at a fixed price on a future date; this agreement is accounted for as a loan or advance, and the underlying asset is not recognised in the financial statements.

In a repo transaction, KBC sells a security and simultaneously agrees to repurchase it (or a substantially similar asset) at a fixed price on a future date. KBC continues to recognise the securities in their entirety because it retains substantially all of the risks and rewards of ownership. The cash consideration received is recognised as a financial asset and the financial liability is recognised for the obligation to pay the repurchase price.

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 OCI. 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 *OCI.* 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 OCI at that time remains in OCI 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 OCI 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.* 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, *as they fall under the scope of IFRS 9.*
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 (see below), 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' (also referred to as *deposit accounting*) under IFRS 9 and are consequently measured at fair value.
A unit-linked financial instrument classified at fair value through profit or loss represents the liability towards the policyholder, whose consideration received (i.e. deposit) is invested in an investment fund. The latter is classified as a financial asset 'Mandatorily measured at fair value through profit or loss' (in the 'Investment contracts (insurance)' line in Note 4.1). The valuation of the financial assets relating to unit-linked contracts is mirrored in the adjustments to the related liabilities. Unit-linked contracts are policies whose value or return is determined based on investments or an index, and where the policyholder bears the risk.
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. Only the earned management fees and commissions are recognised using margin deposit accounting principles under 'Net fee and commission income' in the income statement.

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 (according to the Royal Decree of 17 November 1994 on the annual accounts of insurance undertakings), 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 IFRS 16 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.

This classification is crucial for positions as a lessor, but less important for positions as a lessee, since both classifications result in similar recognition and measurement of the lease on the balance sheet and in the income statement.

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 into three main categories and recognised in operating expenses (service costs), interest expenses (net interest costs) and other comprehensive income (remeasurements).

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.

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.

Tangible fixed assets

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;
- 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

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. Changes in ownership interests (that do not result in a loss of control) are accounted for as equity transactions. They do not affect goodwill or profit or loss.

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 Insurance 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 31-12-2019		Exchange rate average in 2019	
	1 EUR = … … currency	Change from 31-12-2018 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … … currency	Change relative to average in 2018 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
BGN	1,9558	0%	1,9558	0%
CZK	25,408	1%	25,672	0%
GBP	0,85080	5%	0,87769	1%
HUF	330,53	-3%	325,35	-2%
USD	1,1234	2%	1,1204	5%

* 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 3.3, 3.7, 3.10, 4.2, 4.4–4.7, 5.2, 5.5–5.7, 5.9 and 6.1.

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)	2019	2018
Total	**462**	**507**
Interest income	**513**	**559**
Interest income on financial instruments calculated using the effective interest rate method		
Financial assets at AC	247	212
Financial assets at FVOCI	239	312
Hedging derivatives	1	1
Financial liabilities (negative interest)	19	15
Other	0	13
Interest income on other financial instruments		
Financial assets MFVPL other than held for trading	0	0
Financial assets held for trading	7	5
Of which economic hedges	*6*	*5*
Other financial assets at FVPL	0	0
Interest expense	**- 51**	**- 52**
Interest expense on financial instruments calculated using the effective interest rate method		
Financial liabilities at AC	- 8	- 9
Hedging derivatives	- 12	- 11
Financial assets (negative interest)	- 12	- 7
Other	- 2	- 2
Interest expense on other financial instruments		
Financial liabilities held for trading	- 17	- 22
Of which economic hedges	*- 17*	*- 22*
Other financial liabilities at FVPL	0	0
Net interest expense relating to defined benefit plans	- 1	0

- To enhance transparency, negative interest rates on financial liabilities and on financial assets have now been shown separately in the table. These rates related mainly to transactions with interbank and professional counterparties.

Note 3.2: Dividend income

(in millions of EUR)	2019	2018
Total	47	53
Equity instruments MFVPL other than held for trading	43	52
Equity instruments held for trading	0	0
Equity instruments at FVOCI	4	2

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

(in millions of EUR)	2019	2018
Total	103	63
Financial instruments MFVPL other than held for trading and overlay	860	- 590
Trading instruments (including interest on non-ALM trading derivates and fair value changes on all trading instruments)	10	17
Financial instruments to which the overlay is applied	93	51
Gains or losses on sale	117	110
Impairment	- 24	- 58
Other financial instruments at FVPL	- 860	587
Foreign exchange trading	0	- 2
Fair value adjustments in hedge accounting	0	- 1
Hedge accounting broken down by type of hedge		
Fair value micro hedges	0	- 1
Changes in the fair value of the hedged items	4	- 5
Changes in the fair value of the hedging derivatives	- 4	4
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

- The interest component of ALM derivatives is recognised under 'Net interest income'. Fair value changes in ALM derivatives, excluding those for which an effective cashflow hedge relationship exists, are recognised under 'Net result from financial instruments at fair value through profit or loss'. Under fair value hedge accounting, changes in the fair value of hedged assets are also recognised under this heading, and offsetting takes place insofar as the hedge is effective.
- Fair value changes (due to marking-to-market) of a large proportion of ALM hedging instruments (that are treated as trading instruments) also appear under 'Net result from financial instruments at fair value', whereas most of the related assets are not recognised at fair value (i.e. not marked-to-market).
- Financial instruments to which the overlay approach is applied: see the comments under the consolidated income statement.
- Foreign exchange trading includes all realised and unrealised foreign exchange results (when the monetary assets and liabilities are revalued), regardless of the IFRS portfolio, except for financial assets and liabilities measured through profit or loss, for which the revaluation is included in the fair value correction. Note that (unrealised) foreign exchange gains/losses on claims provisions (insurance) and on the financial instruments hedging the claims provisions are included under 'Technical charges'. (Unrealised) foreign exchange gains/losses on the reinsurers' share of claims provisions and on the financial instruments hedging such provisions are included under 'Ceded reinsurance result'.
- 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 (+832 million euros and -832 million euros, respectively, in 2019 and -580 million euros and +580 million euros, respectively, in 2018). The offsetting movement in opposite directions in 2019 compared to 2018 was accounted for by the healthy stock market climate in 2019, whereas 2018 had been a year in which share prices had fallen.
- 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.

- Most significant fluctuations between 2018 and 2019: the result from financial instruments measured at fair value through profit or loss in 2019 was 40 million euros higher than in 2018, owing primarily to a higher result from shares that was achieved by a combination of higher realised gains and a lower level of impairment.

Note 3.4: Net realised result from debt instruments at fair value through OCI

- The realised result from debt instruments at fair value through OCI was not material in 2018 and 2019.

Note 3.5: Net fee and commission income

(in millions of EUR)	2019	2018
Total	- 349	- 341
Fee and commission income	165	142
Fee and commission expense	- 515	- 483
Breakdown by type		
Asset Management Services	30	27
Fee and commission income	44	40
Fee and commission expense	- 14	- 13
Banking Services	- 6	- 5
Fee and commission income	2	2
Fee and commission expense	- 8	- 7
Distribution	- 374	- 363
Fee and commission income	119	100
Fee and commission expense	- 493	- 462

Note 3.6: Other net income

(in millions of EUR)	2019	2018
Total	67	78
of which gains or losses on		
Sale of financial assets measured at amortised cost	0	0
Repurchase of financial liabilities measured at amortised cost	0	0
of which other, including:	67	78
Income from VAB Group	48	62
Net rental income	16	14

Note 3.7: Insurance results

Note 3.7.1: Overview

(in millions of EUR)	Life	Non-life	Non-technical account	Total
2019				
Earned premiums, insurance (before reinsurance)	1 324	1 741	0	3 065
Technical charges, insurance (before reinsurance)	- 1 329	- 967	0	- 2 296
Net fee and commission income	- 18	- 332	0	- 349
Ceded reinsurance result	- 3	- 22	0	- 25
General administrative expenses	- 145	- 253	- 3	- 400
Internal claims settlement expenses	- 8	- 62	0	- 70
Indirect acquisition costs	- 35	- 76	0	- 110
Administrative expenses	- 102	- 116	0	- 218
Investment management fees	0	0	- 3	- 3
Technical result	- 170	167	- 3	- 6
Investment Income (*)	479	88	39	606
Technical-financial result	309	255	37	601
Share in results of associated companies and joint ventures	-	-	6	6
RESULT BEFORE TAX	309	255	43	607
Income tax expense	-	-	-	- 127
RESULT AFTER TAX	-	-	-	480
attributable to minority interest	-	-	-	-
attributable to equity holders of the parent	-	-	-	**480**
2018				
Earned premiums, insurance (before reinsurance)	1 361	1 601	0	2 962
Technical charges, insurance (before reinsurance)	- 1 382	- 826	0	- 2 208
Net fee and commission income	- 30	- 311	0	- 341
Ceded reinsurance result	- 2	- 39	0	- 41
General administrative expenses	- 147	- 249	- 3	- 399
Internal claims settlement expenses	- 9	- 59	0	- 67
Indirect acquisition costs	- 31	- 70	0	- 100
Administrative expenses	- 108	- 120	0	- 228
Investment management fees	0	0	- 3	- 3
Technical result	- 199	176	- 3	- 26
Investment Income (*)	508	79	36	622
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**

* Investment income (in millions of EUR, for 2019 and 2018, respectively) comprises: ‘Net interest income’ (462, 507), ‘Net dividend income’ (47, 53), ‘Net result from financial instruments at fair value through profit or loss’ (103, 63), ‘Net realised result from debt instruments at fair value through OCI’ (0, 1), ‘Other net income’ (-3, 0) and ‘Impairment’ (-3, -2). The ‘Non-technical account’ also includes the results from non-insurance subsidiaries, such as VAB group and ADD, and a number of real estate companies. They have been included in the note for the ‘insurance business’ given that they are KBC Insurance subsidiaries (but as they cannot be recognised under ‘Life’ or ‘Non-life’, they are included under ‘Non-technical account’). The ‘Non-technical account’ also includes the investment income from equity (i.e. mainly interest income from bonds).

- 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'.
- 'Non-life technical charges' consist mainly of paid claims, changes in claims provisions, changes in the deficiency provision, recourse received, changes in recourse estimations and other technical charges. 'Life technical charges' consist primarily of paid claims, changes in claims provisions, changes in the life insurance provision, changes in the provision for (non-unbundled) unit-linked products, bonuses (profit-sharing), changes in the deficiency provision and other technical charges.
- An overview of the insurer's investment portfolio can be found in the 'How do we manage our risks?' section (in the 'Investment portfolio of KBC Insurance' table, which constitutes part of the financial statements).
- In the vast majority of cases, internal acquisition costs are recognised immediately in the income statement (i.e. not spread).
- In 2019, the non-life technical result was negatively impacted by factors including the storms in Belgium and the Czech Republic (roughly 48 million euros before tax and the impact of reinsurance), major fire damage in Belgium (around 46 million euros before tax and the impact of reinsurance), and the reassessment of claims provisions in the second quarter of 2019 (16 million euros before tax).

Note 3.7.2: Life insurance

(in millions of EUR)	2019	2018
Total	1 324	1 361
By IFRS category		
Insurance contracts	909	935
Investment contracts with DPF	414	426
By type		
Accepted reinsurance	0	15
Primary business	1 324	1 346
Breakdown of primary business		
Individual premiums	979	1 015
Single premiums	264	315
Periodic premiums	715	699
Premiums under group contracts	345	331
Single premiums	55	61
Periodic premiums	290	270
Total sales of life insurance (including investment contracts without DPF)		
Unit-linked	733	705
Guaranteed-rate	1 116	1 112
Total	1 849	1 817

- 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 2019 for premium income of 0.7 billion euros. Premium income generated by investment contracts without DPF (under deposit accounting) is included in 'Total sales of life insurance', as presented in the lower part of the table. These sale volumes, therefore, comprise earned insurance premiums plus premiums from contracts that are subject to deposit accounting.

Note 3.7.3: Non-life insurance

(in millions of EUR)	Earned premiums (before reinsurance)	Claims incurred	Operating expenses (before reinsurance)	Ceded reinsurance	Total
2019					
Total	1 741	- 967	- 587	- 22	165
Accepted reinsurance	14	- 11	- 12	- 17	- 26
Primary business	1 727	- 956	- 575	- 5	191
Accident & health (classes 1 & 2, excl. industrial accidents)	118	- 56	- 40	0	22
Industrial accidents (class 1)	81	- 82	- 17	0	- 18
Motor, third-party liability (class 10)	497	- 310	- 142	0	45
Motor, other classes (classes 3 & 7)	280	- 182	- 95	1	5
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	5	- 2	- 2	0	1
Fire and other damage to property (classes 8 & 9)	507	- 228	- 191	1	89
General third-party liability (class 13)	128	- 50	- 43	- 6	29
Credit and suretyship (classes 14 & 15)	0	0	0	0	0
Miscellaneous pecuniary losses (class 16)	21	- 11	- 8	- 1	1
Legal assistance (class 17)	58	- 22	- 22	0	14
Assistance (class 18)	33	- 13	- 17	0	4
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

Note 3.8: Operating expenses

(in millions of EUR)	FY 2019	FY 2018
Total	- 471	- 476
Staff expenses	- 230	- 232
General administrative expenses	- 226	- 230
of which levies	- 16	- 18
Depreciation and amortisation of fixed assets	- 15	- 14

- 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

	2019	2018
Total average number of persons employed (in full-time equivalents)	3 996	4 202
By employee classification		
Blue-collar staff	306	298
White-collar staff	3 665	3 880
Senior management	25	24

- The figures in the table are annual averages, which – in terms of scope – may differ from year-end figures that are provided elsewhere.
- In May 2019, we began optimising our group-wide governance model (at KBC Group consolidated level), aimed at further improving our operational efficiency This exercise is designed to help our organisation become more agile, with fewer management layers and a more rapid decision-making process, so that client solutions can be delivered faster and our employees become more involved. This optimisation exercise will affect some of our employees. The changes are being implemented in Belgium between September 2019 and the end of 2022, during which period they will result in a reduction in the workforce of approximately 1 400 at KBC Group consolidated level (including 300 positions that will be transferred to KBC's internal Shared Service Centres in the Czech Republic and Bulgaria). In addition, the contracts of 400 external contracted workers will be terminated. The reduction in FTEs will be absorbed through natural attrition.

Note 3.10: Impairment (income statement)

(in millions of EUR)	2019	2018
Total	- 3	- 2
Impairment on financial assets at AC and at FVOCI *	1	3
Of which impairment on financial assets at AC	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)	0	1
Stage 2 (lifetime ECL)	0	0
Stage 3 (non-performing; lifetime ECL)	0	0
Purchased or originated credit impaired assets	0	0
Of which impairment on financial assets at FVOCI	1	3
Debt securities	1	3
Stage 1 (12-month ECL)	0	2
Stage 2 (lifetime ECL)	1	1
Stage 3 (non-performing; lifetime ECL)	0	0
Impairment on goodwill	0	0
Impairment on other	- 4	- 5
Intangible fixed assets (other than goodwill)	- 1	0
Property, plant and equipment (including investment property)	0	- 3
Associated companies and joint ventures	0	0
Other	- 3	- 1

* Modification gains or losses are also recognised under impairment, but were limited.

- For information on total impairment recognised in the balance sheet, see Note 4.2.
- More background information and methodology for KBC's ECL model is provided in the accounting policies under 'Financial assets – impairment' in Note 1.2.
- KBC uses specific models for PD, EAD and LGD in order to calculate ECL. It is essential to take account of historical observations and forward-looking projections in this respect.
  - PD represents the probability of a counterparty defaulting in the next 12 months or during the entire term of the facility (depending on which IFRS 9 'Stage' the facility is in). The PD is driven by the counterparty's internal (and, if applicable, external) credit rating. Variables used in PD models include financial ratios and behavioural parameters (arrears).
  - EAD represents the estimated outstanding debt at the time of default and depends on the existing outstanding debt and any changes permitted under the contract and normal repayments. Variables used in these models include product types and repayment schedules.
  - LGD is the estimated size of the loss relative to the outstanding debt at the time of default. LGD is presented as a percentage of the outstanding debt and is determined by historical amounts recovered on similar claims. Variables used in these models include collateral types and financial ratios.
- 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 2019 that is 0% to 0.2% 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 0.3%. In 2018, the sensitivity analysis generated figures of 0% to 0.1%, and 0.2%, respectively.

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

(in millions of EUR)	2019	2018
Total	6	19
Of which:		
KBC Asset Management SA	2	15
NLB Vita *	4	4

* Sale agreement signed (see Note 6.6).

- 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)	2019	2018
Total	- 127	- 145
By type		
Current taxes on income	- 124	- 137
Deferred taxes on income	- 3	- 8
Tax components		
Result before tax	607	615
Income tax at the Belgian statutory rate	29.58%	29.58%
Income tax calculated	- 179	- 182
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	16	9
tax-free income	46	50
adjustments related to prior years	- 6	0
adjustments to deferred taxes due to change in tax rate	1	2
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)	- 5	- 24

- For information on tax assets and tax liabilities, see Note 5.2.
- Change in tax rate in 2020: the reform of the Belgian corporation tax regime in 2017 includes a further decrease in the tax rate from 29.58% to 25% starting in financial year 2020. This will have a recurring positive impact on the income statement from then on, because of the lower tax rate applying to the Belgian group companies. The decrease will not affect outstanding deferred tax assets and liabilities (and, consequently, total equity), as they already take account of the reduced tax rate.

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

Note 4.1

(in millions of EUR)	AC	FVOCI	MFVPL excl. HFT and overlay	Overlay	HFT	FVO (1)	Hedging deriva-tives	Total
FINANCIAL ASSETS, 31-12-2019								
Loans and advances to credit institutions and investment firms (excl. reverse repos)	476	0	0	0	1	0	0	**477**
Of which repayable on demand and term loans at not more than three months								***2***
Loans and advances to customers (excl. reverse repos)	2 288	0	0	0	0	0	0	**2 288**
Trade receivables	1	0	0	0	0	0	0	**1**
Consumer credit	0	0	0	0	0	0	0	**0**
Mortgage loans	1 199	0	0	0	0	0	0	**1 199**
Term loans	979	0	0	0	0	0	0	**979**
Finance lease	0	0	0	0	0	0	0	**0**
Current account advances	0	0	0	0	0	0	0	**0**
Other	110	0	0	0	0	0	0	**110**
Equity instruments	0	72	0	1 431	3	0	0	**1 506**
Investment contracts (insurance) (5)	0	0	14 584	0	0	0	0	**14 584**
Debt securities issued by	4 767	13 111	31	0	8	0	0	**17 918**
Public bodies	3 785	7 518	0	0	1	0	0	**11 305**
Credit institutions and investment firms	405	1 985	0	0	4	0	0	**2 395**
Corporates	577	3 608	31	0	3	0	0	**4 218**
Derivatives	0	0	0	0	0	0	1	**1**
Other (3)	50	0	0	0	0	0	0	**50**
Total	7 582	13 183	14 615	1 431	13	0	1	**36 824**
FINANCIAL ASSETS, 31-12-2018								
Loans and advances to credit institutions and investment firms (excl. reverse repos)	497	0	0	0	0	0	0	**498**
Of which repayable on demand and term loans at not more than three months								***1***
Loans and advances to customers (excl. reverse repos)	2 296	0	0	0	0	0	0	**2 296**
Trade receivables	1	0	0	0	0	0	0	**1**
Consumer credit	0	0	0	0	0	0	0	**0**
Mortgage loans	1 184	0	0	0	0	0	0	**1 184**
Term loans	1 019	0	0	0	0	0	0	**1 019**
Finance lease	0	0	0	0	0	0	0	**0**
Current account advances	0	0	0	0	0	0	0	**0**
Other	92	0	0	0	0	0	0	**92**
Equity instruments	0	68	11	1 238	4	0	0	**1 321**
Investment contracts (insurance) (5)	0	0	13 837	0	0	0	0	**13 837**
Debt securities issued by	4 679	12 350	27	0	6	0	0	**17 062**
Public bodies	3 616	7 141	0	0	1	0	0	**10 759**
Credit institutions and investment firms	556	1 848	0	0	3	0	0	**2 408**
Corporates	506	3 361	27	0	1	0	0	**3 896**
Derivatives	0	0	0	0	1	0	3	**4**
Other (3)	9	0	0	0	0	0	0	**9**
Total	7 481	12 418	13 875	1 238	11	0	3	**35 026**

(in millions of EUR)	AC	HFT	FVO	Hedging deriva-tives	Total
FINANCIAL LIABILITIES, 31-12-2019					
Deposits from credit institutions and investment firms (excl. repos)	243	0	0	0	**243**
Of which repayable on demand					***0***
Deposits from customers and debt securities (excl. repos)	500	0	0	0	**500**
Demand deposits	0	0	0	0	**0**
Time deposits	0	0	0	0	**0**
Savings accounts	0	0	0	0	**0**
Special deposits	0	0	0	0	**0**
Other deposits	0	0	0	0	**0**
Certificates of deposit	0	0	0	0	**0**
Savings certificates	0	0	0	0	**0**
Convertible bonds	0	0	0	0	**0**
Non-convertible bonds	0	0	0	0	**0**
Convertible subordinated liabilities	0	0	0	0	**0**
Non-convertible subordinated liabilities	500	0	0	0	**500**
Liabilities under investment contracts (5)	0	0	13 610	0	**13 610**
Derivatives	0	12	0	35	**47**
Short positions	0	0	0	0	**0**
In equity instruments	0	0	0	0	**0**
In debt securities	0	0	0	0	**0**
Other (4)	14	0	0	0	**14**
Total	1 555	12	13 610	35	**15 211**

(in millions of EUR)	AC	HFT	FVO	Hedging deriva-tives	Total
FINANCIAL LIABILITIES, 31-12-2018					
Deposits from credit institutions and investment firms (excl. repos)	50	0	0	0	**50**
Of which repayable on demand					***0***
Deposits from customers and debt securities (excl. repos)	500	0	0	0	**500**
Demand deposits	0	0	0	0	**0**
Time deposits	0	0	0	0	**0**
Savings accounts	0	0	0	0	**0**
Special deposits	0	0	0	0	**0**
Other deposits	0	0	0	0	**0**
Certificates of deposit	0	0	0	0	**0**
Savings certificates	0	0	0	0	**0**
Convertible bonds	0	0	0	0	**0**
Non-convertible bonds	0	0	0	0	**0**
Convertible subordinated liabilities	0	0	0	0	**0**
Non-convertible subordinated liabilities	500	0	0	0	**500**
Liabilities under investment contracts (5)	0	0	12 949	0	**12 949**
Derivatives	0	17	0	33	**49**
Short positions	0	0	0	0	**0**
In equity instruments	0	0	0	0	**0**
In debt securities	0	0	0	0	**0**
Other (4)	0	0	0	0	**0**
Total	1 535	17	12 949	33	**14 532**

1 The carrying value comes close to the maximum credit exposure.
2 The amount of the reverse repos is virtually identical to the amount of the underlying assets (that have been lent out).
3 Financial assets not included under 'Loans and advances to customers' as they are not directly related to commercial lending.
4 Financial liabilities not included under deposits from customers as they are not directly related to commercial deposit acquisition.
5 The difference between 'Investment contracts (insurance)' and 'Liabilities under investment contracts' is accounted for by the presentation of non-unbundled investment contracts that are included under 'Investment contracts (insurance)' on the financial assets side, but are included under 'Technical provisions (before reinsurance)' on the liabilities side.

- At year-end 2019, 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 3 892 million euros (debt instruments classified as ‘at fair value through OCI’ (2 403 million euros) and ‘at amortised cost’ (1 489 million euros)) and an associated financial liability with a carrying value of 4 547 million euros (2 464 million euros classified as ‘at fair value through OCI’ and 2 083 million euros as ‘at amortised cost’). 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’).

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

Note 4.2.1: Impaired financial assets

		31-12-2019			31-12-2018	
(in millions of EUR)	Carrying value before impairment	Impairment	Carrying value after impairment	Carrying value before impairment	Impairment	Carrying value after impairment
FINANCIAL ASSETS AT AMORTISED COST						
Loans and advances (*)	2 765	- 1	2 764	2 793	- 1	2 793
Stage 1 (12-month ECL)	2 701	0	2 701	2 734	0	2 734
Stage 2 (lifetime ECL)	63	0	63	58	0	58
Stage 3 (lifetime ECL)	1	0	1	1	0	1
Purchased or originated credit impaired assets (POCI)	0	0	0	0	0	0
Debt Securities	4 768	0	4 767	4 680	- 1	4 679
Stage 1 (12-month ECL)	4 768	0	4 767	4 593	0	4 593
Stage 2 (lifetime ECL)	0	0	0	87	0	86
Stage 3 (lifetime ECL)	0	0	0	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0	0	0	0
FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI						
Debt Securities	13 115	- 4	13 111	12 355	- 5	12 350
Stage 1 (12-month ECL)	13 093	- 3	13 090	11 914	- 3	11 911
Stage 2 (lifetime ECL)	22	- 1	22	441	- 2	439
Stage 3 (lifetime ECL)	0	0	0	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0	0	0	0

(*) The carrying value after impairment in this note is equal to the sum of the lines Loans and advances to credit institutions and investment firms (excl. reverse repos), Loans and advances to customers (excl. reverse repos) and Reverse repos in note 4.1 (in the column Measured at amortised cost)

Note 4.2.2: Impairment details

(in millions of EUR)	31-12-2019 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	31-12-2018 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 01-01-2019	0	0	0	0	1	0	0	0	0	1
Movements with an impact on results (1)	0	0	0	0	0	0	0	0	0	0
Transfer of financial assets										
Stage 1 (12-month ECL)	0	0	0	0	0	0	0	0	0	0
Stage 2 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
Stage 3 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
New financial assets (2)	0	0	0	0	0	0	0	0	0	0
Changes in risk parameters	0	0	0	0	0	0	0	0	0	0
Changes in the model or methodology	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets (3)	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets (3)	0	0	0	0	0	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Impairment on 31-12-2019	0	0	0	0	1	0	0	0	0	1
DEBT SECURITIES AT AMORTISED COST										
Impairment on 01-01-2019	0	0	0	0	1	1	0	0	0	1
Movements with an impact on results (1)	0	0	0	0	0	- 1	0	0	0	0
Transfer of financial assets										
Stage 1 (12-month ECL)	0	0	0	0	0	- 1	0	0	0	0
Stage 2 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
Stage 3 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
New financial assets (2)	0	0	0	0	0	0	0	0	0	0
Changes in risk parameters	0	0	0	0	0	0	0	0	0	0
Changes in the model or methodology	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets (3)	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets (3)	0	0	0	0	0	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Impairment on 31-12-2019	0	0	0	0	0	0	0	0	0	1
DEBT SECURITIES AT FAIR VALUE THROUGH OCI										
Impairment on 01-01-2019	3	2	0	0	5	5	2	0	0	7
Movements with an impact on results (1)	0	- 1	0	0	- 1	- 2	0	0	0	- 2
Transfer of financial assets										
Stage 1 (12-month ECL)	0	0	0	0	0	- 2	2	0	0	0
Stage 2 (lifetime ECL)	0	- 1	0	0	- 1	0	- 1	0	0	- 1
Stage 3 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
New financial assets (2)	1	0	0	0	1	0	0	0	0	0
Changes in risk parameters	0	0	0	0	0	0	- 1	0	0	- 2
Changes in the model or methodology	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets (3)	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets (3)	0	0	0	0	0	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Impairment on 31-12-2019	3	1	0	0	4	3	2	0	0	5

(1) Amounts recovered in respect of loans that have already been written off are recycled to the income statement and recorded as 'Impairment on financial assets at amortised cost and at fair value through OCI'. However, they have not been included in this table since they do not have any impact on impairment losses on the balance sheet.

(2) Also includes impairment related to new financial assets resulting from off-balance-sheet commitments and financial guarantees already given being called.

(3) Derecognition without an impact on results occurs when the impairment adjustment has already been made upfront (for example, at the moment of the sale agreement (disposals) or before the write-off). Derecognition with an impact on results occurs when the impairment adjustment takes place at the same time (for instance, in the case of debt forgiveness).

- 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.
- The loan portfolio contains a portion of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the 'How do we manage our risks?' section (under 'Credit risk'). All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.

Note 4.3: Maximum credit exposure and offsetting

(in millions of EUR)	31-12-2019 Maximum credit exposure (A)	Collateral and other credit enhancements received (B)	Net (A-B)	31-12-2018 Maximum credit exposure (A)	Collateral and other credit enhancements received (B)	Net (A-B)
Subject to impairment	20 759	873	19 885	19 895	788	19 108
of which Stage 3 'non-performing' (AC and FVOCI)	*1*	*0*	*1*	*1*	*0*	*1*
Debt securities	17 879	0	17 879	17 029	0	17 029
Loans and advances (excl. reverse repos)	2 764	873	1 891	2 793	788	2 005
Reverse repos	0	0	0	0	0	0
Other financial assets	50	0	50	9	0	9
Off-balance-sheet liabilities	65	0	65	64	0	64
Not subject to impairment	41	0	41	37	0	37
Debt securities	39	0	39	33	0	33
Loans and advances (excl. reverse repos)	1	0	1	0	0	0
of which FVO	0	0	0	0	0	0
Reverse repos	0	0	0	0	0	0
Derivatives	1	0	1	4	0	4
Other financial assets	0	0	0	0	0	0
Off-balance-sheet liabilities	0	0	0	0	0	0
Total	20 800	873	19 927	19 932	788	19 145

- 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.
- The loan portfolio contains a portion of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail in the 'How do we manage our risks?' section (under 'Credit risk'). All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.
- 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: Financial instruments	Amounts not set off in the balance sheet: Cash collateral	Amounts not set off in the balance sheet: Securities collateral	Net amount
FINANCIAL ASSETS, 31-12-2019							
Derivatives	1	0	1	0	0	0	1
Derivatives (excluding central clearing houses)	1	0	1	0	0	0	1
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	1	0	1	0	0	0	1
FINANCIAL LIABILITIES, 31-12-2019							
Derivatives	47	0	47	0	0	0	46
Derivatives (excluding central clearing houses)	47	0	47	0	0	0	46
Derivatives with central clearing houses	0	0	0	0	0	0	0
Repos, securities lending and similar arrangements	797	0	797	0	0	797	0
Repos	797	0	797	0	0	797	0
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	843	0	843	0	0	797	46
FINANCIAL ASSETS, 31-12-2018							
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 LIABILITIES, 31-12-2018							
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

- 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. These amounts 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 balance sheet	Financial assets measured at amortised cost		Financial liabilities measured at amortised cost	
(in millions of EUR)	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS, 31-12-2019				
Loans and advances to credit institutions and investment firms (incl. reverse repos)	476	612	-	-
Loans and advances to customers (incl. reverse repos)	2 288	2 514	-	-
Debt securities	4 767	5 752	-	-
Other	50	50	-	-
Total	7 582	8 927	-	-
Level 1	-	4 412	-	-
Level 2	-	4 506	-	-
Level 3	-	8	-	-
FINANCIAL LIABILITIES, 31-12-2019				
Deposits from credit institutions and investment firms (incl. repos)	-	-	1 040	1 040
Deposits from customers and debt securities (incl. repos)	-	-	500	500
Liabilities under investment contracts	-	-	0	0
Other	-	-	14	11
Total	-	-	1 555	1 551
Level 1	-	-	-	0
Level 2	-	-	-	1 551
Level 3	-	-	-	0
FINANCIAL ASSETS, 31-12-2018				
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 LIABILITIES, 31-12-2018				
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

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

(in millions of EUR)				31-12-2019				31-12-2018
Fair value hierarchy	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS AT FAIR VALUE								
Mandatorily measured at fair value through profit or loss, other than held for trading incl. overlay	15 514	441	89	16 045	14 627	420	67	15 113
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	1 370	0	61	1 431	1 210	0	39	1 249
Investment contracts (insurance)	14 143	441	0	14 584	13 417	420	0	13 837
Debt securities	2	0	29	31	0	0	27	27
of which sovereign bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other	0	0	0	0	0	0	0	0
Held for trading	7	6	0	13	6	5	0	11
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	1	0	1	0	0	0	0
Loans and advances to customers (incl. reverse repos)	0	0	0	0	0	0	0	0
Equity instruments	3	0	0	3	4	0	0	4
Debt securities	4	5	0	8	1	4	0	6
of which sovereign bonds	*1*	*0*	*0*	*1*	*1*	*0*	*0*	*1*
Derivatives	0	0	0	0	0	1	0	1
Other	0	0	0	0	0	0	0	0
FVO	0	0	0	0	0	0	0	0
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
Debt securities	0	0	0	0	0	0	0	0
of which sovereign bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
At fair value through OCI	9 416	3 533	234	13 183	8 393	3 846	179	12 418
Equity instruments	2	0	70	72	1	8	59	68
Debt securities	9 414	3 533	164	13 111	8 392	3 838	120	12 350
of which sovereign bonds	*5 347*	*2 127*	*44*	*7 518*	*5 354*	*1 744*	*43*	*7 141*
Hedging derivatives	0	1	0	1	0	3	0	3
Derivatives	0	1	0	1	0	3	0	3
Total	24 938	3 981	323	29 242	23 025	4 274	246	27 545

(in millions of EUR)				31-12-2019				31-12-2018
Fair value hierarchy	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL LIABILITIES AT FAIR VALUE								
Held for trading	0	12	0	12	0	17	0	17
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	12	0	12	0	17	0	17
Short positions	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
Designated at fair value	13 610	0	0	13 610	12 931	17	0	12 949
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	13 610	0	0	13 610	12 931	17	0	12 949
Other	0	0	0	0	0	0	0	0
Hedging derivatives	0	35	0	35	0	33	0	33
Derivatives	0	35	0	35	0	33	0	33
Total	13 610	47	0	13 657	12 931	66	0	12 998

- 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 and 4.7.

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.
Level 2	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	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
		Caps & floors, interest rate 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	Option pricing model based on observable inputs (e.g., volatilities)
	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, European & American stock options, 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 2019, KBC transferred 98 million euros' worth of financial assets and liabilities out of level 1 and into level 2. It also reclassified approximately 654 million euros' worth of financial assets and liabilities from level 2 to level 1. Most of these reclassifications were carried out due in part to a change in the liquidity of government bonds and corporate bonds and in part to an optimisation of the fair value hierarchy model.
- 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.

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

- In 2019, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - Financial assets at fair value through OCI: the fair value of debt instruments rose by 44 million euros, due primarily to new positions, changes in fair value and reclassifications into level 3, partly offset by instruments that had reached maturity and sales.
- In 2018, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - Financial assets at fair value through OCI: 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. The decline was reinforced by instruments that had reached maturity and changes in fair value.

Note 4.8: Derivatives

Note 4.8.1 Trading derivatives

				31-12-2019				31-12-2018
(in millions of EUR)	Carrying value		Notional amount (*)		Carrying value		Notional amount (*)	
	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
Total	0	12	162	162	1	17	352	352
Interest rate contracts	0	11	149	149	1	16	351	351
of which interest rate swaps and futures	*0*	*11*	*149*	*149*	*1*	*16*	*351*	*351*
of which options	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Foreign exchange contracts	0	0	13	13	0	0	1	1
of which currency and interest rate swaps, FX swaps and futures	*0*	*0*	*13*	*13*	*0*	*0*	*1*	*1*
of which options	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Equity contracts	0	0	0	0	0	0	0	0
of which equity swaps	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
of which options	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Credit contracts	0	0	0	0	0	0	0	0
of which credit default swaps	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Commodity and other contracts	0	0	0	0	0	0	0	0

(*) In this table, both legs of the derivatives are reported in the notional amounts.

Note 4.8.2 Hedging derivatives

31-12-2019

(in millions of EUR)	Hedging instrument					Hedged item				Impact on equity	
	Notional amount (1)		Carrying value		Change in fair value of hedging instruments as basis for recognising hedge ineffectiveness for the period (2)		Carrying value		Change in fair value of hedged items as basis for recognising hedge ineffectiveness for the period (2)	Ineffective portion recognised in profit or loss	Effective portion recognised in OCI
Hedging strategy	Pur-chased	Sold	Assets	Liabilities		Type	Total (incl. fair value changes)	Of which accumulated fair value adjustments			
Fair value micro hedge											
Interest rate swaps	598	598	0	32	- 4	Debt securities held at AC	0	0	0		
Currency and interest rate swaps	32	32	0	2	0	Loans and advances at AC	0	0	0		
						Debt securities held at FVOCI	683	27	4		
						Debt securities issued at AC	0	0	0		
						Deposits at AC	0	0	0		
Total	630	630	0	33	- 4	Total			4	0	-
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	-
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	- 1
Hedge of net investments in foreign operations											
Total (3)	0	0	0	0	0	Total			0	0	1

(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).

(3) Carrying value liabilities: hedging instruments in the form of foreign currency deposits.

31-12-2018

(in millions of EUR)	Hedging instrument					Hedged item				Impact on equity	
Hedging strategy	Notional amount (1) Pur-chased	Notional amount (1) Sold	Carrying value Assets	Carrying value Liabilities	Change in fair value of hedging instruments as basis for recognising hedge ineffectiveness for the period (2)	Type	Carrying value Total (incl. fair value changes)	Carrying value Of which accumulated fair value adjustments	Change in fair value of hedged items as basis for recognising hedge ineffectiveness for the period (2)	Ineffective portion recognised in profit or loss	Effective portion recognised in OCI
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			- 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	-
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 (3)	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).
(3) Carrying value liabilities: hedging instruments in the form of foreign currency deposits.

- 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.

Estimated cashflows from cashflow hedging derivatives per time bucket (in millions of EUR)	Inflow	Outflow
Not more than three months	5	- 5
More than three but not more than six months	0	0
More than six months but not more than one year	0	0
More than one but not more than two years	6	- 6
More than two but not more than five years	6	- 6
More than five years	0	0

5.0 Notes to other balance sheet items

Note 5.1: Other assets

(in millions of EUR)	31-12-2019	31-12-2018
Total	681	663
Debtors arising out of direct insurance operations	397	356
Debtors arising out of reinsurance operations	29	27
Deposits with ceding companies	12	9
Income receivable (other than interest income from financial assets)	7	4
Other	237	267

Note 5.2: Tax assets and tax liabilities

(in millions of EUR)	31-12-2019	31-12-2018
CURRENT TAXES		
Current tax assets	37	32
Current tax liabilities	36	76
DEFERRED TAXES	- 324	- 191
Deferred tax assets by type of temporary difference	108	119
Employee benefits	7	15
Losses carried forward	2	2
Tangible and intangible fixed assets	7	6
Provisions for risks and charges	1	1
Impairment for losses on loans and advances	4	2
Financial instruments at fair value through profit or loss and fair value hedges	54	55
Fair value changes, financial assets at FVOCI, cashflow hedges and hedges of net investments in foreign operations	28	28
Technical provisions	3	7
Other	2	2
Deferred tax liabilities by type of temporary difference	432	309
Employee benefits	0	0
Losses carried forward	0	0
Tangible and intangible fixed assets	5	4
Provisions for risks and charges	8	8
Impairment for losses on loans and advances	0	0
Financial instruments at fair value through profit or loss and fair value hedges	39	40
Fair value changes, financial assets at FVOCI, cashflow hedges and hedges of net investments in foreign operations	288	170
Technical provisions	88	86
Other	3	1
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	9	10
Deferred tax liabilities	332	201
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.
- The net change in deferred taxes (-132 million euros in 2019) breaks down as follows:

    - an increase in deferred tax liabilities: +123 million euros;
    - a decrease in deferred tax assets: -10 million euros;
- The change in deferred tax liabilities was accounted for chiefly by:
    - the increase in deferred tax liabilities on account of changes in the revaluation reserve for financial instruments measured at fair value through OCI.
- The change in deferred tax assets was accounted for chiefly by:
    - changes to the defined benefit plans.

Note 5.3: Investments in associated companies and joint ventures

(in millions of EUR)	31-12-2019	31-12-2018
Total	3	46
Overview of investments, including goodwill		
KBC Asset Management SA	3	15
NLB Vita *	0	31
Goodwill on associated companies and joint ventures		
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	3	46
Listed	0	0
Fair value of investments in listed associated companies and joint ventures	0	0

* At the end of 2019 a sales agreement was concluded for NLB Vita, which is still subject to regulatory approval.

- 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.
- At year-end 2019, 'Investments in associated companies and joint ventures' no longer included NLB Vita, the Slovenian 50/50 life insurance joint venture, due to the fact that Nova Ljubljanska banka ('NLB') and KBC Insurance NV had signed an agreement at that time to sell their respective stakes in that venture to Sava Re. This marks our complete withdrawal from Slovenia, which is not a core market for KBC. The deal, which is expected to close in the second quarter of 2020, is subject to approval by the regulatory authorities and has a negligible impact on the results. Until then, NLB Vita will be recognised in the balance sheet under 'Non-current assets held for sale and disposal groups'.
- 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)	31-12-2019	31-12-2018
Property, equipment	42	39
Investment property	256	260
Rental income	21	19
Direct operating expenses from investments generating rental income	5	5
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
2019					
Opening balance	30	3	7	39	260
Acquisitions	5	1	2	8	16
Disposals	- 10	0	- 1	- 10	- 2
Depreciation	- 6	- 1	- 1	- 9	- 16
Other movements (*)	15	0	0	14	- 3
Closing balance	34	2	5	42	256
of which accumulated depreciation and impairment	*17*	*8*	*14*	*39*	*214*
Fair value 31-12-2019					390
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

(*) Includes the impact of the first time application of IFRS16 (12 million euros).

- 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 are no material obligations to acquire property or equipment. There are no material 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
2019					
Opening balance	117	0	14	12	143
Acquisitions	0	2	9	5	17
Disposals	0	0	0	0	0
Amortisation	0	- 2	- 4	- 1	- 7
Other movements	- 6	0	0	- 4	- 10
Closing balance	111	0	20	12	142
of which accumulated amortisation and impairment	*199*	*0*	*35*	*19*	*252*
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*

- 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 group 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)	31-12-2019	31-12-2018	Discount rates throughout the specific period of cashflow projections	
			31-12-2019	31-12-2018
DZI Insurance	75	75	9,0%-8,3%	9,1%-8,3%
CSOB Pojist'ovna	18	18	9,9%-7,6%	9,5%-8,1%
Rest	18	24	-	-
Total	111	117	-	-

- The period to which the cashflow budgets and projections relate is 13 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 that 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 2019 (the same as in 2018).
- 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. The table gives an indication for the other entities of the change in key assumptions that would lead to their recoverable amount equalling their carrying value.

Note 5.6: Technical provisions, insurance

(in millions of EUR)	31-12-2019	31-12-2018
Technical provisions (before reinsurance) (i.e. gross figures)	18 565	18 388
Insurance contracts	11 547	11 083
Provision for unearned premiums and unexpired risk	760	705
Life insurance provision	7 545	7 247
Provision for claims outstanding	2 798	2 665
Provision for profit sharing & rebates	28	25
Other technical provisions	416	441
Investment contracts with DPF	7 019	7 305
Life insurance provision	6 953	7 233
Provision for claims outstanding	0	0
Provision for profit sharing & rebates	66	72
Reinsurers' share	121	120
Insurance contracts	121	120
Provision for unearned premiums and unexpired risk	2	2
Life insurance provision	5	5
Provision for claims outstanding	113	114
Provision for profit sharing & 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 & rebates	0	0

MOVEMENTS TABLE	Gross 2019	Reinsurance 2019	Gross 2018	Reinsurance 2018
INSURANCE CONTRACTS, LIFE				
Opening balance	7 669	5	7 608	6
Deposits excluding fees	695	0	715	0
Use of provision of payments	- 505	0	- 568	0
Accretion of interest	166	0	170	0
Cost of profit sharing	2	0	3	0
Exchange differences	14	0	- 11	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	- 72	1	- 249	- 1
Closing balance	7 969	6	7 669	5
INSURANCE CONTRACTS, NON-LIFE				
Opening balance	3 414	115	3 323	126
Changes in the provision for unearned premiums	53	0	39	0
Payments regarding claims of previous financial years	- 193	- 13	- 187	- 9
Surplus/shortfall of claims provision in previous financial years	- 115	- 3	- 149	- 4
Provision for new claims	328	25	306	17
Exchange differences	0	0	- 6	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	90	- 11	88	- 15
Closing balance	3 578	114	3 414	115
INVESTMENT CONTRACTS WITH DPF, LIFE				
Opening balance	7 305	0	7 790	0
Deposits excluding fees	396	0	407	0
Use of provision of payments	- 550	0	- 677	0
Accretion of interest	119	0	141	0
Cost of profit sharing	0	0	0	0
Exchange differences	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 movements (*)	- 253	0	- 355	0
Closing balance	7 019	0	7 305	0

(*) Includes transfers to unit-linked contracts.

- 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.
  - It should be noted that assumptions may vary depending on the type of life insurance (e.g., conventional versus modern), the generation of contracts (mainly the time when the contract is entered into and the applicable terms and conditions) and the country (since we have insurance companies in five of our core markets), making it impossible to quantify these assumptions for the entire group. This is illustrated by the following two points: (i) The discount rate follows the historical market rate and since it concerns a life portfolio, most of which has existed for a long time and also has a long maturity, there are considerable differences within the portfolio. In Belgium alone, discount rates range from 4.75% for the oldest rates to 0.5% and lower for certain modern products. (ii) In terms of mortality risk, unisex mortality tables are used in Belgium, based on the standard 'MK/FK' mortality tables for products sold from 2012 on (before 2012, separate mortality

tables were used for men and women). Corrections may still be made to these standard tables, with due consideration being given to the segmentation criteria of the relevant policies. As a result, the range of mortality tables used is extensive.

- 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 2019, 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)	31-12-2019	31-12-2018
Total provisions for risks and charges	5	6
Provisions for off-balance-sheet commitments and financial guarantees	0	0
Provisions for other risks and charges	5	6
Provisions for restructuring	0	0
Provisions for taxes and pending legal disputes	2	2
Other	2	3

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

- Is not important for KBC Insurance.

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
2019				
Opening balance	0	2	3	6
Movements with an impact on results				
Amounts allocated	0	0	2	2
Amounts used	0	0	- 1	- 1
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	2	2	5
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

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used

Note 5.8: Other liabilities

(in millions of EUR)	31-12-2019	31-12-2018
Total	797	655
Breakdown by type		
Retirement benefit obligations or other employee benefits	10	7
Deposits from reinsurers	71	79
Accrued charges (other than from interest expenses on financial liabilities)	53	57
Other	664	512

- 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) DEFINED BENEFIT PLANS	31-12-2019	31-12-2018
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	210	208
Current service cost	9	9
Interest cost	3	2
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	17	- 2
Experience adjustments	- 3	4
Past-service cost	0	0
Benefits paid	- 9	- 5
Exchange differences	0	0
Curtailments	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	- 1	- 6
Defined benefit obligations at the end of the period	227	210
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	151	163
Actual return on plan assets	49	- 10
Expected interest income on plan assets, calculated based on the market interest rates of high-quality corporate bonds	*2*	*2*
Employer contributions	7	5
Plan participant contributions	0	0
Benefits paid	- 9	- 5
Exchange differences	0	0
Settlements	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	2	- 1
Fair value of plan assets at the end of the period	200	151
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	- 27	- 59
Reimbursement rights	0	0
Asset ceiling limit	0	0
Unfunded accrued/prepaid pension cost	- 27	- 59
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 59	- 45
Amounts recognised in the income statement	- 9	- 10
Amounts recognised in other comprehensive income	35	- 9
Employer contributions	7	5
Exchange differences	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	0	0
Unfunded accrued/prepaid pension cost at the end of the period	- 27	- 59

(in millions of EUR) DEFINED BENEFIT PLANS	31-12-2019	31-12-2018
Amounts recognised in the income statement	- 9	- 10
Current service cost	- 9	- 9
Past-service cost	0	0
Interest cost	- 1	0
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	35	- 9
Actuarial gain or loss resulting from changes in demographic assumptions	0	0
Actuarial gain or loss resulting from changes in financial assumptions	- 17	2
Actuarial result on plan assets	47	- 12
Experience adjustments	3	- 4
Adjustments to asset ceiling limits	0	0
Other	2	5
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 Pensioenfonds KBC (merged with the former OFP Pensioenfonds 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). On 1 January 2019, an improved defined contribution plan was introduced to replace the one introduced in 2014. All employees were again given the one-time option of switching from the defined benefit plan to the new defined contribution plan.

Additional information on retirement benefit obligations (in millions of EUR)	2019	2018	2017	2016	2015
Changes in main headings in the main table					
Defined benefit obligations	227	2 945	2 861	2 851	2 380
Fair value of plan assets	200	2 369	2 433	2 336	2 165
Unfunded accrued/prepaid pension cost	- 27	- 598	- 466	- 543	- 220

Note 5.10: Parent shareholders' equity

Quantities	31-12-2019	31-12-2018
Ordinary shares	**1 050 906**	**1 050 906**
of which ordinary shares that entitle the holder to a dividend payment	*1 050 906*	*1 050 906*
of which treasury shares	*48 889*	*48 889*
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)

At year-end 2019, NLB Vita fell under the scope of IFRS 5 and is, therefore, presented in the balance sheet under 'Non-current assets held for sale and disposal groups'. For more information, see Note 5.3.

6.0 Other notes

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

(in millions of EUR)	31-12-2019			31-12-2018		
	Nominal amount	Provision	Net exposure	Nominal amount	Provision	Net exposure
Undrawn portion of credit lines granted						
Stage 1	0	0	0	0	0	0
Stage 2	0	0	0	0	0	0
Stage 3 – non-performing	0	0	0	0	0	0
Total	0	0	0	0	0	0
of which irrevocable credit lines	*0*	*0*	*0*	*0*	*0*	*0*
Financial guarantees given						
Stage 1	3	0	3	3	0	3
Stage 2	0	0	0	0	0	0
Stage 3 – non-performing	0	0	0	0	0	0
Total	3	0	3	3	0	3
Other commitments given						
Total	62	0	62	62	0	62
Total						
Off-balance-sheet commitments and financial guarantees	65	0	65	64	0	64

- Fair value of financial guarantees: based on the available market value.
- The carrying value of financial assets pledged by KBC as collateral came to 3 671 million euros for liabilities and 0 million euros for contingent liabilities (9 321 million euros and 0 million euros, respectively, in 2018). 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	
	31-12-2019	31-12-2018	31-12-2019	31-12-2018
Financial assets	3 671	1 106	0	0
Equity instruments	0	0	0	0
Debt securities	3 671	1 106	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

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

Note 6.3: Related-party transactions

Transactions with related parties, excluding key management (in millions of EUR)	Parent entities with joint control	Subsidiaries and other entities of group	Associated companies	Joint ventures	Other	Total 2019	Parent entities with joint control	Subsidiaries and other entities of group	Associated companies	Joint ventures	Other	Total 2018
Assets	1	608	14	3	10	637	4	622	14	46	2	687
Loans and advances	0	476	0	0	0	476	0	497	0	0	0	497
Equity instruments (including investments in associated companies and joint ventures)	0	53	14	3	0	70	0	50	14	46	2	112
Other	1	80	0	0	10	91	4	75	0	0	0	79
Liabilities	502	1 114	0	0	0	1 616	501	1 150	0	0	0	1 651
Deposits	0	1 040	0	0	0	1 040	0	1 034	0	0	0	1 034
Other financial liabilities	500	0	0	0	0	500	500	0	0	0	0	500
Other	2	75	0	0	0	76	0	116	0	0	0	117
Income statement	- 108	66	0	0	0	- 42	- 107	28	0	- 5	0	- 84
Net interest income	- 8	153	0	0	0	145	- 8	146	0	0	0	138
Interest income	0	165	0	0	0	165	0	154	0	0	0	154
Interest expense	- 8	- 12	0	0	0	- 20	- 8	- 8	0	0	0	- 16
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	0	0	0	0	1	0	2	0	0	0	2
Net fee and commission income	0	- 84	0	0	0	- 84	0	- 122	0	- 5	0	- 127
Fee and commission income	0	103	0	0	0	103	0	50	0	0	0	50
Fee and commission expense	0	- 186	0	0	0	- 186	0	- 172	0	- 5	0	- 177
Net other income	1	33	0	0	0	34	2	34	0	0	0	36
General administrative expenses	- 100	- 37	0	0	0	- 137	- 101	- 32	0	0	0	- 133
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	5 122	0	0	0	5 122	0	2 610	0	0	0	2 610

*2018: corrected figure

Transactions with key management (members of the Board of Directors and Executive Committee) (in millions of EUR) (*)	2019	2018
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).
- 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 (PwC, in EUR)	2019	2018
KBC Parent company and its subsidiaries		
Standard audit services	1 091 762	1 129 366
Other services	110 950	131 500
Other certifications	110 950	99 501
Tax advice	0	0
Other non-audit assignments	0	31 999
KBC Parent company (alone)		-
Standard audit services	469 865	534 532
Other services	10 750	10 000

Note 6.5: Subsidiaries, joint ventures and associated companies at year-end 2019

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	Luxemburg - LU	--	100	reinsurance company
ČSOB Pojišt'ovna 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	100	holding company
VAB NV	Zwijndrecht - BE	0436.267.594	100	roadside assistance
K&H Biztosító Zrt	Boedapest - HU	--	100	insurance company
KBC Verzekeringen Vastgoed Nederland I BV	Rotterdam - NL	--	100	real estate
KBC Insurance: subsidiaries that are not fully consolidated				
ČSOB Pojišťovací servis, s. r. o.	Pardubice - CZ	--	100	insurance broker
Depannage 2000 NV	Hoboken - BE	0403.992.429	100	vehicles
Maatschappij voor Brandherverzekering cvba	Leuven - BE	0403.552.761	90.18	reinsurance
Olympus Mobility NV	Brussel - BE	0638.809.930	50.08	computer programming activities
Omnia NV	Leuven - BE	0413.646.305	99.99	travel agency
Pardubická Rozvojová, a.s.	Pardubice - CZ	--	100	real estate
Probemo Dubbele Bedieningen NV	Sint-Niklaas - BE	0435.357.180	100	driving school
Sportcomplex Aalst NV	Brussel - BE	0506.736.215	100	real estate
Sportcomplex Heist-op-den-Berg NV	Brussel - BE	0841.432.438	100	real estate
Traject NV	Gent - BE	0448.394.475	76.14	mobility
VAB Banden Peeters NV	Zwijndrecht - BE	0459.070.118	85.07	vehicles
Lubaco BVBA	Ranst - BE	0426.985.189	85.03	vehicles
VAB Fleet Services NV	Zwijndrecht - BE	0866.583.053	70	vehicles
VAB Rijschool NV	Sint-Niklaas - BE	0448.109.811	100	driving school
24+ NV	Zwijndrecht - BE	0895.810.836	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				
Macadam VAB Inspection NV	Vilvoorde - BE	0836.746.447	35.00	vehicles
KBC Insurance: companies accounted for using the equity method				
KBC Asset Management SA	Luxemburg - LU	--	10.71	asset management
KBC Insurance: companies not accounted for using the equity method				
AIA-Pool cvba	Brussel - BE	0453.634.752	33.47	insurance broker
AssurCard NV	Leuven - BE	0475.433.127	20.00	computerised third-party payment system
Optimobil Belgium NV	Brussel - BE	0471.868.277	25.33	vehicles

(*) Sales agreement signed. See note 6.6.

- 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. More information on unconsolidated structured entities is provided in the KBC Group annual report.

  - At year-end 2019, KBC Insurance had received income from unconsolidated structured entities in the form of management fees (54 million euros).
  - At year-end 2019, KBC Insurance held 5.4 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

- At year-end 2019, Nova Ljubljanska banka ('NLB') and KBC Insurance NV signed an agreement to sell their respective stakes in the Slovenian 50/50 life insurance joint venture NLB Vita to Sava Re, meaning that KBC will completely withdraw from Slovenia, which is not one of its core markets. The deal, which is expected to close in the second quarter of 2020, is subject to approval by the regulatory authorities and has a negligible impact on the results.

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 conduct 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 2019, the Solvency II ratio came to 202%, more than double the minimum requirement of 100%.

Key solvency figures for KBC Insurance

Solvency II, KBC Insurance consolidated (in millions of EUR)	2019	2018
Own Funds	3 496	3 590
Tier 1	2 996	3 090
IFRS Parent shareholders equity	3 422	2 728
Dividend payout	- 156	- 132
Deduction intangible assets and goodwill (after tax)	- 128	- 124
Valuation differences (after tax)	- 196	341
Volatility adjustment	104	313
Other	- 49	- 35
Tier 2	500	500
Subordinated liabilities	500	500
Solvency Capital Requirement (SCR)	1 727	1 651
Market risk	1 389	1 379
Non-life	579	557
Life	689	666
Health	264	190
Counterparty	114	111
Diversification	- 991	- 922
Other	- 316	- 331
Solvency II ratio	202%	217%

More detailed information is provided in the 'How do we manage our capital?' section of this report and in KBC's Risk Report.

The information required in relation to risks (in accordance with IFRS 4 and IFRS 7) is provided in those parts of the 'How do we manage our risks?' section which have been audited by the statutory auditor and which constitute part of the financial statements.

Note 6.8: Post-balance-sheet events

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 (29 March 2020):

- The outbreak and global spread of the coronavirus will exert downward pressure on our results in 2020 (but not have any impact on our financial position at year-end 2019). Given that new government, regulatory and/or sector-related measures are being taken every day, it is impossible at this stage to make a reliable estimate of what the consequences will be for the global economy and, more specifically, for our group. We are, of course, closely monitoring the situation. As always, we are adopting a cautious and conservative approach, even though our solid capital and liquidity positions are such that we are able to withstand extreme scenarios. For more information, please also refer to ‘In what environment do we operate?’ in the ‘Our business model’ section and to ‘Non-financial risks’ in the ‘How do we manage our risks?’ section.

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; organisation of public interest; 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 Business Court and are published on www.kbc.com. The financial statements and annual report are filed with the National Bank of Belgium and are available at www.kbc.com. The annual report can also be obtained from the company's registered office and will be sent to those requesting it. Extracts of minutes concerning decisions on the appointment and the termination of the offices of members of the Executive Committee and the Board of Directors are published in the appendices to the Belgian Official Gazette.
- 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 11.30 a.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 11.30 a.m. on the business day immediately before it. Each share gives entitlement to one vote.
- For information on the general meeting of shareholders and the right of shareholders to take part in such meetings, see Article 22 et seq. of the Articles of Association, which are available at www.kbc.com.

Statutory auditor's report

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STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING OF KBC VERZEKERINGEN NV ON THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 24 April 2019, 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 2021. We have performed the statutory audit of the consolidated accounts of KBC Verzekeringen NV for 4 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 2019, 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 38.369 million and a profit for the year (attributable to equity holders of the parent) of EUR 480 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 2019, 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 as approved by the IAASB which are applicable to the year-end and 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.

Emphasis of Matter - subsequent event

As far as the outbreak of COVID 19 is concerned, we draw your attention to Note 6.8: Post-balance-sheet events of the consolidated accounts and the various sections of the directors' report as mentioned in this Note 6.8, in which the board of directors expresses its view that, although the outbreak and global spread of the coronavirus will exert downward pressure on the Group's consolidated results in 2020, it does not have any impact on its consolidated financial position for the year ended 31 December 2019. Our opinion is not qualified in respect of this matter.

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.

<u>Estimation uncertainty with respect to technical insurance provisions</u>

Description of the Key Audit Matter

At year-end 31 December 2019 the technical insurance provisions (before reinsurance) amount to EUR 18.565 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.

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How our Audit addressed the Key Audit Matter

We used our internal actuarial specialists to assist us in performing our audit procedures. We performed procedures 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.

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 2019 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 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.

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How our Audit addressed 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.

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.

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In performing our audit, we comply with the legal, regulatory and normative framework applicable to the audit of the consolidated accounts in Belgium. A statutory audit does not provide any assurance as to the Group's future viability nor as to the efficiency or effectiveness of the board of directors' current or future business management at Group level.

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.

- 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.

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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 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.

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 directors' report is consistent with the consolidated accounts for the year under audit, and it is prepared in accordance with article 3:32 of the Companies' and Associations' 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.

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Statements 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 3:65 of the Companies' and Associations' Code are correctly disclosed and itemized in the notes to the consolidated accounts.

Other statement

- 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, 2 April 2020

The statutory auditor
PwC Bedrijfsrevisoren BV
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	2019	2018
Technical insurance charges, including the internal cost of settling claims (A)	Note 3.7.1	1 006	878
/			
Earned insurance premiums (B)	Note 3.7.1	1 693	1 553
+			
Operating expenses (C)	Note 3.7.1	526	505
/			
Written insurance premiums (D)	Note 3.7.1	1 728	1 597
= (A/B)+(C/D)		89.9%	88.2%

Solvency ratio

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

Calculation	2019	2018
Detailed calculation under 'How do we calculate our risks?'	202%	217%

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.'