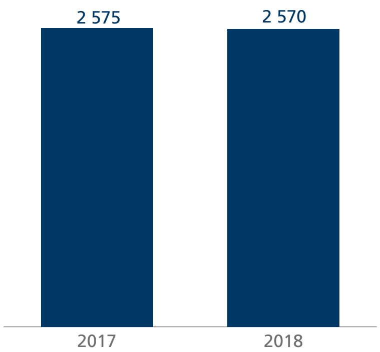
KBC GROUP ANNUAL REPORT for 2018

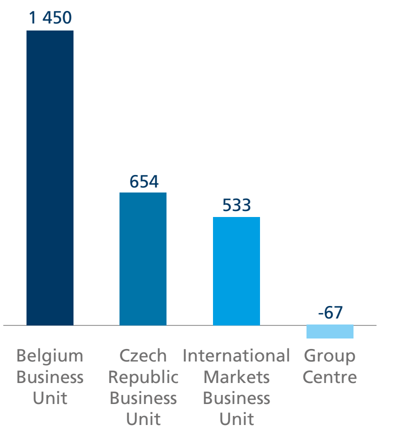
KBC

KBC group passport

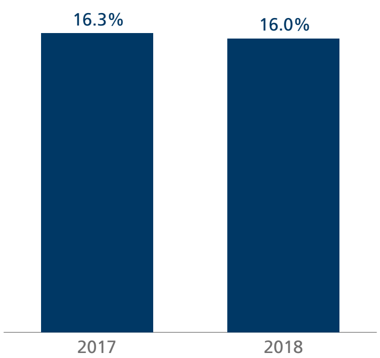
Net result
(in millions of EUR)



Breakdown of net result by business unit
(2018, in millions of EUR)



Common equity ratio at group level
(Basel III, Danish compromise, fully loaded)



Our area of operation

We are an integrated bank-insurance group, catering mainly for retail, private banking, SME and mid-cap clients. Our core markets are Belgium, the Czech Republic, Slovakia, Hungary, Bulgaria and Ireland. We are also present to a limited extent in several other countries to support corporate clients from our core markets.

Our clients, staff and network

Clients	11 million
Staff	42 000
Bank branches	1 389
Insurance network	374 agencies in Belgium, various distribution channels in Central and Eastern Europe

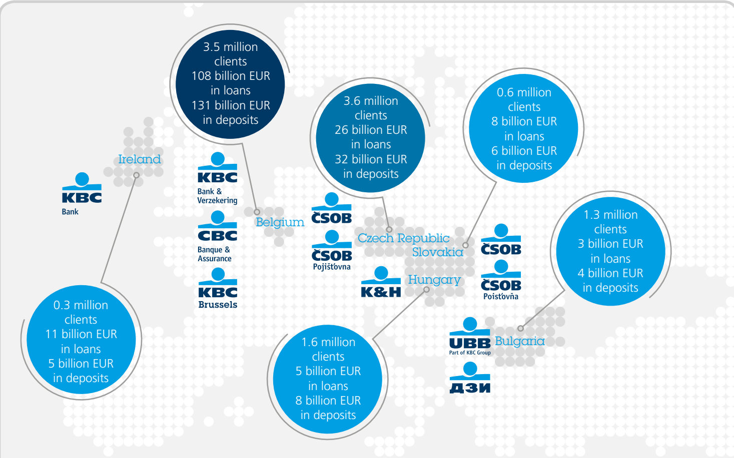
Our long-term debt ratings (14-03-2019)

	Fitch	Moody's	Standard & Poor's
KBC Bank NV	A+	A1	A+
KBC Insurance NV	–	–	A
KBC Group NV	A	Baa1	A-

Our core shareholders

KBC Ancora	18.6%
Cera	2.7%
MRBB	11.5%
Other core shareholders	7.3%

Data relates to year-end 2018, unless otherwise indicated. Outlook/watch/review data for our ratings is given elsewhere in this report.



Clients: estimates; loans: see the 'How do we manage our risks?' section; deposits: deposits from customers and debt securities (excluding repos). Data for Belgium includes the limited network of KBC Bank branches abroad.

	2018	2017	2016	2015	2014
Consolidated balance sheet, end of period (in millions of EUR)*					
Total assets	283 808	292 342	275 200	252 356	245 174
Loans and advances to customers (excluding reverse repos)	147 052	140 999	132 855	127 721	123 162
Securities	62 708	67 743	73 262	72 623	70 359
Deposits from customers and debt securities (excluding repos)	194 291	193 708	177 421	161 542	153 979
Technical provisions and liabilities under investment contracts, insurance	31 273	32 193	32 310	31 919	31 487
Total equity	19 633	18 803	17 357	15 811	16 521
Consolidated income statement (in millions of EUR)*					
Total income	7 512	7 700	7 211	7 148	6 720
Operating expenses	-4 234	-4 074	-3 948	-3 890	-3 818
Impairment	17	30	-201	-747	-506
Net result, group share	2 570	2 575	2 427	2 639	1 762
Belgium	1 450	1 575	1 432	1 564	1 516
Czech Republic	654	702	596	542	528
International Markets (Slovakia, Hungary, Bulgaria, Ireland)	533	444	428	245	-182
Group Centre	-67	-146	-29	287	-100
Environment, sustainability and gender diversity					
Own greenhouse gas emissions (in tonnes of CO_2e per FTE)	2.3	2.5	2.9	3.3	–
Proportion of renewable energy in loans to energy sector (%)	44%	41%	42%	–	–
Volume of SRI funds (in billions of EUR)	9.0	7.1	2.8	–	–
Gender diversity in the workforce (percentage of women)	57%	57%	56%	56%	57%
Gender diversity in the Board of Directors (percentage of women)	31%	31%	31%	25%	22%
KBC share					
Number of shares outstanding, end of period (in millions)	416.2	418.6	418.4	418.1	417.8
Parent shareholders' equity per share, end of period (in EUR)	41.4	41.6	38.1	34.5	31.4
Average share price for the financial year (in EUR)	67.4	66.5	51.0	56.8	43.1
Share price at year-end (in EUR)	56.7	71.1	58.8	57.7	46.5
Gross dividend per share (in EUR)	3.50	3.00	2.80	0.00	2.00
Basic earnings per share (in EUR)	5.98	6.03	5.68	3.80	3.32
Equity market capitalisation, end of period (in billions of EUR)	23.6	29.8	24.6	24.1	19.4
Financial ratios*					
Return on equity	16%	17%	18%	22%	14%
Cost/income ratio, banking	57.5%	54.2%	55%	55%	58%
Combined ratio, non-life insurance	88%	88%	93%	91%	94%
Credit cost ratio, banking	-0.04%	-0.06%	0.09%	0.23%	0.42%
Common equity ratio (Danish compromise method, fully loaded)	16.0%	16.3%	15.8%	14.9%	14.3%

For definitions and comments, please see the analyses and 'Glossary of financial ratios and terms' in this report. The proposed dividend for 2018 is subject to the approval of the General Meeting of Shareholders.

* We are applying IFRS 9 with effect from 2018. The 2018 figures are not perfectly comparable therefore with previous years.

Our key performance indicators (KPIs) at group level

Total income Target: CAGR for 2016–2020 ≥ 2.25%	**Cost/income ratio** Target: ≤ 47% (excl. bank tax) in 2020 and ≤ 54% (incl. bank tax) in 2020	**Combined ratio** Target: ≤ 94% in 2020	**Dividend payout** Target: ≥ 50%	**Digital interaction** Target: ≥ 80% in 2020
Bank-insurance clients Target: CAGR for 2016–2020 ≥ 2% in Belgium, ≥ 15% in the Czech Republic, ≥10% at International Markets	**Stable bank-insurance clients** Target: CAGR for 2016–2020 ≥ 2% in Belgium, ≥ 15% in the Czech Republic, ≥15% at International Markets	**Reputation** Target: achieve the same or a higher score than the peer group average	**Client experience** Target: achieve the same or a higher score than the peer group average	**Innovation** Target: achieve the same or a higher score than the peer group average
Governance Target: achieve the same or a higher score than the peer group average	**Stakeholder interaction** Target: have a formal stakeholder interaction process in place	**Own capital target** Target: fully loaded common equity ratio of 14% (updated annually)	**Reference capital position** Target: fully loaded common equity ratio of 16% (updated annually)	**Position in SRI funds** Target: 10 billion euros by year-end 2020
Renewable energy loans Target: share of renewable energy sources and biofuels in the energy-sector loan portfolio ≥ 50% in 2030	**Own greenhouse gas emissions** Target: reduction of at least 25% between 2015 and 2020 and at least 50% between 2015 and 2030			

KPI definitions and the scores achieved to date are provided in the 'Our strategy' section, as are the key regulatory capital and liquidity ratios (common equity ratio, MREL, NSFR and LCR).

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Report of the Board of Directors

Consolidated financial statements

Company annual accounts and additional information

Welcome

Statutory annual report: we have incorporated the content of the annual report required by law into the 'Report of the Board of Directors', which also contains additional, non-compulsory information. We have also combined the reports for the company and consolidated financial statements. All other reports and the websites we refer to do not form part of our annual report.

Statement regarding the publication of non-financial information: in keeping with our commitment to integrated reporting, we have incorporated our non-financial information in various sections of the 'Report of the Board of Directors'. The references to the sections concerned are provided under the 'Non-financial information statement'. Information concerning diversity can be found in the 'Corporate governance statement'.

Company name: 'KBC', 'we', 'the group' or 'the KBC group' refer to the consolidated entity, i.e. KBC Group NV plus all the group companies included in the scope of consolidation. 'KBC Group NV' refers solely to the parent company.

Translation: this annual report is available in Dutch, French and English. The Dutch version is the original; the other language versions are unofficial translations. We have made every reasonable effort to avoid any discrepancies between the different language versions. However, should such discrepancies exist, the Dutch version will take precedence.

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

Glossary: a list of the most important financial ratios and terms used (including the alternative performance measures) can be found at the back of this report.

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REPORT OF THE BOARD OF DIRECTORS

KBC at a glance

Creation: formed in 1998 after the merger of two large Belgian banks (the Kredietbank and CERA Bank) and a large Belgian insurance company (ABB Insurance)

Principal activity: integrated bank-insurance (banking, insurance and asset management)

Approximately 11 million clients

Approximately 42 000 employees

Omnichannel approach: approximately 1 400 bank branches, insurance sales via own agents and other channels, various mobile and online channels

Principal brands:
- Belgium: KBC, KBC Brussels, CBC
- Bulgaria: UBB, DZI
- Hungary: K&H
- Ireland: KBC Bank Ireland
- Slovakia: ČSOB
- Czech Republic: ČSOB

In addition to our annual report, you will find more detailed information on our sustainability approach, our risk management and our position in society in separate reports at www.kbc.com.

Annual Report

- Provides information (including mandatory statements) on the business model, strategy, sustainability, governance, financial performance, risks and capital. Intended for investors, clients, employees and society in general.
We apply the principles of integrated reporting wherever possible.
- www.kbc.com > Investor Relations > Reports > Annual Reports

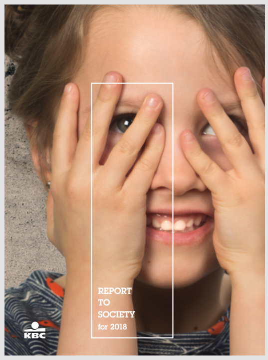
Sustainability Report

- Focuses on our sustainability strategy. Contains detailed non-financial data and is aimed at sustainability experts, investors, employees, business partners, clients and non-profit organisations. Prepared according to GRI Standards (Core option) and includes the GRI content index. Published after the Annual Report.
- www.kbc.com > Corporate Sustainability > Reporting

Risk Report

- Provides greater detail on the group's risk and capital management. Based on the third pillar of Basel III and the Capital Requirements Regulation, Published simultaneously with the Annual Report.
- www.kbc.com > Investor Relations > Reports > Risk Reports

Report to Society



- Looks more closely at how KBC accepts its role in society. Primarily intended for clients, employees and society in general. Published simultaneously with the Annual Report.
- www.kbc.com > Corporate Sustainability > Reporting

Our goal and our ambition

Goal	Through our activities, we want to help our clients to both realise and protect their dreams and projects.
Ambition	We want to be the reference for bank-insurance in all our core markets.
Strategy	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 sustainable and profitable growth. • We meet our responsibility to society and local economies. We put our strategy into practice within a stringent risk, capital and liquidity management framework.
Sustainability	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 – promoted and implemented by all our employees and geared towards the local economy and society – consists of financial resilience and our three cornerstones: • encouraging responsible behaviour on the part of our employees; • enhancing our positive impact on society; • limiting any negative impact we might have on society.

How do we determine what is important enough to mention in our annual report?

We take our cue from relevant legislation and the International Financial Reporting Standards, for instance, and take as much account as possible of the guidelines issued by the International Integrated Reporting Council. We base our non-financial statement primarily on the GRI (Global Reporting Initiative) Standards. Full implementation of GRI Standards (Core option) and the GRI Content Index are discussed in our Sustainability Report, which is published at www.kbc.com.

These reporting frameworks emphasise materiality and relevance in reporting. Our efforts to determine which subjects are important to our stakeholders include carrying out a materiality analysis (see 'Our materiality analysis', which also includes a reference list showing where we cover the matters in question in the report).

Information on the scope of consolidation used for financial information is provided in Note 6.5 of the 'Consolidated financial statements' section. Our non-financial data is collected through a group-wide process that includes strict hierarchical validation and applies as a minimum to all KBC entities with over 100 FTEs (for some areas it applies to the entire scope of consolidation).

Statement by the Chairman of the Board of Directors and the Chief Executive Officer

KBC celebrated its twentieth anniversary in 2018

Johan Thijs: It was back in 1998 that the Kredietbank, Cera and ABB merged to form a single large bank-insurance group. Through those companies, our roots actually go a lot deeper into the past. But the KBC name itself dates back twenty years. I've been here since the beginning and I look back over those two decades with pride. We've built a new financial institution on the foundations of three established players. The years that followed were marked by expansion and growth, particularly in Central and Eastern Europe, and the creation of a unique and successful integrated bank-insurance concept. We too suffered the consequences in 2008 and 2009 of the global financial crisis, but we bounced back, repaid the state aid we received ahead of schedule and consistently and successfully focused on our core activities and core countries. Our integrated bank-insurance model works and our strategy – which centres on what our clients want – has delivered persistently strong results, thanks to the unflagging efforts of our employees in all our core countries.

The digital transformation is in full swing right now

Johan Thijs: If one thing has changed over the past twenty years, it's the overwhelming rise of the digital dimension. We've embraced that digital future, looking first and foremost at what our clients want. Our offering combines 'human-to-human' advice with digital methods and artificial intelligence. Digitalisation is not a goal in itself: our focus is on developing innovative solutions that ensure greater convenience. For instance, we were the first bank in Belgium to add multibanking possibilities to our mobile app. Not only that, we've integrated a variety of non-banking capabilities into it as well. I should add that this focus on digital convenience applies to all our core countries. Wherever possible, we also copy applications from one country to another. This is perfectly illustrated by the multibanking features offered in online banking in the Czech Republic, where we also received the award for 'Best Online Bank'. To give another example of digital innovation, our clients in Ireland – where we're firmly committed to a 'Digital First' approach – can use the app to report a lost or stolen bank card and receive a digital replacement. KBC Bank Ireland was also the first to offer its clients Garmin Pay alongside Apple Pay, Google Pay and FitBit Pay.

Sustainability is firmly embedded in KBC's business model

Thomas Leysen: Sustainability is an integral part of our strategy. To keep abreast of society's shifting perceptions and expectations, we engage our stakeholders in an open dialogue and ensure transparent communication. It gives us a clear picture of what our stakeholders consider important and enables us to respond to that better and more proactively in our current and future projects and initiatives. For instance, we further tightened our policy guidelines for sustainable banking in 2018, including those relating to coal funding. We also launched new products that make a positive contribution to society, such as a first green bond and a sustainable pension savings fund managed by KBC Asset Management. And we're likewise committed to new international initiatives in the field of climate change and sustainability. KBC is a 'supporting company', for instance, for the recommendations of the Task Force on Climate-related Financial Disclosures, and we've been a member of the UN Environment Programme Finance Initiative since the beginning of January 2018.

Other important events in 2018

Thomas Leysen: Following the takeover of United Bulgarian Bank and Interlease in mid-2017, we increased our stake in the life-insurance joint venture between United Bulgarian Bank and MetLife from 60% to 100% in 2018. The firm is now a part of DZI, our Bulgarian insurer. Thanks to this deal, not only will we benefit from cost-savings and synergies, but we are

now in a better position to sell DZI's life and non-life insurance products through UBB's branches, enabling us to roll out our bank-insurance model further in Bulgaria, which is one of our group's core markets. Other noteworthy events included the buyback of 2.7 million of our own shares, which we successfully concluded in mid-2018 for a total sum of 181 million euros. And we were able at the end of 2018 to sell part of our legacy portfolio in Ireland, as a result of which our non-performing ratio in that country has declined significantly.

Net profit came to almost 2.6 billion euros in 2018

Johan Thijs: 2018 was another strong year in financial terms too. Our revenue benefited from a number of factors, including the increase in net interest income and a higher contribution from our insurance business, which largely offset the decline in certain other income items. We kept our costs firmly under control again, despite wage inflation and higher regulatory costs and bank taxes. The quality of our loan portfolio continued to improve, and – like the year before – we were again able to reverse some of the provisions that had been set aside in the past, thanks primarily to our Irish mortgage portfolio. All of this, combined with a number of one-off items, gave us a total net profit for 2018 of 2 570 million euros. We are looking to pay out a total of approximately 59% of that figure, subject to the approval of the General Meeting of Shareholders. That translates into a total gross dividend of 3.50 euros per share, with 1 euro of that amount already paid as an interim dividend in November 2018.

Expectations going forward

Johan Thijs: European economic growth remained robust in 2018, but it did slow down compared to the previous year. A variety of persistent risks and uncertainties weighed on economic sentiment, including the drawn-out Brexit negotiations, the deterioration of the international trading climate and the ups and downs in Italy's budget negotiations. We anticipate a further slowdown of growth in 2019, with inflation remaining relatively limited. Risks on the geopolitical and international trade fronts are and will remain the main impediments to European economic growth. What's more, the risks associated with the late-cycle US economy may feed through into the European economy.

Thomas Leysen: If we can be certain of one thing, it is that in whatever economic environment we find ourselves, our existence and our future depend primarily on the trust placed in us by our clients, employees and shareholders. We are genuinely grateful for that trust and will make every effort to continue earning it in the future.

Johan Thijs
Chief Executive Officer

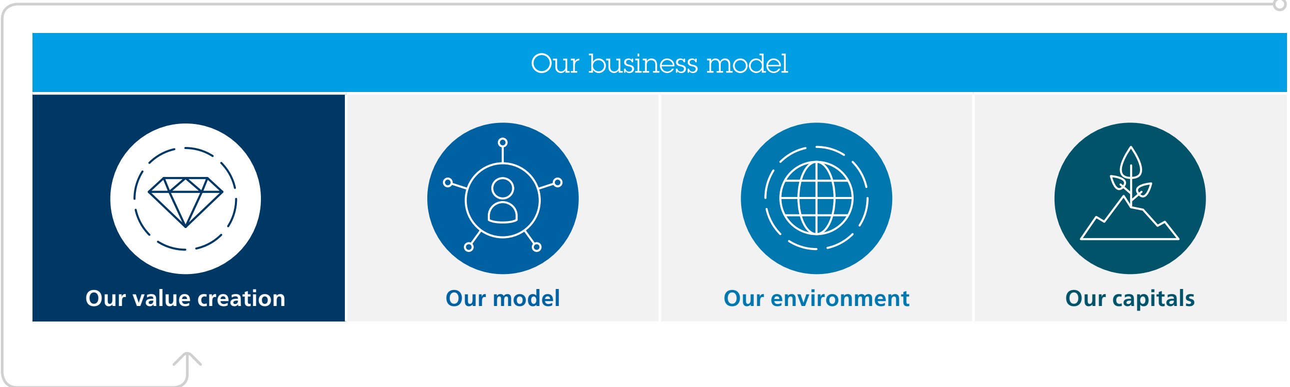
Thomas Leysen
Chairman of the Board of Directors

Our business model

In this section, we describe how we create sustainable value, the characteristics of our model, the conditions in which we pursue our activities, and what types of capital we use for that purpose. In the section on our strategy, we discuss the principles we apply in order to achieve our goal of becoming the reference for bank-insurance in all our core markets.

Our clients can use our loans, deposit products and asset management services to help them realise their dreams and projects, and take out our insurance to protect those dreams and projects.

How do we create sustainable value?



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

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

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

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

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

What's more, as a major player in each of our core countries, we form part of the local economic and social fabric.
In this way, 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. We provide them with development opportunities too and the means to maintain the best possible work-life balance.

We use various types of resource or 'capital' to enable us to operate.

Financial capital is the money we receive from different capital providers to support our activities and to invest further. It comprises the capital made available by our shareholders and accumulated profit generated by our operations.

Human capital and intellectual capital refer to the recruitment, management and development of our employees, to enable them to use their talents and experience to keep improving our service. Intellectual capital relates to the knowledge and creativity of our employees, our intellectual property and our brand name.

Manufactured capital is a generic term for all the forms of infrastructure we use to perform our activities. It includes our office buildings, branches and agencies, our electronic and other networks and our ICT platforms.

Social and relationship capital comprises all relationships with and our reputation among our clients, stakeholders, government, regulators and other stakeholders who enable us to operate.

Natural capital refers to the raw materials we use in our operations. Although the direct consumption of raw materials is less significant for a financial institution, our indirect impact is more substantial on account of our loan and investment portfolios, for instance.

- Total equity of 19.6 billion euros

- Approximately 42 000 employees
- Strong brands in all core countries
- Capacity to innovate
- PEARL business culture

- 1 389 bank branches
- Different distribution channels for insurance
- Various electronic distribution platforms, apps and underlying ICT systems

- 11 million clients in six core countries
- Relationships with suppliers, government, regulators and other stakeholders

- Direct use of electricity, gas, water, paper, etc.
- Indirect impact through lending, investment portfolio, funds, etc.

Our activities

- We lend money to clients, taking account of our own risk appetite, relevant legislation and the impact on society and the environment. We build up the funds for this lending activity chiefly through clients' savings.
- We offer our clients a broad range of investment products (including sustainable products) and advise them on managing their assets. We invest a proportion of our funds in securities.
- We protect our clients from risks via a comprehensive insurance offering and compensate them for insured losses.
- We support our clients by offering services in the area of payments, securities, access to the financial markets and derivative products, leasing, real estate activities, etc.
- We invest in our employees to guarantee seamless service provision to our clients and to encourage responsible behaviour.
- We invest in our infrastructure and ICT to improve our efficiency and to serve our clients even more effectively.
- We contribute to society by paying income tax and special bank taxes and we take initiatives in areas in which we can make a difference as a bank-insurer, such as financial literacy, the environment, demographic ageing and health.

- Net profit of 2.6 billion euros
- Gross dividend of 3.50 euros for 2018
- 165-billion-euro loan portfolio, 194 billion euros in deposits and 31 billion euros in insurance reserves
- Robust capital and liquidity ratios
- Cost/income ratio of 57.5% and combined ratio of 88%

- 2.3 billion euros in remuneration paid to our staff.
- High level of staff involvement
- KPI for reputation: see elsewhere in this report

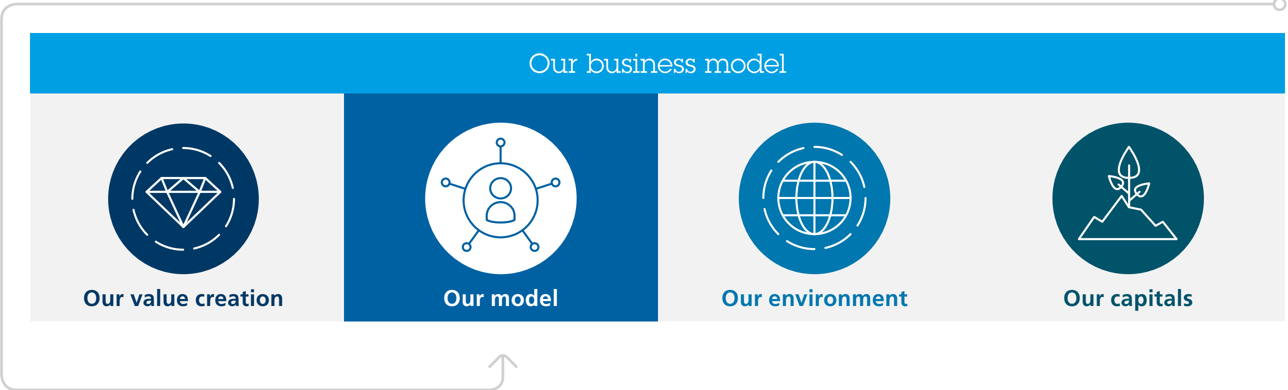
- Various new electronic applications
- Group's digital strategy clearly defined within an omnichannel approach
- KPIs for digital interaction and innovation: see elsewhere in this report
- 1.5-billion-euro investment in digitalisation in 2017–2020

- KPIs for client experience, governance and growth in bank-insurance clients: see elsewhere in this report
- Stakeholder interaction process
- Aggregate 1.2 billion euros paid in income taxes and bank taxes
- Focus on financial literacy and promoting entrepreneurship

- Clear sustainability strategy
- Focus on environmental awareness and the issue of demographic ageing and health care
- KPIs for own greenhouse gas emissions, SRI funds and loans for renewable energy

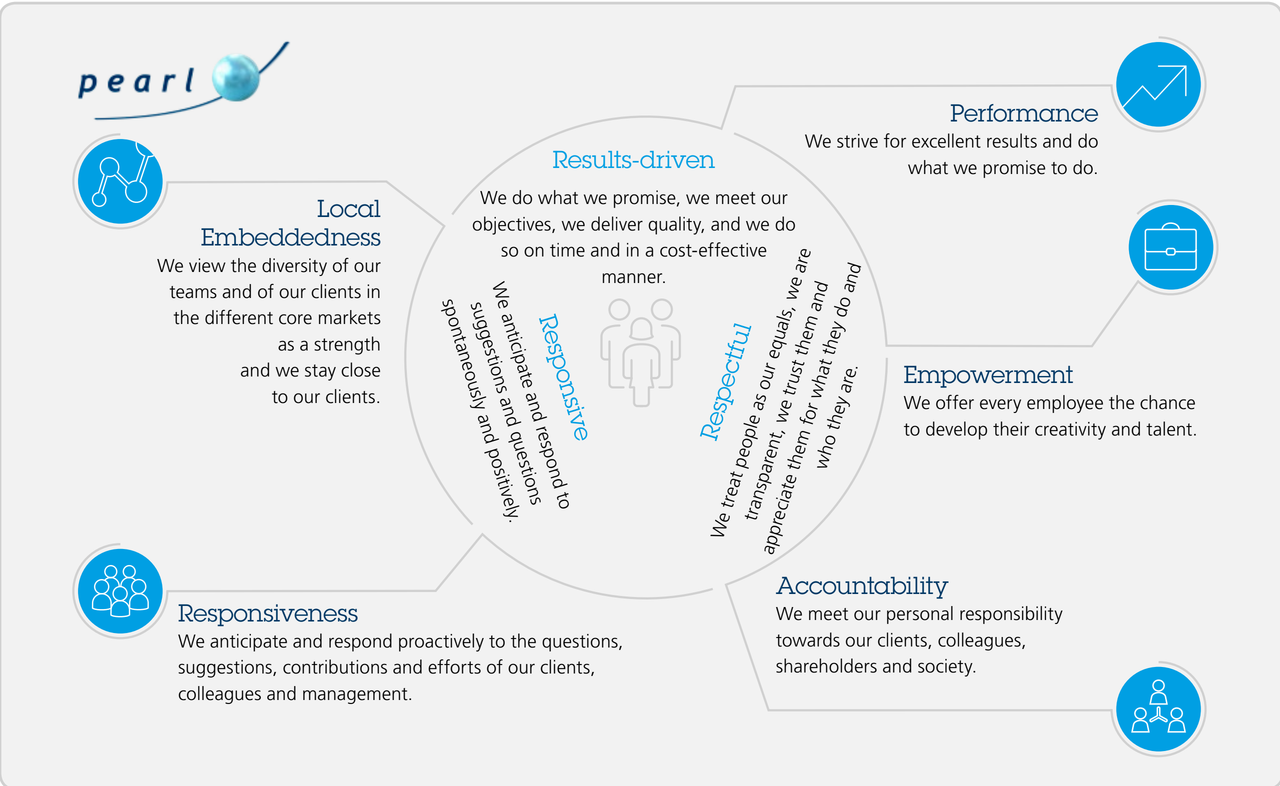
We aim to be the reference for bank-insurance in all our core markets.

What makes us who we are?



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.



We also distinguish ourselves from our competitors through several specific features, including our integrated bank-insurance model and our focus on a number of specific countries. The tables below go into this in greater depth.

What differentiates us from our peers?

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

Our strengths

A well-developed multichannel bank-insurance and digital strategy, which enables us to respond immediately to our clients' needs	Strong commercial banking and insurance franchises	Turnaround achieved in the International Markets Business Unit and position in Bulgaria considerably strengthened	Successful track record of underlying business results	Solid capital position and strong liquidity	Firmly embedded in the local economies of our core countries

Our challenges

Macroeconomic environment characterised by low interest rates, demographic ageing, increased nervousness on the financial markets, and geopolitical and climate-related challenges	Stricter regulation in areas like client protection and solvency	Changing client behaviour, competition and new players in the market	New technologies and cyber crime

Like to know more?

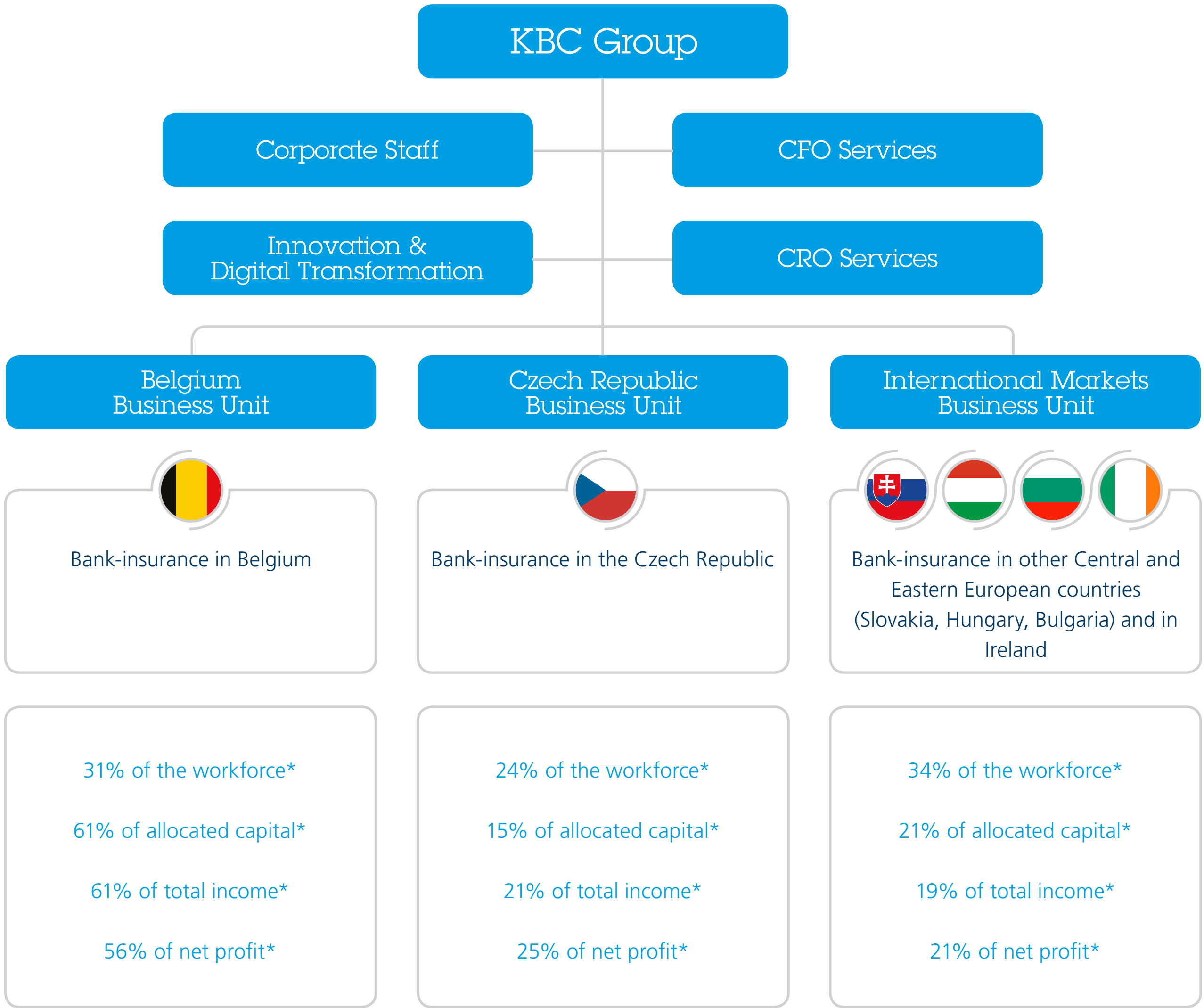
You will find information on each business unit and country in the 'Our business units' section. Information about our culture and values can be found at www.kbc.com > About us.

We have structured our group around three business units, which focus on local activities and contribute to sustainable earnings and growth. The units are Belgium, the Czech Republic and International Markets. We have illustrated the importance of each business unit in the diagram below. A more detailed description is provided in the 'Our business units' section.

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. These committees are dealt with in the 'Corporate governance statement'.

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.

The most important matters discussed by the Board of Directors in 2018 are summarised in the 'Corporate governance statement'. We also deal with our remuneration policy for senior management in that section. The principle underpinning this policy – and indeed the remuneration of all our staff – is that good performance deserves to be recognised. It is only fair that every employee who works hard is properly rewarded for their efforts, including by means of limited variable remuneration.

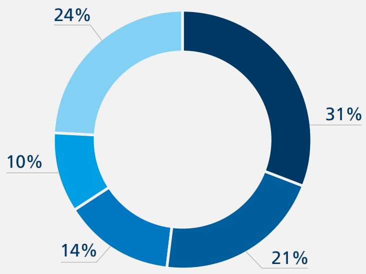


* Figures for 2018. A proportion of our employees work in other countries or in group functions. We also allocate part of our capital and income to the Group Centre (see below). The capital allocated to a business unit is based on the risk-weighted assets for the banking activities and risk-weighted asset equivalents for the insurance activities.

Composition of the Board of Directors (year-end 2018)

Members	16
Men/Women	11/5
Nationality	Belgian (14), Hungarian (1), Czech (1)
Independent directors	3
Chairman	Thomas Leysen
Attendance record	See the 'Corporate governance statement'
Principal qualifications	economics, law, actuarial sciences, management, mathematics, fiscal sciences, philosophy, etc.

Qualifications held by members of the Board of Directors (year-end 2018)

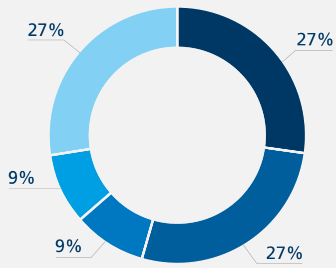


Rough breakdown based on all qualifications (several individuals have more than one degree)

Composition of the Executive Committee (year-end 2018)

Members	7
Men/Women	6/1
Nationality	Belgian (6), British (1)
Chairman	Johan Thijs
Principal qualifications	law, economics, actuarial sciences, mathematics, international relations, pedagogy

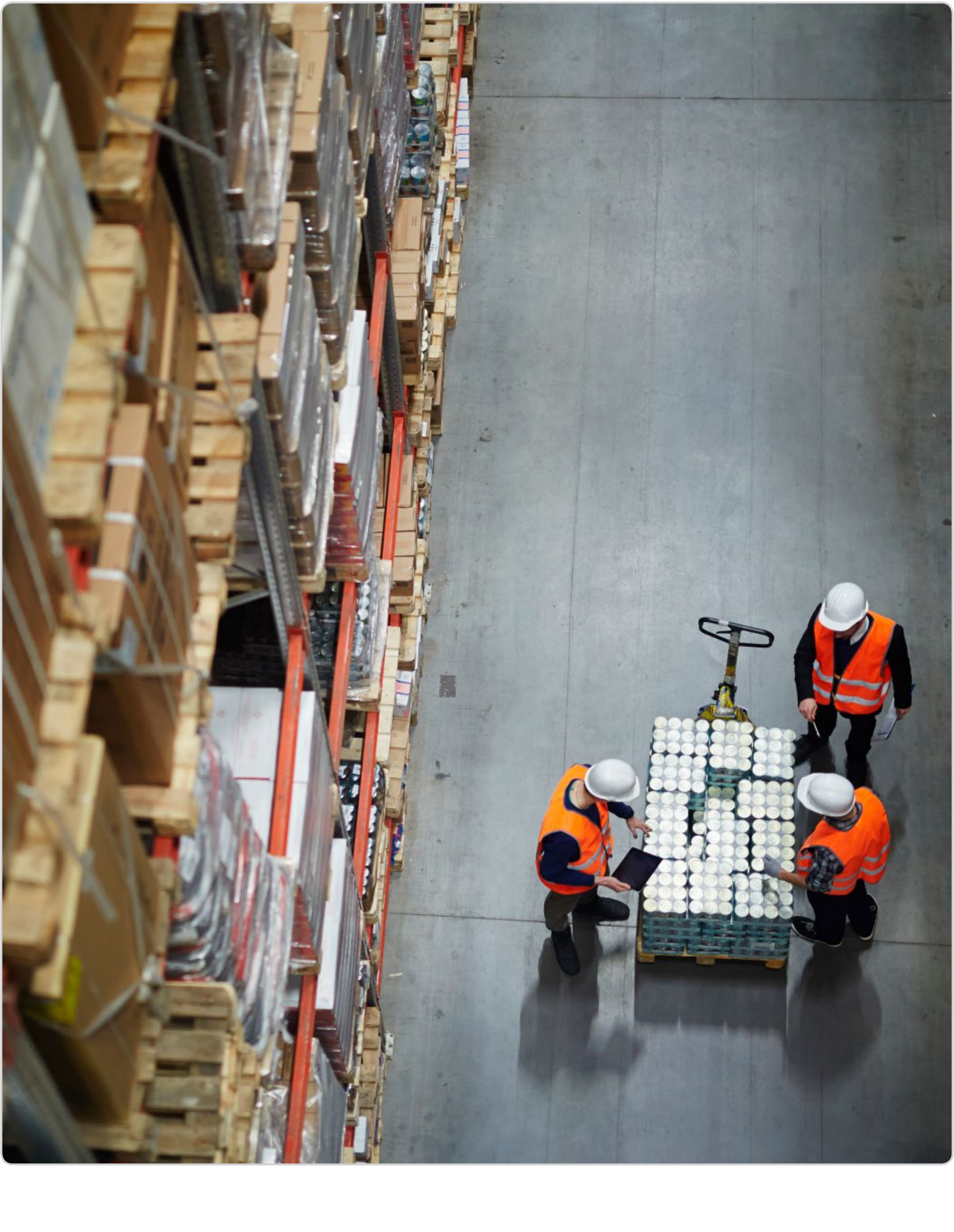
Qualifications held by members of the Executive Committee (year-end 2018)



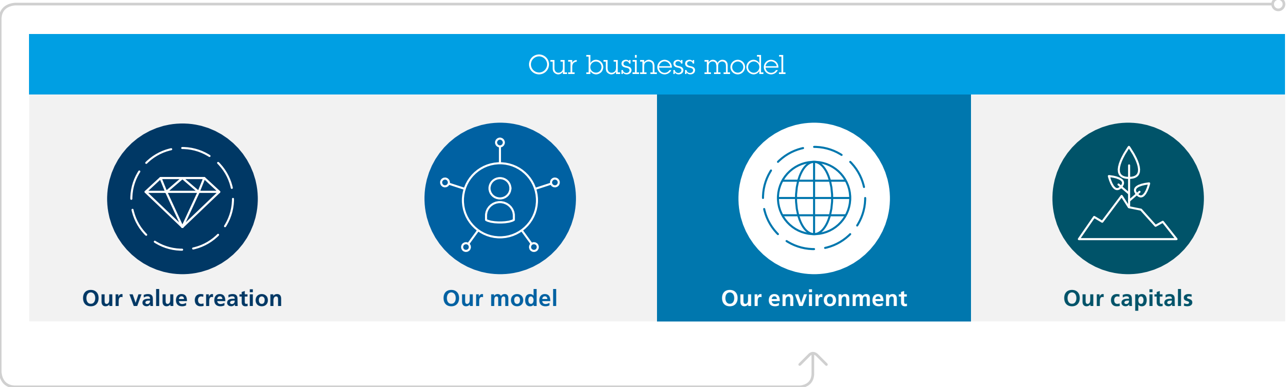
Rough breakdown based on all qualifications (several individuals have more than one degree)

Like to know more?

More detailed information on our governance is provided in the 'Corporate governance statement' and in the group's Corporate Governance Charter at www.kbc.com.



In what environment do we operate?



The world economy

Having performed very strongly in 2017, the world economy had a somewhat tougher time in 2018. US protectionism triggered trade disputes and put a damper on global economic sentiment. The drawn-out Brexit negotiations and the resultant uncertainty put a brake on economic growth in the UK and in Europe. On the other hand, domestic consumer spending continued to contribute substantially to growth in most regions, thanks primarily to improving labour markets and healthy consumer confidence.

Euro area inflation rose in 2018, due in particular to volatile components like the oil price. However, underlying inflation remained limited. Even so, the ECB decided to scale back its quantitative easing programme, which it ended in December 2018. Interest rates – especially at the longer end – and rate spreads within the EMU remained very low, since the above risks and uncertainties prompted investors to seek refuge in 'safe haven' debt securities. Consequently, the yield on ten-year German and US government paper fell once again towards the end of 2018, having risen tentatively a few months earlier.

The American economy was the principal exception to global trends in 2018, recording a very strong rate of growth on the back of expansive government measures and tax reforms. Monetary policy was further tightened in the meantime, with the Federal Reserve hiking the key rate four times and continuing to scale back its balance sheet as planned.

What are our main challenges?

The world economy, geopolitical challenges and the environment

The world economy, the financial markets and demographic developments can strongly influence our results. This relates to matters like growth, interest rates, inflation, employment, population structure, bankruptcies, household income, financial market liquidity, exchange rate movements, availability of funding, investor and consumer confidence, credit spreads and asset bubbles.
Persistently low interest rates have become an important factor in recent years, exerting significant pressure on the income of banks and insurers and prompting a search for yield. Demographic ageing is also a challenge for our life insurance business, for instance, where it can lead to a changing product offering due to the shift in the structure of the insurance population, and because it drives up demand for rate products with longer maturities. There is a risk, moreover, of corrections in markets where disequilibrium may have built up (asset bubbles).
Recent geopolitical developments (such as Brexit, political tensions and military threats) could also have significant implications for the economy and hence our results. The same goes for climate change and the transition to a low-carbon society.

How are we addressing them?

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

Shifting client behaviour and competition

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

How are we addressing them?

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

Regulation

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

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

How are we addressing them?

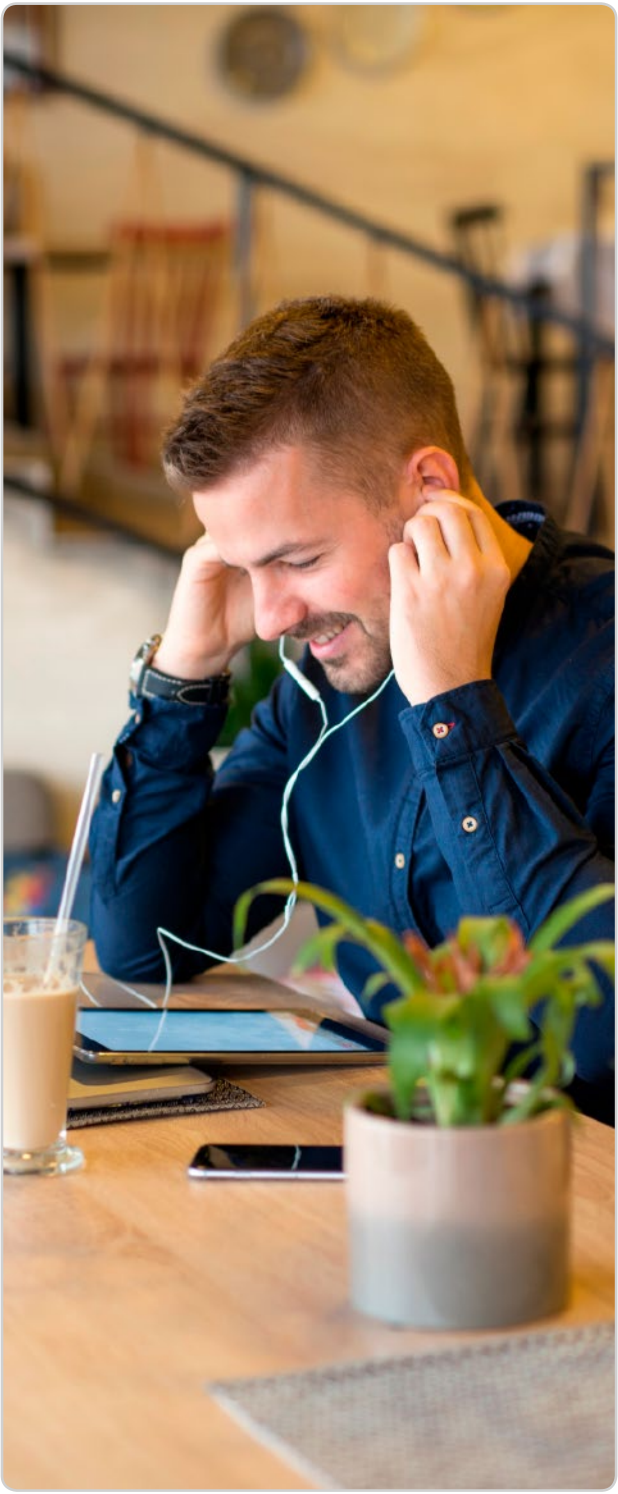
- We are making thorough preparations for the new regulations. Specialised teams (group legal, capital management, group risk and compliance) keep close track of the rules and propose the necessary responses in terms, for instance, of the group’s capital planning.
- We study the impact of regulations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

Cyber risk and information security

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

How are we addressing them?

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



Market conditions in our core markets in 2018

Belgium

Market environment

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

KBC in Belgium

- Main brands: KBC, KBC Brussels and CBC
- 585 bank branches[1], 374 insurance agencies, electronic channels
- Estimated 20% share of the market for traditional bank products, 32% for investment funds, 13% for life insurance and 9% for non-life insurance
- 3.5 million clients
- 108-billion-euro loan portfolio[2], 131 billion euros in deposits and debt securities
- Net result of 1 450 million euros

1 Excluding self-service branches and KBC Bank's 11 branches in the US, Asia and Europe.
2 Including KBC Bank's branches abroad. See the 'How do we manage our risks?' section for loan amounts (in all countries).

Czech Republic

Market environment

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

KBC in the Czech Republic

- Main brand: ČSOB
- 235 bank branches, various distribution channels for insurance, electronic channels
- Estimated 19% share of the market for traditional bank products, 23% for investment funds, 8% for life insurance and 8% for non-life insurance
- 3.6 million clients
- 26-billion-euro loan portfolio and 32 billion euros in deposits and debt securities
- Net result of 654 million euros

Slovakia

Market environment

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

KBC in Slovakia

- Main brand: ČSOB
- 122 bank branches, various distribution channels for insurance, electronic channels
- Estimated 10% share of the market for traditional bank products, 7% for investment funds, 4% for life insurance and 3% for non-life insurance
- 0.6 million clients
- 8-billion-euro loan portfolio and 6 billion euros in deposits and debt securities
- Net result of 82 million euros

Hungary

Market environment

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

KBC in Hungary

- Main brand: K&H
- 206 bank branches, various distribution channels for insurance, electronic channels
- Estimated 11% share of the market for traditional bank products, 13% for investment funds, 3% for life insurance and 7% for non-life insurance
- 1.6 million clients
- 5-billion-euro loan portfolio and 8 billion euros in deposits and debt securities
- Net result of 196 million euros

Bulgaria

Market environment

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

KBC in Bulgaria

- Main brands: UBB and DZI Insurance
- 214 bank branches, various distribution channels for insurance, electronic channels
- Estimated 10% share of the market for traditional bank products, 14% for investment funds, 24% for life insurance and 11% for non-life insurance
- 1.3 million clients
- 3-billion-euro loan portfolio and 4 billion euros in deposits and debt securities
- Net result of 96 million euros

Ireland

Market environment

- With real GDP growth of 7.0%, the Irish economy was among the fastest-growing in the euro area.
- As in 2017, inflation remained extremely limited (0.7%) and well under the EMU average.
- Strong economic growth helped reduce Irish public debt further.
- Growth in home loans turned positive again, while deposits continued to increase at a healthy pace.
- Forecast real GDP growth in 2019 of 3.5%.

KBC in Ireland

- Main brand: KBC Bank Ireland
- 16 bank branches (hubs), electronic channels
- Estimated 9% share of the market for retail banking
- 0.3 million clients
- 11-billion-euro loan portfolio and 5 billion euros in deposits and debt securities
- Net result of 155 million euros

Like to know more?

More information on market conditions in each country is provided in the 'Our business units' section.

Our employees, capital, network and relationships

Our business model

Our value creation | Our model | Our environment | **Our capitals**

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.

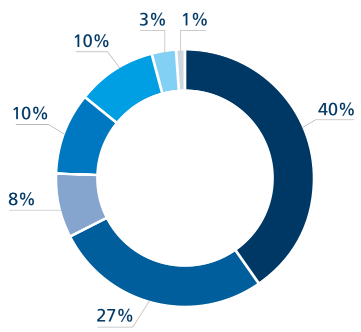
Our employees

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

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

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

Breakdown of workforce by country/regio
(year-end 2018)



- Belgium
- Czech Republic
- Slovakia
- Hungary
- Bulgaria
- Ireland
- Other

2018

Approx. 42 000	55%	40%	87%
employees	in Central Europe	in Belgium	response rate in the most recent Group Employee Survey

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

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

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

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

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

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

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

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

The application of our HR policy is closely monitored, not only by means of high-quality surveys, but also on the basis of accumulated HR data. Information on reward components, hours of training and lost working days, for instance, is taken into account. And we continuously test our policy against market indicators. We also monitor staff numbers group-wide and country by country, and present these figures every quarter to the Executive Committee.

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

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

Number of staff, KBC group	31-12-2018	31-12-2017
Total workforce*		
Absolute number	41 622	41 876
FTEs	38 368	38 459
Breakdown, in % (based on FTEs)*		
Belgium	40%	40%
Central and Eastern Europe	55%	56%
Rest of the world	5%	4%
Belgium Business Unit	31%	31%
Czech Republic Business Unit	24%	22%
International Markets Business Unit	34%	33%
Group Functions and Group Centre	11%	14%
Gender diversity (% of women, based on absolute numbers)		
In total workforce	57%	57%
In middle and junior management	42%	43%
In senior management (top 300)	16%	16%
On the Executive Committee	14%	14%
On the Board of Directors	31%	31%
Group Employee Survey (every 2 years)		
Response rate (as % of total)	–	87%
Engagement (score)	–	56%
Additional information		
Proportion of part-timer workers (as % of total workforce)	17%	17%
Average age	42	42
Average seniority (years)	13	13
Number of days absent through illness per employee	9	8
Staff turnover (as % of total workforce)	13%	12%
Internal labour mobility (as % of total workforce)	22%	18%
Number of training days per employee	4.2	4.7

* Please note that flexible DPP and DPC contracts (temporary contracts primarily for students) in the Czech Republic and Slovakia have also been included in the totals (but not in the other breakdowns in the table).

More information

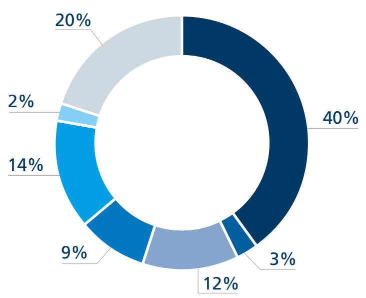
on diversity in our Board of Directors and Executive Committee can be found in the 'Corporate governance' section of this annual report.

Our capital

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

Our shares are held by a large number of shareholders in several countries. A group of shareholders consisting of MRBB, Cera, KBC Ancora and the Other core shareholders, constitute KBC'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 Shareholders and are represented on the 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.

Breakdown of shareholder structure by country/region
(mid-2018, own estimates)



It is our intention (subject to the approval of the General Meeting of Shareholders) to pay out at least 50% of the available consolidated profit as dividend (dividends on shares and coupon on the additional tier-1 instruments combined). Barring exceptional or unforeseen circumstances, we will pay an interim dividend of 1 euro per share annually in November of the current financial year as an advance on the total, plus a final dividend after the Annual General Meeting of Shareholders (also see the information on the reference capital position in 'We aim to achieve our ambitions within a stringent risk management framework').
Subject to the approval of the General Meeting of Shareholders, the total gross dividend per share for 2018 will amount to 3.50 euros (payout ratio of 59%), 1 euro of which has already been paid out as an interim dividend in November 2018.

2018

416	40%	56.68	23.6	3.50
million shares	held by core shareholders	euros closing price	billion euros in market capitalisation	euros dividend per share* 1 euro of which already paid as an interim dividend

* Subject to the approval of the General Meeting of Shareholders.

Between 22 May and 3 July 2018, KBC Group NV purchased 2.7 million of its own shares for a total cost of 180 549 108 euros. The average price was 66.87 euros per share, the accounting par value per share was 3.48 euros and the repurchased shares represented 0.65% of the paid-up capital.

The share buyback was conducted to compensate for the dilution of shareholders' interests resulting from the annual capital increases for staff carried out in previous years. The shares in question were cancelled on 8 August 2018.

KBC share	2018	2017
Number of shares outstanding at year-end (in millions)	416.2	418.6
Share price for the financial year*		
Highest price (in EUR)	77.8	72.5
Lowest price (in EUR)	55.3	57.0
Average price (in EUR)	67.4	66.5
Closing price (in EUR)	56.7	71.1
Difference between closing price at financial year-end and previous financial year-end	-20%	+21%
Equity market capitalisation at year-end (in billions of EUR)	23.6	29.8
Average daily volume traded on Euronext Brussels (source: Bloomberg)		
In millions of shares	0.7	0.8
In millions of EUR	49	50
Equity per share (in EUR)	41.4	41.6

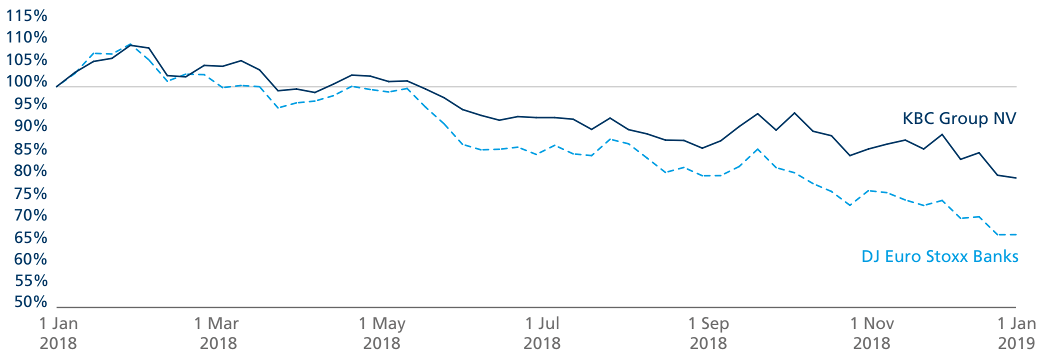
* Based on closing prices and rounded to one decimal place.

Shareholder structure of KBC Group NV (31 December 2018)*	Number of shares at the time of disclosure	% of the current number of shares
KBC Ancora	77 516 380	18.6%
Cera	11 127 166	2.7%
MRBB	47 887 696	11.5%
Other core shareholders	30 304 101	7.3%
Subtotal for core shareholders	166 835 343	40.1%
Free float	249 320 333	59.9%
Total	416 155 676	100.0%

* The shareholder structure is based on the most recent notifications made under the transparency rules or (if they are more recent) on disclosures made under the Act on public takeover bids or other available information.

KBC share price over one year

(31 December 2017 = 100%, end-of-week prices)



A major part of our activities involves transforming deposits and other forms of funding into loans. For that reason, funding through deposits and debt securities is an important *raw material* for our group. We have therefore developed a strong retail/mid-cap deposit base in our core markets. We also regularly issue debt instruments, including via KBC IFIMA, KBC Bank and KBC Group NV itself.

Ratings[1] on 14-03-2019	Long-term debt rating	Outlook/watch/ review	Short-term debt rating
Fitch			
KBC Bank NV	A+	(Stable outlook)	F1
KBC Group NV	A	(Stable outlook)	F1
Moody's			
KBC Bank NV[2]	A1	(Positive outlook)	P-1
KBC Group NV	Baa1	(Positive outlook)	P-2
Standard & Poor's			
KBC Bank NV	A+	(Stable outlook)	A-1
KBC Insurance NV	A	(Stable outlook)	–
KBC Group NV	A-	(Stable outlook)	A-2

1 Please refer to the respective credit rating agencies for definitions of the different ratings. In KBC Insurance's case, it is the financial strength rating, which indicates the likelihood of policyholders' claims being met, whereas the ratings given for KBC Bank and KBC Group indicate the likelihood of their financial obligations being met.
2 Long-term deposit rating of Aa3 (positive outlook).

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 core markets in 2018'.

Our social and relationship capital comprises all relationships with our clients, shareholders, government, regulators and other stakeholders, enabling 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.

Investor relations

Our Investor Relations Office has the mission of providing analysts, investors, rating agencies and other parties with timely, transparent, consistent and relevant information on our business strategy, trends and financial data. This information is widely disseminated and is accessible to all interested parties. The Investor Relations Office has a direct line to the group's senior management and is in contact with them on a daily basis. It recommends which information to provide to the market, collects data on the market itself (including analysts' opinions on KBC and KBC's shareholder structure) and is involved with briefing senior management on contacts with analysts and investors.

In 2018, our Investor Relations Office organised 52 road shows (most of them in London and New York) and 18 'reverse road shows' (at KBC head office), and took part in six international conferences, together in the vast majority of cases, with members of KBC senior management (usually the CEO or CFO). Some 27 sell-side analysts provide continuous coverage of our group (a list of these analysts can be found at www.kbc.com). A summary of their recommendations for the KBC share (at year-end 2018) is shown in the following table.

Further details of our credit ratings are available at www.kbc.com > Investor Relations > Credit Ratings. Information on our debt issues can be found in the Debt Investor Presentation at www.kbc.com > Investor Relations > Presentations.

Investor Relations	2018
Number of road shows	52
Number of reverse road shows	18
Number of international conferences	6
Number of sell-side analysts tracking KBC	27
Sell-side analysts' recommendations for the KBC share (at year-end 2018)	
Buy/Outperform	70%
Hold/Neutral	26%
Sell/Underperform	4%
KBC Investor Relations app	

Our strategy

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.

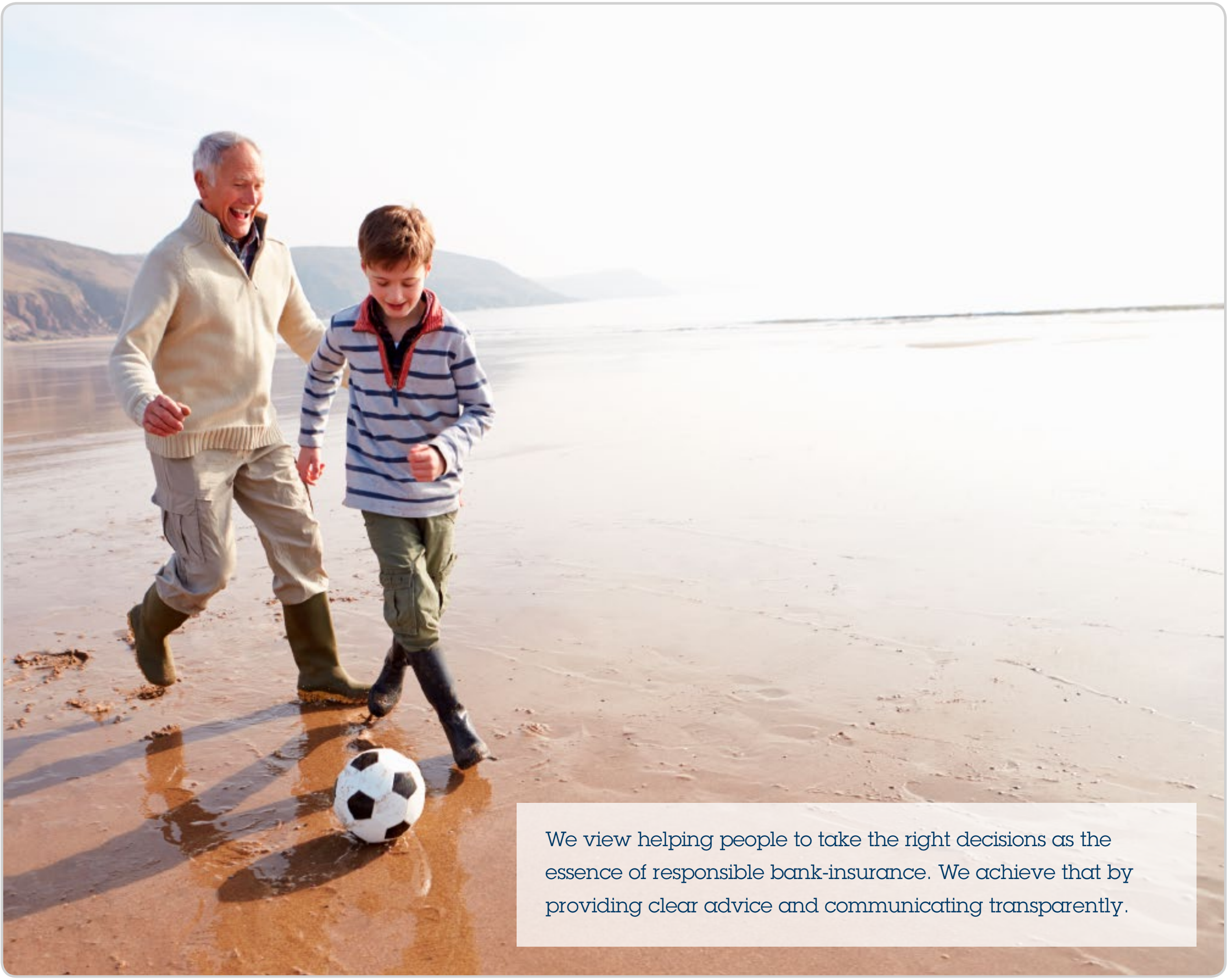
To us, corporate sustainability means the ability to live up to the expectations of all our stakeholders and to meet our obligations, not just today but also in the future. Our sustainability strategy consists of financial resilience and three cornerstones:

- encouraging responsible behaviour on the part of all employees;
- enhancing our positive impact on society;
- limiting any negative impact we might have on society.

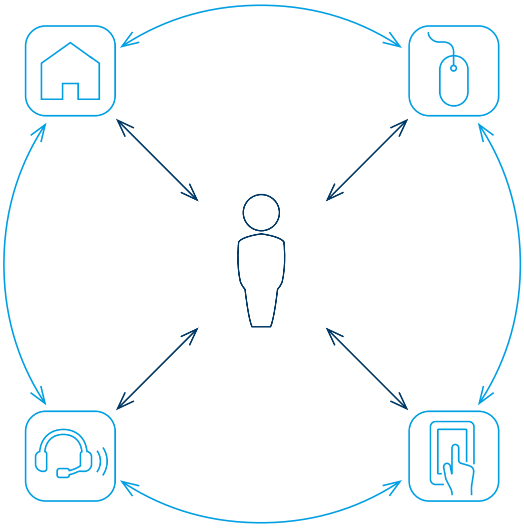
The client is at the centre of our business culture

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

Within a stringent risk, capital and liquidity management framework



We view helping people to take the right decisions as the essence of responsible bank-insurance. We achieve that by providing clear advice and communicating transparently.



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. But we also like to have our clients on board as we develop those products. At the same time, we're aware of current issues and developments in society. The insights we gain in this way are vital if we are to grow in line with our clients and community.

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

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

Digitalisation is a means for us, however, not an end. Our ambition is to further strengthen our human approach through appropriate deployment of digitalisation and artificial intelligence. Each client gets to decide their own degree of digitalisation and where the boundaries of their privacy lie. Human contact will continue to play a crucial role, but backed up with digital possibilities: face-to-face contact, for instance, supported by robot advice or chatbots, as in the K'Ching app in Belgium. Examples of new digital products and services in our core countries can be found in the '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, so that we act swiftly and decisively to offer our clients a convenient and pleasant experience.
We are ensuring, moreover, that ideas are exchanged within our group and that apps are copied and reused as much as possible in other core countries. In this way, we create additional synergies and leverage the talent, entrepreneurship and resources available within our organisation.

Privacy and data protection are an integral part of our profession as a bank-insurer, making them extremely important to both our internal and external stakeholders. Digitalisation provides us with a multiplicity of data, which means we know our clients better and can advise them more effectively. But it goes without saying that clients only accept us analysing their data once they already trust us, which is why we have drawn up a carefully thought-out privacy policy.

Privacy and data protection are not only objective concepts, defined by law, they are highly subjective ones too.
For that reason, we want to let clients themselves choose what we can do with their data. In the process, we aim to communicate in a transparent way and offer our clients a clear privacy overview, in which they can adjust their choices at any moment. We view smart data analysis allied with effective privacy protection as the ideal opportunity to enhance our clients' trust.

We expect our employees to communicate in an accessible, clear, understandable and transparent way with our clients. This is not easy given the duties imposed on us by the legislator, such as sending out letters on risks, costs and fees. A few years ago, therefore, we launched a project in Belgium to simplify and improve our client communication.
We also provide our commercial staff with constant training to ensure that they pay sufficient attention to evaluating the risks associated with the different products and services.

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

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

The targets and results for client experience and reputation are set out below.
In the following assessments, we compare the score for the principal KBC entity/entities in each core country with the average score in the sector (peer group) per country. We classify a score as being higher or lower if there is a difference of 5 percentage points or more with the peer group average.

KPI	Description	Target and result
Reputation index	The index reflects the overall public attitude towards the company and is influenced by the performance of seven manageable reputation drivers, which are also measured in the study. The survey is performed by Ipsos.	Target: achieve the same or a higher score than the peer group average[1] per country. 2018 result: KBC in Belgium, ČSOB in the Czech Republic, ČSOB in Slovakia, K&H in Hungary, UBB/DZI in Bulgaria and KBC Bank Ireland achieved scores in line with the peer group average in their respective countries.
Client experience	Client experience is measured on the basis of responses to statements such as: 'offers quality products and services', 'offers transparent products and services', 'is easy to interact with', 'offers good value for money' and 'understands client needs'. The survey is performed by Ipsos.	Target: achieve the same or a higher score than the peer group average[1] per country. 2018 result: KBC in Belgium, ČSOB in the Czech Republic, ČSOB in Slovakia, K&H in Hungary, UBB/DZI in Bulgaria and KBC Bank Ireland achieved scores in line with the peer group average in their respective countries.
Digital interaction	Proportion of clients who interact with KBC via at least one of the non-physical channels (digital or remote advisory centre)[2]	Target: ≥ 80% in 2020 2018 result: 78%

1 In Belgium, the financial benchmarks are: BNP Paribas Fortis, ING, Argenta, Ethias, AG Insurance, Belfius, Baloise; in the Czech Republic: Air Bank, GE Money Bank, Česká spořitelna, Komerční banka, Kooperativa pojišt'ovna, Česká pojišt'ovna, Fio banka, Česká pošta, Unicredit Bank; in Hungary: OTP Bank, Erste Bank Hungary, Budapest Bank, CIB Bank, Raiffeisen Bank Hungary, UniCredit Bank Hungary; in Slovakia: Slovenská sporitel'ňa, VÚB Banka, Tatra banka, Prima banka, Postova Banka, Unicredit Bank, Allianz; in Ireland: Permanent TSB, Bank of Ireland, Ulster Bank, AIB, EBS; in Bulgaria: UniCredit Bulbank, DSK Bank, Allianz Bank, Central Cooperative Bank, Bulstrad Vienna Insurance, Armeec, Piraeus Bank, Allianz Insurance. The scores relate to the KBC brand (banking and insurance) in Belgium, the ČSOB brand (banking) in the Czech Republic, the ČSOB brand (banking) in Slovakia, the K&H brand (banking) in Hungary, the KBC brand in Ireland and the UBB and DZI brands in Bulgaria.

2 Excluding Bulgaria and Postal Savings Bank (Czech Republic), as well as 'dormant clients'. Including clients who – in addition to using non-physical channels – are also in contact with KBC via the branches. Weighted by the number of active clients per country.

We offer our clients a unique bank-insurance experience

client centricity	bank-insurance	sustainable profitable growth	role in society

Within a stringent risk, capital and liquidity management framework

We respond in an integrated way to all of our clients' banking and insurance needs and we also position ourselves as an integrated bank-insurer within our organisation.

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

Our integrated model offers the client the benefit of a comprehensive, one-stop service that allows them to choose from a wider, complementary and optimised range of products and services. It offers the group benefits in terms of income and risk diversification, additional sales potential through intensive co-operation between the bank and insurance distribution channels, and significant cost-savings and synergies.

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

We have developed a unique bank-insurance co-operation concept within our group, the roll-out of which varies from one country to another.

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

Our bank-insurance model also enables us to achieve various commercial synergies. In Belgium, for instance, roughly eight out of ten clients who agreed home loans with KBC Bank in 2018 also took out mortgage protection cover with KBC Insurance, while eight to nine out of ten purchased home insurance. At ČSOB in the Czech Republic, six out of ten clients who took out home loans in 2018 also purchased home insurance from the group.

2018

Approx. 50%	Approx. 60%	12%
of households in Belgium that are KBC Bank clients hold at least 1 insurance product from KBC	of ČSOB clients in the Czech Republic who agreed a home loan with the bank also took out home insurance with the group	average increase in the number of bank-insurance clients in the Czech Republic in two years

To give another example, roughly half of households in Belgium that bank with KBC Bank hold at least one KBC Insurance product. About one in five of these households actually held three banking and three insurance products from KBC. The number of clients holding both banking and insurance products from our group rose again in 2018. The figures for each business unit are set out in the tables below.

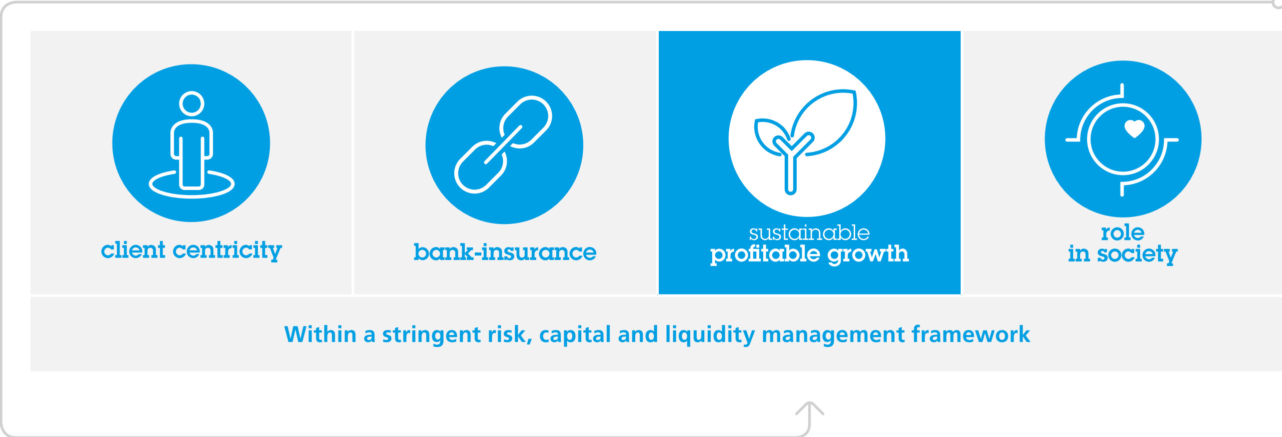
We use a number of Key Performance Indicators (KPIs) to track the success of our bank-insurance and digitalisation performance, the most important of which are listed in the table.

KPI	Description	Target and result
CAGR of bank-insurance clients	Compound annual growth rate (CAGR) of the number of clients holding at least 1 banking and 1 insurance product from the group[1]	Target: CAGR for 2016–2020 ≥ 2% in Belgium, ≥ 15% in the Czech Republic, ≥10% at International Markets CAGR for 2016–2018: +1% in Belgium, +12% in the Czech Republic and +31%[2] at International Markets
CAGR of stable bank-insurance clients	Compound annual growth rate of the number of clients holding at least 2 banking and 2 insurance products from the group (3 and 3 for Belgium)[1]	Target: CAGR for 2016–2020 ≥ 2% in Belgium, ≥ 15% in the Czech Republic, ≥15% at International Markets CAGR for 2016–2018: +1% in Belgium, +19% in the Czech Republic and +33%[2] at International Markets

1 Based on a list of previously selected products.

2 Increase largely attributable to the inclusion of UBB Life in the figures (see 'We focus on sustainable and profitable growth').

We focus on sustainable and profitable growth



Sustainability is a process that will never be completed. All the same, KBC explicitly intends to make a relevant and ongoing contribution to achieving a more sustainable society.

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

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

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

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

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'.

We monitor our long-term performance and our focus on the real economy and sustainability via a number of Key Performance Indicators (KPIs), the most important of which are listed in the following table.

KPI	Description	Target and result
CAGR of total income	Compound annual growth rate (CAGR) of total income. The calculation excludes fluctuations in value of the derivatives used for asset/liability management purposes.	Target: CAGR for total income 2016–2020 ≥ 2.25% CAGR for 2016–2018: +2.5%
Cost/income ratio	[operating expenses of the banking activities] / [total income of the banking activities]. The ratio is calculated both including and excluding special bank taxes.	Target for cost/income ratio (excl./incl. bank tax): ≤ 47%/≤ 54% in 2020 2018 result (excl./incl. bank tax): 51%/57.5%
Combined ratio	[technical insurance charges, including the internal cost of settling claims / earned insurance premiums] + [operating expenses / written insurance premiums] (for non-life insurance, and data after reinsurance).	Target for combined ratio: ≤ 94% in 2020 2018 result: 88%
Innovation	Innovation relates to: 'launches innovative products/services faster than competitors', 'continuously innovates to improve client experience', 'exceeds client expectations', 'uses advanced technologies'. The survey is performed by Ipsos.	Target: achieve the same or a higher score than the peer group average per country*. 2018 result: KBC in Belgium and KBC Bank Ireland achieved a higher score than the peer group average. The scores for ČSOB in Slovakia and K&H in Hungary were in line with the peer group average in their respective countries. ČSOB in the Czech Republic and UBB/DZI in Bulgaria recorded a lower score than the peer group average in those countries.

* The list of benchmarks and an explanation of the methodology are provided under the table appearing in 'The client is at the centre of our business culture'.

Like to know more?

More information on strategy by business unit and country can be found in the 'Our business units' section. More information on our financial performance can be found in the 'Our financial report' section.

Our role in society

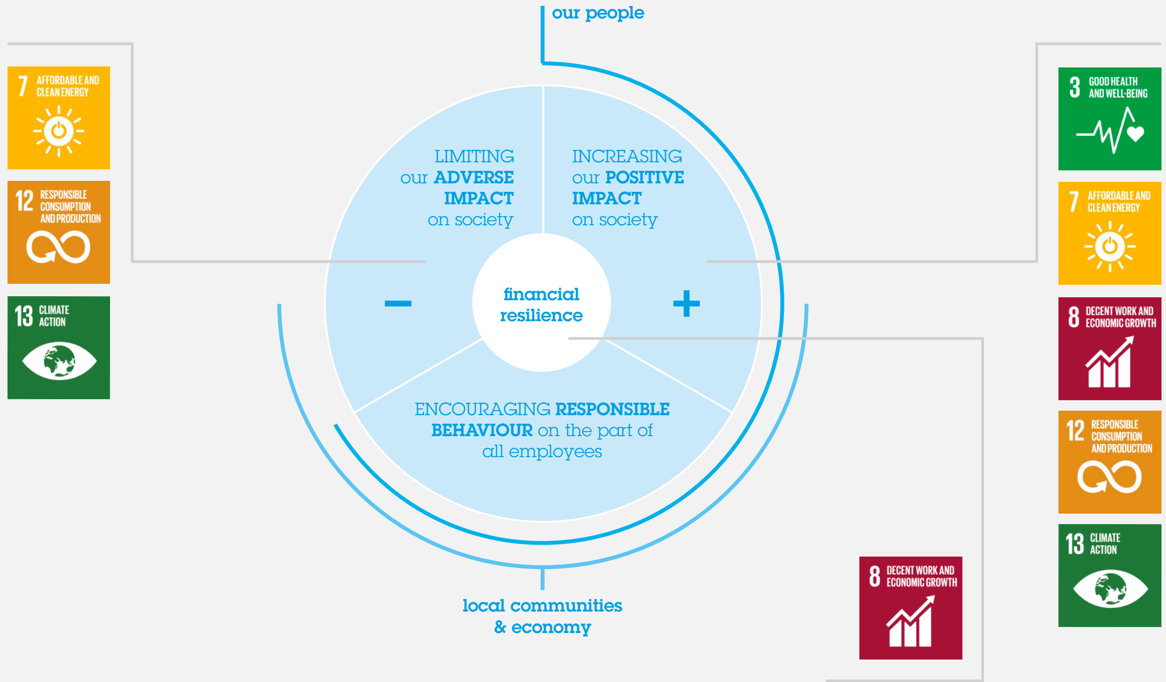
As a sustainable bank-insurer, we aim primarily to live up to the expectations of all our stakeholders. We also want to meet our obligations, so that we can deliver sustainable services not just today but also in the future. When engaging in this core business, we take full account of its ethical, social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

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

Sustainable Development Goals

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

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



Good health and well-being

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

Affordable and clean energy

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

Decent work and economic growth

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

Responsible consumption and production

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

Climate action

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

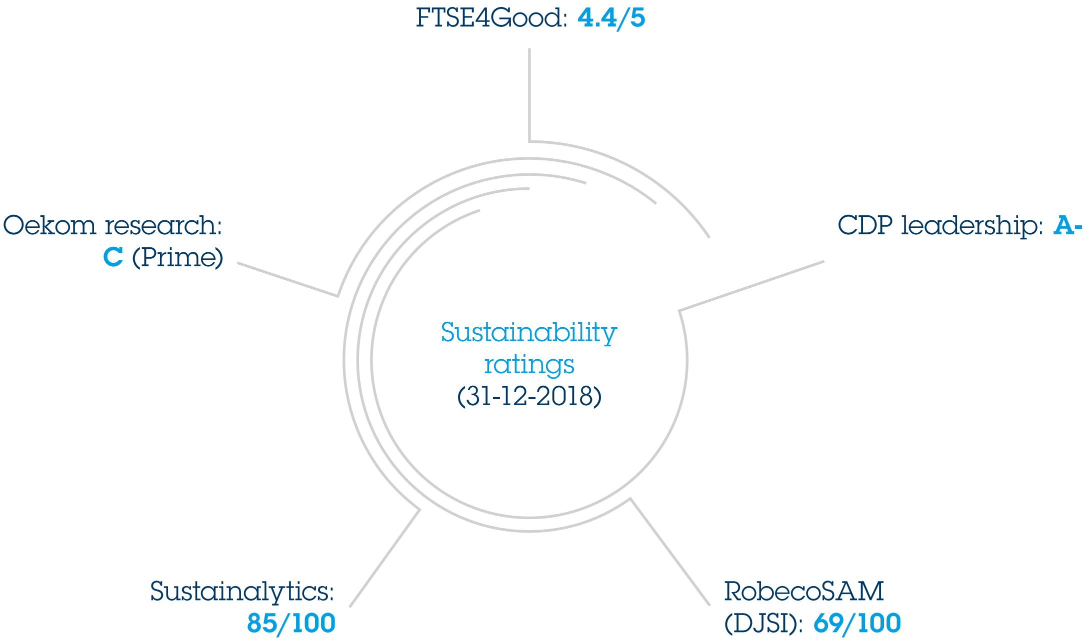
Aiming to encourage responsible behaviour on the part of all our employees

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

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

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

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



Aiming to enhance our positive impact on society

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

We believe that by actively helping to increase the sustainability of the financial markets, we can create leverage in the transition to a low-carbon economy. In June, we duly became the first Belgian financial institution to issue a green bond (worth 500 million euros and with a term of five years, the issue was reserved for institutional and professional investors). A bond of this kind is one that complies with the Green Bond Principles a set of guidelines produced by the International Capital Markets Association, under which the proceeds of the bond issue can only be used to finance or refinance sustainable projects.

We also continue to back sustainable investment funds by offering our clients a wide range of SRI funds, varying from traditional best-in-class funds and funds with sustainable themes to the more recent impact investing funds. Thorough screening is applied to determine which companies and countries belong to the investment universe for sustainable and socially responsible investment solutions. The target we have set ourselves for SRI funds is 10 billion euros of sustainable investments (under management) by 2020. You can read below what we have achieved to date.

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

Focus areas	Description	How? A few recent examples:
Financial literacy	• Helping clients make the right choices through good and transparent advice, and clear communication. • Improving general public knowledge of financial concepts and products.	• Launching financial education initiatives in all countries, including seminars, various master's programmes, a range of digital learning packs and internships. • ČSOB staff have been providing lessons on financial themes at various schools in the Czech Republic since 2016. • Organising projects to simplify and improve our client communication. • Running the 'Get-a-teacher' initiative at KBC Belgium to give schools the opportunity to extend financial knowledge by 'ordering' a teacher from KBC.
Environmental awareness	• 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 first green bond and SRI pension savings fund in Belgium. • Expanding multi-mobility at KBC Autolease, including the development of bicycle leasing for companies. • Providing the Home Energy Checker in Belgium, an online tool that generates an overview of appropriate energy-saving measures for homes. • Collaboration between the insurer DZI in Bulgaria and SPARK, the first car-share firm with electric vehicles in Sofia.
Entrepreneur-ship	• Contributing to economic growth by supporting innovative ideas and projects.	• Setting up the KBC Trade Club, a matchmaking community and library with market information for entrepreneurs, providing access to thousands of companies in different countries via the Trade Club Alliance. • Expanding Start it @kbc to include a focus on diversity (women business founders), corporate ventures and internationalisation. • Setting up Start it @K&H in Hungary. • Supporting local initiatives through the Bolero crowdfunding platform. • Encouraging clients to take the step to e-commerce via Storesquare, FarmCafe and similar initiatives.
Demographic ageing and health	• 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.	• Organising Digi Tuesday, a range of free courses that familiarise clients with digital trends and make them aware of their convenience and possibilities. • Launch by ČSOB in the Czech Republic of the online portal 'Don't get lost in old age' in collaboration with the Sue Ryder Home advisory centre. • Launch of FitBit Pay in Ireland, a payment solution for health-conscious clients that can connect with fitness and other devices. • Providing financial and material assistance to sick children through the 'K&H MediMagic' programme in Hungary.

Limiting any negative impact we might have on society

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

Our direct impact:

We limit our own environmental footprint by:

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

Carbon emission data and calculations are verified by Vinçotte in accordance with ISO 14064-3. More detailed information on our environmental footprint can be found in our Sustainability Report.

Own environmental footprint (greenhouse gas emissions in tonnes of CO_2e), KBC group*	**2018**	**2017**
Scope 1 emissions are those from direct energy consumption and own-fleet emissions from business and commuter travel	37 629	41 730
Scope 2 emissions are those from indirect energy consumption (electricity, district heating, cooling and steam)	22 955	27 551
Scope 3 emissions are those from business and commuter travel (excluding those from our own fleet, which are counted under Scope 1 emissions), emissions relating to paper and water consumption and to waste-processing	25 004	24 903
Total	85 588	94 183
Total per FTE	2.3	2.5
Covered by the reduction target	64 101	73 029
Covered by the reduction target per FTE	1.7	1.9
ISO 14001 in each core country	✓	✓

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

2018

595	314	377	3 391	86
thousand GJ of electricity used	thousand GJ of gas and heating oil used	million km in commuter and business travel	tonnes of paper used	thousand tonnes of CO_2e emissions

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

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

We invest in renewable energy and less so in fossil fuels. For some years now, KBC has been scaling back its funding of polluting energy sources and we refuse to finance large-scale biomass operations, oil and gas extraction, and oil and coal-fired power generation. The Czech Republic is the sole exception to this. We amended our policy in this regard in 2018, deciding that ČSOB will withdraw from the coal sector in that country and that the current exposure to coal-fired power generation would be phased out by 2023 at the latest. This means no funding will be provided to any new or existing coal-fired power stations or coal mines from mid-2018 on (with one exception: existing coal-fired plants for centrally controlled heating systems can continue to be funded until 2035 to allow further ecological improvements to be made to them). At year-end 2018, coal funding by KBC/ČSOB amounted to less than 40 million euros, compared to 256 million euros two years previously. We are not only ceasing to fund polluting energy companies, we will no longer insure them either. KBC has set itself the target of providing 50% of its energy loans to renewable energy by 2030 (see further below for our progress to date). KBC already accounts for a significant proportion of the financing of wind energy in Flanders, both on land and offshore. We have also signed the 'Green Deal for Circular Procurement' to help achieve a more circular economy in Flanders.

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

More information on climate-related risks and how we address them under 'New developments' in the 'How do we manage our risks?' section.

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

KBC and the TCFD recommendations

Climate change is one of the world's biggest challenges today. We recognise our responsibility in facilitating the transition towards a low-carbon economy and society and wish to play an active role in this and to support change. We are aware of the financial and other risks that climate change poses. Evaluating and managing those risks is an integral part of our overall risk management framework. We are convinced that communicating transparently on climate-related effects will create a level playing field and stimulate 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).

Our current approach

We have a robust governance model for both our approach to sustainability and risk management, with our Board of Directors and Executive Committee at the highest level (see 'Our sustainability governance').

We have taken various steps in recent years as regards managing climate-related risks and opportunities and embedding sustainability in our core strategy and business. There are two dimensions to our climate strategy, namely limiting our negative impact and increasing our positive impact. Given the substantial impact of energy consumption on climate change, we focus in the first instance on reducing our exposure to coal and other fossil fuels, increasing our exposure to renewable energy projects and supporting our clients' investments in energy efficiency.

Climate-related risks – in this case, the potential impact of natural disasters – are firmly integrated in the risk management of our insurance activities. At group level, we explicitly defined climate change as a risk in 2018 and have categorised it as a specific business and strategic risk. Climate change is recognised as a major risk in the most recent risk scan approved by the Board of Directors and Executive Committee, and has been integrated in the financial planning exercise.

In accordance with our sustainability strategy, we have already defined a number of indicators and targets relating to climate change. These are discussed elsewhere in this section.

The way forward

A more structural approach to managing and reporting climate-related risks and opportunities is being further developed. An internal working group has been active since January 2018, with members drawn from all the relevant departments, to define the actions that need to be taken. It reports to a steering group chaired by the CRO. The business side will be brought in from 2019 onwards. The steering group decides which actions need to be taken in the short term and is preparing a multi-year action plan that aims gradually to align our climate strategy and reporting with the TCFD recommendations and forthcoming EU sustainable finance regulations.

Human rights

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

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

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

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

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

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

Our sustainability governance

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

The Group Executive Committee reports to the **Board of Directors** on sustainability matters.

The **Executive Committee** is the highest level with direct responsibility for sustainability.

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.

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.

We also use a number of Key Performance Indicators (KPIs) – some of which have been incorporated into 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 of these KPIs are listed in the table.

KPI	Description	Target and result
Formal stakeholder process	Does the group have a formal process to interact with its stakeholders?	Target: have a stakeholder interaction process in place 2018 result: OK
Governance	'Governance' refers to the statements: 'behaves ethically', 'is open and transparent', 'acts as an accountable company', 'is a responsive company', 'complies with laws, regulations and industry policies'. The survey is performed by Ipsos.	Target: achieve the same or a higher score than the peer group average per country.[1] 2018 result: ČSOB in Slovakia, K&H in Hungary, UBB/DZI in Bulgaria and KBC Bank Ireland achieved scores in line with the peer group average in their respective countries. KBC in Belgium and ČSOB in the Czech Republic recorded a lower score than the peer group average in those countries.
Reduction in own CO_2 emissions	Reduction in own greenhouse-gas emissions (in absolute terms and per FTE) compared to 2015 and excluding commuter travel. A stricter target was imposed in 2018.	Target: reduce emissions by ≥ 25% between 2015 and 2030 and by ≥ 50% between 2015 and 2020 2015–2018 result: -38% (absolute) and -37% (per FTE)
Position in SRI funds	Volume of SRI funds at KBC Asset Management	Target: 10 billion euros by year-end 2020 2018 result: 9 billion euros[2]
Renewable energy loans	[outstanding amount of loans to businesses in the renewable energy and biofuels sectors] / [total outstanding energy-sector loan portfolio]	Target: ≥ 50% by 2030 2018 result: 44%
Dividend payout ratio	[(gross dividend x number of shares entitled to dividend) + (coupon on outstanding AT1 securities)] / [consolidated net result]	Target: ≥ 50% 2018 result: 59%

1 The list of benchmarks and an explanation of the methodology are provided under the table appearing in 'The client is at the centre of our business culture'.
2 Excluding 0.8 billion euros in KBC pension funds.

We aim to achieve our ambitions within a stringent risk management framework

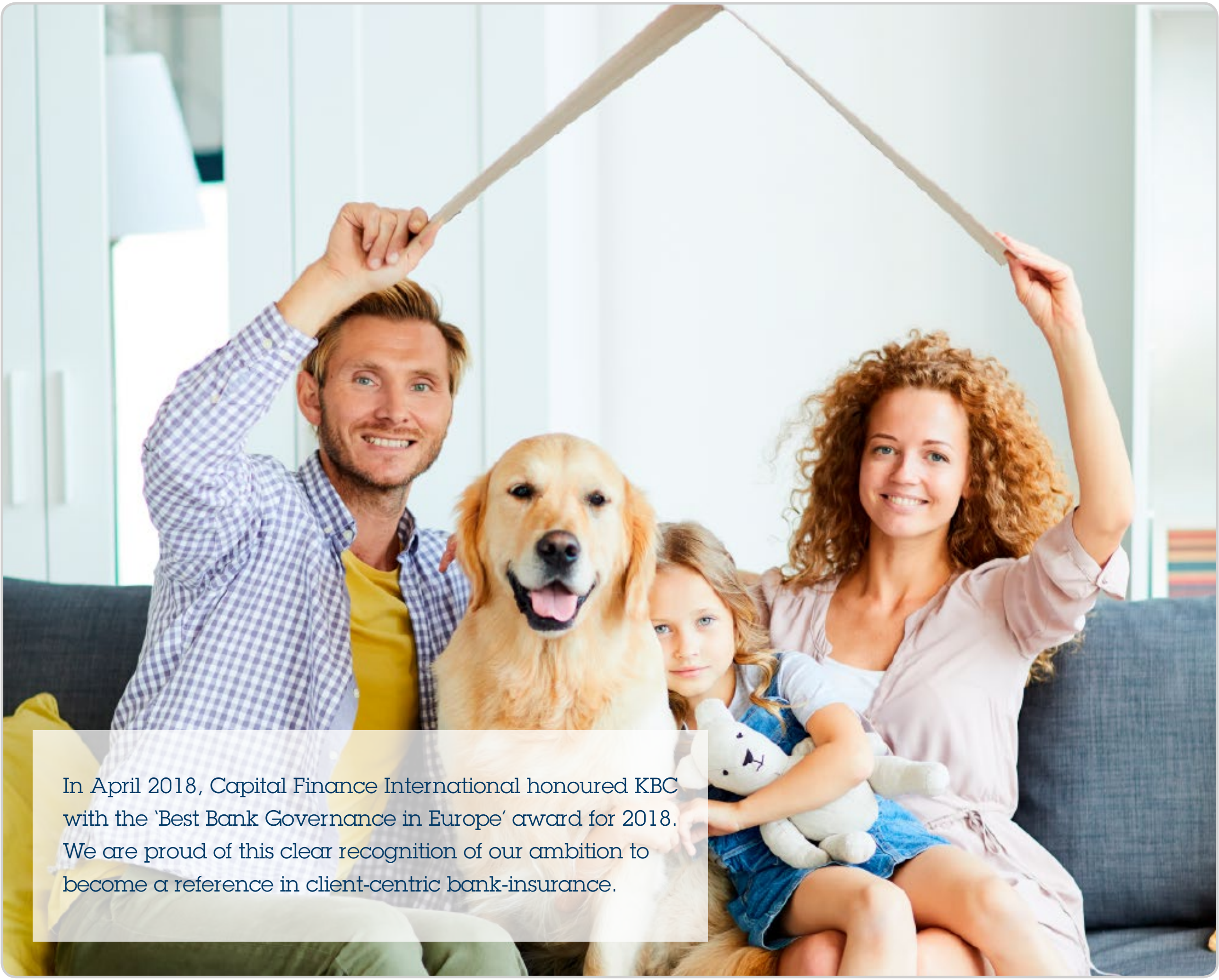
client centricity

bank-insurance

sustainable profitable growth

role in society

Within a stringent risk, capital and liquidity management framework



In April 2018, Capital Finance International honoured KBC with the 'Best Bank Governance in Europe' award for 2018. We are proud of this clear recognition of our ambition to become a reference in client-centric bank-insurance.

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

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

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

Our 'Three Lines of Defence' model*

1	The business operations side is responsible for managing its risks.
2	The second line of defence comprises the control functions, i.e. the Group risk function and Compliance, which ensure that risks are identified and managed by the business side.
3	As independent third line of defence, Internal Audit provides support to the Executive Committee, the Board of Directors, the Audit Committee and the Risk & Compliance Committee in monitoring the effectiveness and efficiency of the internal control and risk management system.

Sector-specific risks	How are we addressing them?
Credit risk The potential negative deviation from the expected value of a financial instrument caused by default on the part of a party to a contract, due to the inability or unwillingness of that party to pay or perform, or due to particular measures on the part of political or monetary authorities in a particular country.	• 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.
Operational and other non-financial risks Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems, human error or sudden external events, whether man-made or natural. Other non-financial risks include reputational risk, business risk and strategic risks, including climate-change-related risks.	• Existence of a robust management framework • Group key controls, risk scans, Key Risk Indicators (KRIs), etc.

* More detailed information on the Three Lines of Defence model can be found in the 'Corporate governance statement'.

Sector-specific risks	How are we addressing them?
Market risk in non-trading activities Structural market risks, such as interest risk, equity risk, real estate risk, spread risk, currency risk and inflation risk. Structural risks are risks inherent to the commercial activity or long-term positions.	• 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.

Like to know more?

Detailed information can be found in the 'How do we manage our risks?' and 'How do we manage our capital?' sections.

In addition to the comprehensive monitoring of risk indicators (see the 'How do we manage our risks?' section), we monitor our solvency and liquidity performance using a number of ratios, the most important of which are listed in the table.

Regulatory ratios	Description	Target and result
Common equity ratio	[common equity tier 1 capital] / [total weighted risks]. The calculation shown here is on a fully loaded basis and according to the Danish compromise method.	Target: ≥ 10.7% (excl. pillar 2 guidance) and ≥ 11.7% (incl. pillar 2 guidance) in 2019 2018 result: 16.0%
MREL ratio	[own funds and eligible liabilities] / [risk-weighted assets],* consolidated view	Target: ≥ 25.9% in 2019 2018 result: 26.0%
Net stable funding ratio (NSFR)	[available amount of stable funding] / [required amount of stable funding]	Target: ≥ 100% 2018 result: 136%
Liquidity coverage ratio (LCR)	[stock of high-quality liquid assets] / [total net cash outflows over the next 30 calendar days]	Target: ≥ 100% 2018 result: 139%

* When expressed as a percentage of Total Liabilities and Own Funds (TLOF), the target is 9.76% and the result 10.1%.

We aim to be one of the better capitalised financial institutions in Europe. Each year, therefore, we assess the common equity ratios of a group of European banks that are active in the retail, SME, and corporate client segments. We then position ourselves relative to the median fully loaded common equity ratio of that group. This capital policy is encapsulated in an 'own capital target', which amounted to 14% for 2018 (updated annually, with the update for 2019 to be communicated in the first half of that year). We also intend to maintain a flexible buffer of up to 2% of common equity on top of this for potential mergers and acquisitions that would strengthen our position in our core markets. This buffer is added to KBC Group's own capital target, giving us a 'Reference capital position' of 16% in 2018.

Our dividend policy is unchanged. Our aim is to achieve a payout ratio (i.e. dividend + coupon paid on outstanding additional tier-1 instruments) of at least 50% of consolidated profit, with an interim dividend of 1 euro being paid in November of each financial year as an advance on the total dividend. In addition to the payout ratio of 50% of consolidated profit, the Board of Directors will each year decide on the distribution of capital above the reference capital position as it sees fit.

KPI	Description	Target and result
Own capital target and reference capital position	[fully loaded common equity tier-1 ratio of the peer group]. Plus a buffer for mergers and acquisitions when calculating the reference capital position.	Target: own capital target of 14% and reference capital position of 16% in 2018 (updated annually) 2018 result: 16.0%

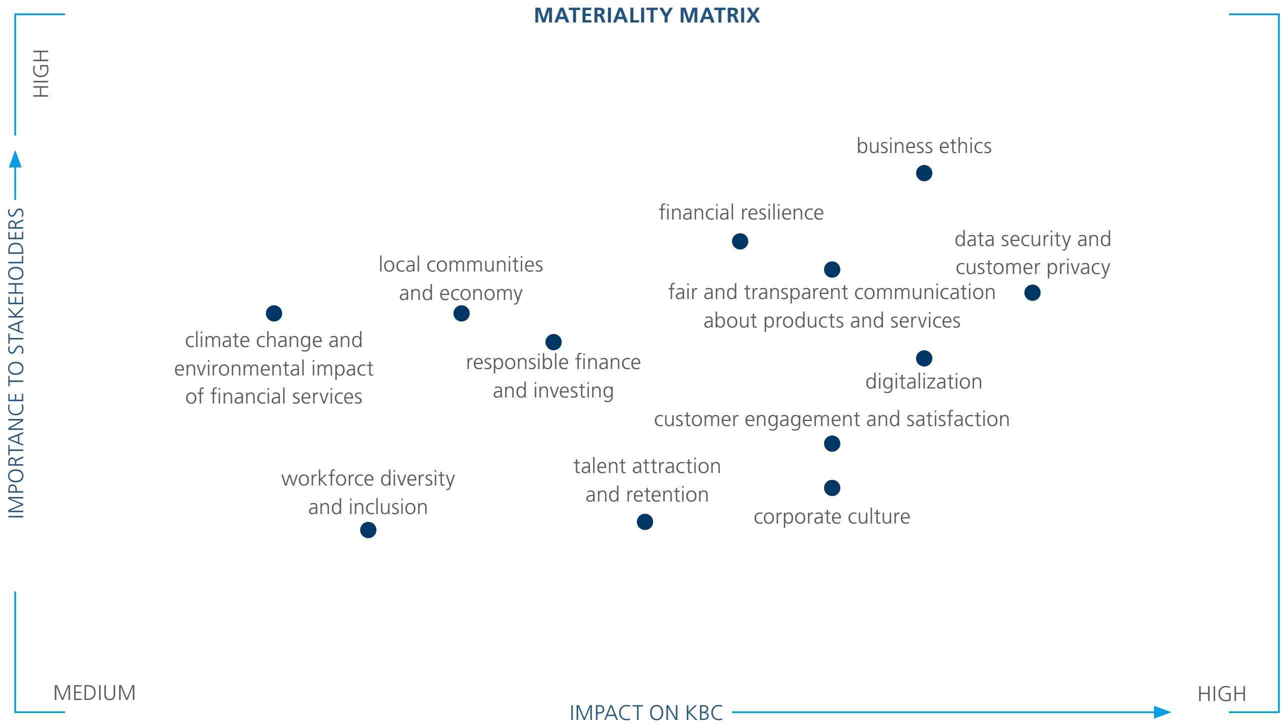
Our materiality analysis

Following the example of the materiality analysis in 2016, we conducted it again in 2018 to identify which themes our stakeholders consider the most important, what priority they place on them and how much the themes can impact KBC's performance and reputation.

The materiality analysis was based on 30 topics selected by an external third party using 'big data research' and ESG frameworks. The 12 themes that have the greatest impact on KBC and are most important to our stakeholders are set out in the graph below (an enlargement of the upper right corner of the complete materiality index). The importance of these themes was established using a variety of research techniques (surveys, interviews and desk research) among our key stakeholders (clients, employees, NGOs, policy-makers, investors and business organisations). The impact of the themes was determined through internal workshops with management.

The table indicates where we discuss these 12 topics in this report.

The materiality analysis showed that the most relevant themes for KBC were business ethics, financial resilience, fair and transparent communication about products and services, data security and customer privacy, and digitalisation. We found that the climate change and environment theme had increased in importance since the previous materiality exercise and that we need to focus even more on our employees as the driving force behind our business and strategy.



Important topics	Information in this report and/or relationship with KPIs
Business ethics	• See 'What makes us who we are?' in 'Our business model'. • See 'Our role in society' in 'Our strategy'. • See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'. • 'Reputation index' KPI: see 'The client is at the centre of our business culture' in 'Our strategy'. • 'Governance' KPI: see 'Our role in society' in 'Our strategy'.
Financial resilience	• See 'Our financial report'. • See 'We aim to achieve our ambitions within a stringent risk management framework' and 'We focus on sustainable and profitable growth' in 'Our strategy'. • See 'Our business units'. • See 'Consolidated financial statements'. • Financial KPIs: see 'Our strategy'.
Data security and customer privacy	• See 'In what environment do we operate?' in 'Our business model'. • See 'The client is at the centre of our business culture' in 'Our strategy'. • See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'.
Fair and transparent communication about products and services	• See 'The client is at the centre of our business culture' in 'Our strategy'. • 'Client experience' KPI: see 'The client is at the centre of our business culture' in 'Our strategy'. • 'Governance' KPI: see 'Our role in society' in 'Our strategy'.
Digitalisation	• See 'In what environment do we operate?' in 'Our business model'. • See 'The client is at the centre of our business culture' in 'Our strategy'. • See 'Our business units'. • 'Innovation' KPI: see 'We focus on sustainable and profitable growth' in 'Our strategy'. • 'Digital interaction' KPI: see 'We offer our clients a unique bank-insurance experience' in 'Our strategy'.

Important topics	Information in this report and/or relationship with KPIs
Customer engagement and satisfaction	• See 'What makes us who we are?' in 'Our business model'. • See 'The client is at the centre of our business culture' and 'We offer our clients a unique bank-insurance experience' in 'Our strategy'. • 'Client experience' KPI: see 'The client is at the centre of our business culture' in 'Our strategy'. • 'Innovation' KPI: see 'We focus on sustainable and profitable growth' in 'Our strategy'.
Corporate culture	• See 'What makes us who we are?' and 'In what environment do we operate?' in 'Our business model'. • See 'Our role in society' and 'We aim to achieve our ambitions within a stringent risk management framework' in 'Our strategy'. • See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'.
Local community and economy	• See 'Our business model'. • See 'We focus on sustainable and profitable growth' and 'Our role in society' in 'Our strategy'. • See 'Our business units'.
Responsible finance and investing	• See 'Our role in society' in 'Our strategy'.
Talent attraction and retention	• See 'Our employees, capital, network and relationships' in 'Our business model'.
Climate change and environmental impact of financial services	• See 'In what environment do we operate?' in 'Our business model'. • See 'Our role in society' in 'Our strategy'. • See 'Our business units'. • See 'Non-financial risks' in 'How do we manage our risks?'.
Workforce diversity and inclusion	• See 'Our employees, capital, network and relationships' in 'Our business model'. • See 'Diversity policy' in 'Corporate governance statement'.

Our financial report

- Consolidated net profit of 2 570 million euros in 2018.
- Higher net interest income on a comparable basis.
- More substantial contribution made by technical insurance results.
- Lower net fee and commission income on a comparable basis.
- Lower trading and fair value income on a comparable basis.
- Other income up on balance.
- Growth in lending and deposits, increased sales of non-life insurance, decline in life insurance.
- Combined ratio for non-life insurance of 88% and cost/income ratio for banking activities of 57.5%.
- Net reversal of impairment charges for loans, due in part to impairment reversals in Ireland.
- Robust solvency with a common equity ratio of 16.0%.

We have started applying IFRS 9 with effect from 2018, which means that the classification of financial assets and liabilities and the impairment methodology have changed considerably. Consequently, some of the income statement and balance sheet figures are not fully comparable to the 2017 reference figures (which are still based on IAS 39, as KBC is making use of transition relief for comparative data). To enhance transparency – and in line with IFRS 9 requirements – we have also moved accrued interest from foreign exchange derivatives in the banking book from 'Net result from financial instruments at fair value through profit or loss' to 'Net interest income'. We have also moved network income (i.e. revenue from margins earned on foreign exchange transactions carried out by the network for our clients) from 'Net result from financial instruments at fair value through profit or loss' to 'Net fee and commission income'. A concise overview is provided at the end of this section. More detailed information can be found in Note 1.1 of the 'Consolidated financial statements'. For the sake of comparability, we have added certain comparisons with *pro forma* (restated and unaudited) figures for 2017 in the analysis below. This is indicated by the words 'on a comparable basis'.

Consolidated income statement, KBC group (simplified, in millions of EUR)	**2018 IFRS 9**	**2017 IAS 39**
Net interest income	4 543	4 121
Non-life insurance (before reinsurance)	760	706
Earned premiums	1 582	1 491
Technical charges	-822	-785
Life insurance (before reinsurance)[1]	-18	-58
Earned premiums	1 359	1 271
Technical charges	-1 377	-1 330
Ceded reinsurance result	-41	-8
Dividend income	82	63
Net result from financial instruments at fair value through profit or loss[2]	231	856
Net realised result from available-for-sale assets	–	199
Net realised result from debt instruments at fair value through other comprehensive income	9	–
Net fee and commission income	1 719	1 707
Other net income	226	114
Total income	7 512	7 700
Operating expenses	-4 234	-4 074
Impairment	17	30
on loans and receivables[3]	–	87
on financial assets at amortised cost and at fair value through other comprehensive income[3]	62	–
Share in results of associated companies and joint ventures	16	11
Result before tax	3 310	3 667
Income tax expense	-740	-1 093
Result after tax	2 570	2 575
Result after tax, attributable to minority interests	0	0
Result after tax, attributable to equity holders of the parent (net result)	**2 570**	**2 575**
Return on equity	16%	17%
Cost/income ratio, banking	57.5%	54.2%
Combined ratio, non-life insurance	88%	88%
Credit cost ratio, banking	-0.04%	-0.06%

1 Does not include investment contracts without DPF, which roughly correspond to unit-linked life insurance contracts (0.7 billion euros in premiums in 2018, 0.9 billion euros in 2017).
2 Also referred to as 'Trading and fair value income'.
3 Also referred to as 'Loan loss impairment'.

Key consolidated balance sheet, solvency and liquidity figures,* KBC group (in millions of EUR)	**2018 IFRS 9**	**2017 IAS 39**
Total assets	283 808	292 342
Loans and advances to customers (excluding reverse repos)	147 052	140 999
Securities (equity and debt instruments)	62 708	67 743
Deposits from customers and debt securities (excluding repos)	194 291	193 708
Technical provisions (before reinsurance) and liabilities under investment contracts, insurance	31 273	32 193
Risk-weighted assets (Basel III, fully loaded)	94 875	92 410
Total equity	19 633	18 803
Common equity ratio (Basel III, Danish compromise method): fully loaded	16.0%	16.3%
Leverage ratio (Basel III, Danish compromise method): fully loaded	6.1%	6.1%
Minimum requirement for own funds and eligible liabilities (MREL, consolidated view)	26.0%	26.3%
Liquidity coverage ratio (LCR)	139%	139%
Net stable funding ratio (NSFR)	136%	134%

* For a definition of the ratios, see 'Glossary of financial ratios and terms'.

KBC acquired United Bulgarian Bank (UBB) and Interlease in Bulgaria in mid-2017. Their results are included in the group results with effect from the second half of that year (i.e. for six months in 2017) and for the whole of 2018. Their contribution to group net profit for that six-month period of 2017 was 27 million euros (see Note 6.6 of the 'Consolidated financial statements' section for more details).

The growth figures for the volume of deposits and loans have been systematically adjusted for exchange rate effects.

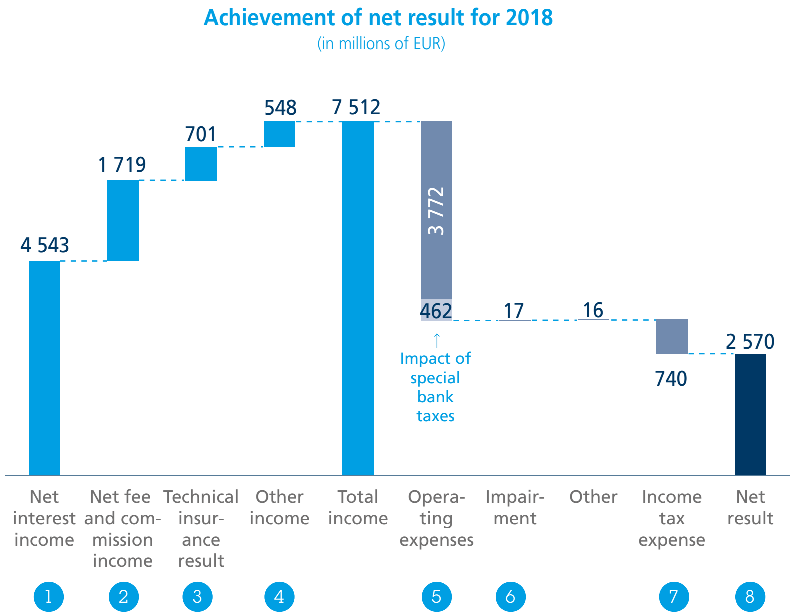
Our financial result in 2018

Net interest income 1

Our net interest income came to 4 543 million euros in 2018, up 3% on its year-earlier level (on a comparable basis). Pressure on commercial credit margins in most core countries, the adverse effect of low reinvestment rates in our core countries in the euro area and the lower net positive effect of ALM forex swaps were more than compensated for by factors including increased lending volumes (see below), lower funding costs, higher interest rates in the Czech Republic and the full inclusion of UBB and Interlease in the figures (instead of just six months in 2017).

Our loans and advances to customers (excluding reverse repos) went up by 5% in 2018 to 147 billion euros. There was a 5% increase at the Belgium Business Unit, 6% at the Czech Republic Business Unit and an unchanged level at the International Markets Business Unit, with growth in all countries apart from Ireland, which was affected by the sale of part of the legacy portfolio (when adjusted for this sale, growth at the International Markets Business Unit came to 4%). Our total volume of deposits (194 billion euros in deposits from customers and debt securities (excluding repos)) rose by 1% in 2018, with the Belgium Business Unit recording a fall of 1%, the Czech Republic Business Unit growth of 8% and the International Markets Business Unit an increase of 2%, with growth in all countries apart from Ireland. Disregarding debt securities (which were down due to lower certificates of deposit, redemption of the contingent capital note, etc.), our total volume of deposits rose by as much as 5% (+5% at the Belgium Business Unit, +7% at the Czech Republic Business Unit and +2% at the International Markets Business Unit).

The net interest margin for our banking activities came to 2.00%, 5 basis points higher than in 2017. It amounted to 1.72% in Belgium, 3.07% in the Czech Republic and 2.80% at the International Markets Business Unit.



Net fee and commission income (2)

Our net fee and commission income came to 1 719 million euros in 2018, down 5% on the year-earlier figure (on a comparable basis). Most of the decline was accounted for by a decrease in entry and management fees relating to our asset management activities (due in part to the more uncertain investment climate), but was offset to a limited extent by slightly higher fees for banking services (mainly payments), lower distribution fees and the positive effect of the full inclusion of UBB/Interlease.

At the end of 2018, our total assets under management came to approximately 200 billion euros, down almost 8% year-on-year, due essentially to lower prices. Most of these assets were managed at the Belgium Business Unit (186 billion euros) and the Czech Republic Business Unit (9 billion euros).

Insurance premiums and technical charges (3)

Our technical insurance result (earned premiums less technical charges plus the ceded reinsurance result) amounted to 701 million euros. Non-life insurance contributed 721 million euros to this result, up 3% on the year-earlier figure, as the increase in premium income (+6%) more than offset the lower reinsurance result and the increase in technical charges (which had been positively influenced to the tune of 26 million euros in 2017 by the one-off release of the indexation provision in Belgium). The combined ratio at group level came to an excellent 88%, roughly the same level as in 2017.

Life insurance accounted for -20 million euros of the technical insurance result, compared to the year-earlier figure of -57 million euros. The result in 2017 had also been influenced positively by the reversal of certain reserves in Belgium (23 million euros in the third quarter of that year). However, in compliance with IFRS, certain types of life insurance (essentially unit-linked products) have been excluded from the figures for premiums and technical charges in the life insurance business. If the premium income from such products is included, premium income from the life insurance business totalled around 1.8 billion euros, 3% less than in 2017. There was a decline of 6% in our main market of Belgium, with the growth in guaranteed-rate life insurance products (+8%) being cancelled out by lower sales of unit-linked products (-27%). For the group as a whole, products offering guaranteed rates accounted for 61% of premium income from the life insurance business in 2018, and unit-linked products for 39%.

Other income 4

Other income came to an aggregate 548 million euros, as opposed to 729 million euros in 2017 (on a comparable basis). The 2018 figure includes 82 million euros in dividends received and the 9-million-euro net result from debt instruments at fair value through other comprehensive income. It also includes 231 million euros in trading and fair value income. The latter figure was down 291 million euros year-on-year on a comparable basis, due primarily to the lower dealing room results (chiefly in Belgium and the Czech Republic), a decline in the value of derivatives used for asset/liability management purposes and the negative influence of various market value adjustments. Lastly, other income also included 226 million euros in other net income. This was 112 million euros more than in 2017, when -116 million euros had to be recognised in respect of a sector-wide review of tracker rate mortgage loans originated in Ireland before 2009. More information on this matter can be found in Note 3.6 of the 'Consolidated financial statements'.

Operating expenses 5

Our expenses amounted to 4 234 million euros in 2018, up 4% on the year-earlier figure. This reflected a number of items, including increased ICT expenditure, higher staff expenses (due in part to wage inflation), special bank taxes, professional fees and depreciation, several one-off items and the full inclusion of UBB/Interlease in 2018 (as opposed to six months in 2017). Excluding UBB/Interlease, the bank taxes, exchange rate effects and the one-off items, costs rose by roughly 1.7%.
As a result, the cost/income ratio of our banking activities came to 57.5%, compared to 54.2% in 2017. The ratio was 58% for the Belgium Business Unit, 47% for the Czech Republic Business Unit and 65% for the International Markets Business Unit. The ratio was affected by a number of non-operating and exceptional items, including the mark-to-market valuations for ALM derivatives and the impact of liquidating group companies (for more details, see the 'Glossary of financial ratios and terms' at the back of this report). Adjusted for these specific items, the cost/income ratio was 57.4%, compared with 54.9% in 2017.

Impairment 6

There was a net reversal of loan loss impairment of 62 million euros in 2018, compared to a net reversal of 87 million euros in 2017.
As was the case in the previous year, the net reversal in 2018 was largely attributable to Ireland (reversal of 112 million euros in 2018 and 215 million euros in 2017, partially reflecting the positive impact in both cases of higher house prices on the mortgage portfolio in that country). There was also a net reversal – albeit smaller – of loan loss impairment in Bulgaria (10 million euros), in Hungary (9 million euros) and at the Group Centre (35 million euros), while net provisioning in the other countries remained relatively limited (i.e. 4 million euros in Slovakia, 8 million euros in the Czech Republic and 91 million euros in Belgium). As a result, our overall credit cost ratio amounted to -4 basis points in 2018, compared to -6 basis points in 2017. A negative figure signifies a net reversal of impairments and hence a positive impact on the results.

There was a further improvement in the quality of our loans. The proportion of impaired loans (see the 'Glossary of financial ratios and terms' for a definition) in our loan portfolio was 4.3% at year-end 2018, compared to 6.0% for 2017. This breaks down into 2.6% at the Belgium Business Unit, 2.4% at the Czech Republic Business Unit and 12.2% at the International Markets Business Unit (this relatively high figure was chiefly attributable to Ireland, which had a ratio of 23% due to the property crisis of recent years). The ratio in Ireland was positively influenced in 2018 by the sale of a portfolio of largely impaired loans (approximately 1.9 billion euros) at the end of November 2018, reducing the Irish impaired loans ratio by roughly 10 percentage points. For the group as a whole, the proportion of impaired loans more than 90 days past due came to 2.5%, compared to the year-earlier figure of 3.4%. At year-end 2018, 45% of the impaired loans were covered by accumulated impairment charges. More information on the composition of the loan portfolio is provided in the 'How do we manage our risks?' section.
Other impairment charges totalled 45 million euros in 2018 and related to the impact of revising the residual values of financial car leases in the Czech Republic and various other

smaller items. The figure for 2017 was 57 million euros (relating mainly to available-for-sale securities and various smaller items).

Income tax expense 7

Our income tax expense came to 740 million euros in 2018, compared to the year-earlier figure of 1 093 million euros. This decline partly reflected the reduction in Belgian corporation tax (including the one-off negative effect of 211 million euros in 2017 relating to the impact on deferred taxes recognised on the balance sheet). More information in this regard is provided in Note 3.12 of the 'Consolidated financial statements' section. Besides paying income tax, we pay special bank taxes (462 million euros in 2018, included under 'Operating expenses').

Net results per business unit 8

Our net result in 2018 breaks down as follows:

- Belgium Business Unit: 1 450 million euros (1 575 million euros in 2017).
- Czech Republic Business Unit: 654 million euros (702 million euros in 2017).
- International Markets Business Unit: 533 million euros (444 million euros in 2017).
- Group Centre: -67 million euros (-146 million euros in 2017).

A detailed analysis of the results for each business unit can be found in the relevant section of this annual report.

Analysis of the balance sheet in 2018

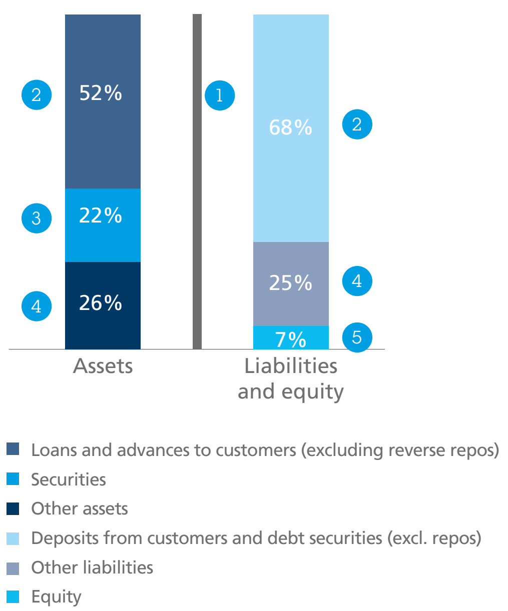
Total assets 1

At the end of 2018, our consolidated total assets came to 284 billion euros, down 3% year-on-year. Risk-weighted assets (Basel III, fully loaded) increased by 3% to 95 billion euros. More information in this regard can be found in the 'How do we manage our capital?' section.

Loans and deposits 2

Our core banking business is to attract deposits and use them to provide loans. Indeed, this is reflected in the importance of the figure for loans and advances to customers on the assets side of our balance sheet (147 billion euros (excluding reverse repos) at year-end 2018). Loans and advances to customers rose by 5% for the group as a whole, with growth of 5% at the Belgium Business Unit, 6% at the Czech Republic Business Unit, and an unchanged level at the International Markets Business Unit (with growth in all countries apart from Ireland, due to the sale of part of the legacy portfolio). The main lending products at group level were again term loans (66 billion euros) and mortgage loans (61 billion euros).

Balance sheet components
(year-end 2018)



On the liabilities side, our customer deposits (deposits from customers and debt securities, excluding repos) grew by 1% to 194 billion euros. Deposits fell by 1% at the Belgium Business Unit, but increased by 8% at the Czech Republic Business Unit and by 2% at the International Markets Business Unit. Disregarding debt securities (which were down due to lower certificates of deposit, redemption of the contingent capital note, etc.), our total volume of deposits went up by as much as 5% at group level and 5% at the Belgium Business Unit. The main deposit products at group level were again demand deposits (80 billion euros) and savings accounts (60 billion euros).

Securities 3

We also hold a portfolio of securities at the bank and at the insurer (where it serves primarily as an investment in the insurance context, especially life insurance), which totalled roughly 63 billion euros at year-end 2018. Approximately 30% of the portfolio relates to the insurance activities and some 70% to the banking activities. The total securities portfolio comprised 4% shares and 96% bonds (with bonds decreasing by just over 5 billion euros in 2018). Roughly 80% of these bonds at year-end 2018 consisted of government paper, the most important being Belgian, Czech, French, Slovak, Hungarian, Spanish and Italian. A detailed list of these bonds is provided in the 'How do we manage our risks?' section.

Other assets and other liabilities 4

Other important items on the assets side of the balance sheet were loans and advances to credit institutions and investment firms (5 billion euros, virtually the same as a year earlier), reverse repos (21 billion euros, down 1 billion euros on the year-earlier figure), derivatives (positive mark-to-market valuation of 5 billion euros mainly for interest rate contracts, almost 1 billion euros less than a year earlier), investment-linked life insurance contracts (14 billion euros, down almost 1 billion euros year-on-year) and cash and cash balances with central banks and other demand deposits at credit institutions (19 billion euros, 11 billion euros less than at year-end 2017).

Other significant items on the liabilities side of the balance sheet were the technical provisions and liabilities under the insurer's investment contracts (an aggregate 31 billion euros, roughly 1 billion euros less year-on-year), derivatives (negative mark-to-market valuation of 6 billion euros mainly for interest rate contracts, down just over 1 billion euros year-on-year) and deposits from credit institutions and investment firms (24 billion euros, down 4 billion euros year-on-year).

Equity 5

On 31 December 2018, our total equity came to 19.6 billion euros. This figure included 17.2 billion euros in parent shareholders' equity and 2.4 billion euros in additional tier-1 instruments. Total equity rose by 0.8 billion euros in 2018, with the most important components in this respect being the first time application of IFRS 9 (-0.7 billion euros (see Note 1.4)), the inclusion of the annual profit (+2.6 billion euros), the issue of a new additional tier-1 instrument in April 2018 (+1 billion euros), the payment of a final dividend for 2017 in May 2018 (-0.8 billion euros) and the payment of an interim dividend in November 2018 (-0.4 billion euros, as an advance on the total dividend for 2018), changes in the revaluation reserves (-0.5 billion euros), the impact of buying back 2.7 million own shares (-0.2 billion euros) and various smaller items.

On 31 December 2018, our fully loaded common equity ratio (Basel III, according to the Danish compromise method) would have been 16.22%, but – in line with our capital distribution policy – the Board of Directors decided that, for 2018, the capital above the reference capital position (16%) would be paid out (subject to the approval of the General Meeting of Shareholders), bringing the common equity ratio to 16% at the end of financial year 2018.

Our leverage ratio came to an excellent 6.1%. Detailed calculations of our solvency indicators are given in the 'How do we manage our capital?' section. The group's liquidity position also remained excellent, as reflected in an LCR ratio of 139% and an NSFR ratio of 136%.

Additional information and guidance

- We review the consolidated results in this section of the annual report. A review of the non-consolidated results and balance sheet is provided in the 'Company annual accounts and additional information' section.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was – on balance – very limited.
- Information on financial instruments, hedge accounting and the use thereof is provided in the 'Consolidated financial statements' section (Notes 1.2, 3.3 and 4.1–4.8 among others) and in the 'How do we manage our risks?' section.
- For information on forecast economic growth in our core countries, see the 'Our business units' section.
- We believe that all our business units will perform solidly in 2019.
- For Belgium, the recent reform of the Belgian corporation tax system will have a recurring positive impact on our results in the years ahead. The negative upfront effect recorded in the last quarter of 2017 should be fully recouped in roughly three years' time.
- We expect IFRS 16 (effective from 2019) to have an impact of roughly -6 basis points on the common equity ratio.
- We expect Basel IV (effective from 2022) to increase our risk-weighted assets by approximately 8 billion euros (a negative impact of about 1.3% on the common equity ratio), fully loaded at year-end 2018.
- As regards our dividend policy, see 'Our employees, capital, network and relationships' in the 'Our business model' section.
- For information on significant post-balance-sheet events, see Note 6.8 of the 'Consolidated financial statements'.
- A *pro forma* restatement of the reference figures for the main income lines has been carried out (see table).

***Pro forma* restatement of reference figures for the main income lines, KBC group**

(in millions of EUR, unaudited figures)	2018	2017
Net interest income	4 543	4 121
+ accrued interest from foreign exchange derivatives		+ 305
= *pro forma* reference figure (used in the analysis of the results)		= 4 426
Net result from financial instruments at fair value through profit or loss (FVPL)	231	856
- accrued interest from foreign exchange derivatives		- 305
- network income		- 99
+ result from equity instruments ('overlay approach')		+ 70
= *pro forma* reference figure (used in the analysis of the results)		= 522
Net fee and commission income	1 719	1 707
+ network income		+ 99
= *pro forma* reference figure (used in the analysis of the results)		= 1 806

Accrued interest from foreign exchange derivatives: this item has been moved from 'FVPL' to 'Net interest income' (in line with the transition to IFRS 9).

Network income (i.e. revenue received from margins earned on foreign exchange transactions carried out by the network for clients): this item has been moved from 'FVPL' to 'Net fee and commission income'.

Result from equity instruments: in line with the IFRS 9 'overlay approach', realised gains and losses and impairment on what used to be available-for-sale shares in the insurance book have been moved from 'Net result from available-for-sale financial assets' and 'Impairment on available-for-sale financial assets' to 'FVPL'. Please note that, under IFRS 9, realised and unrealised gains/losses on what used to be available-for-sale shares in the banking book are recognised in equity (and not in the result).

Our business units

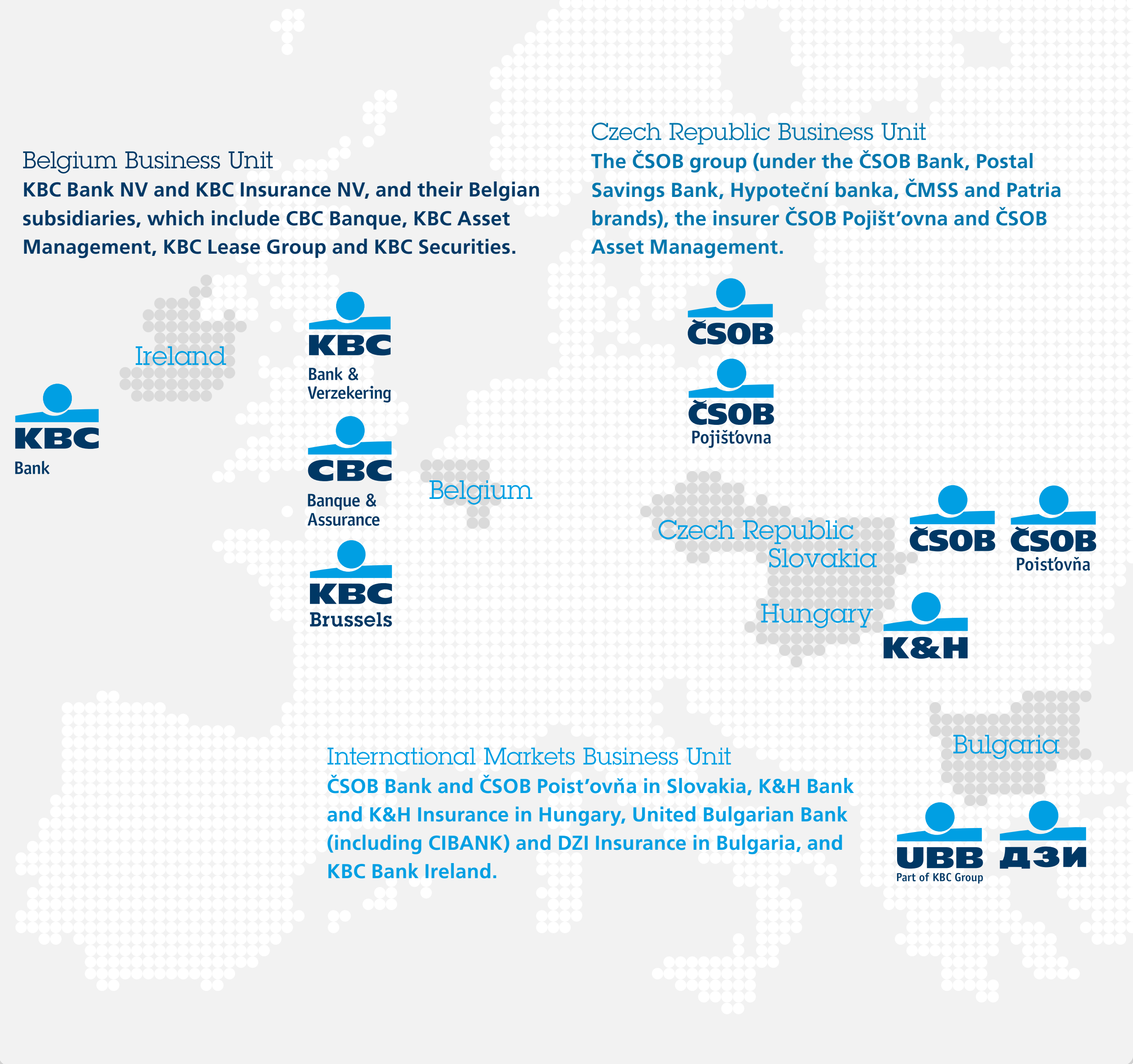
We have structured our group around three business units, namely ‘Belgium’, ‘Czech Republic’ and ‘International Markets’. The latter unit is responsible for our operations in the other countries in Central and Eastern Europe (Slovakia, Hungary and Bulgaria) and in Ireland.

Belgium Business Unit

KBC Bank NV and KBC Insurance NV, and their Belgian subsidiaries, which include CBC Banque, KBC Asset Management, KBC Lease Group and KBC Securities.

Czech Republic Business Unit

The ČSOB group (under the ČSOB Bank, Postal Savings Bank, Hypoteční banka, ČMSS and Patria brands), the insurer ČSOB Pojišt’ovna and ČSOB Asset Management.



International Markets Business Unit

ČSOB Bank and ČSOB Poist’ovňa in Slovakia, K&H Bank and K&H Insurance in Hungary, United Bulgarian Bank (including CIBANK) and DZI Insurance in Bulgaria, and KBC Bank Ireland.

Where do we stand in each of our countries?

Market position in 2018[1]	Belgium	Czech Republic	Slovakia	Hungary	Bulgaria	Ireland
Main brands	KBC CBC KBC Brussels	ČSOB	ČSOB	K&H	UBB DZI	KBC Bank Ireland
Network	585 bank branches	235 bank branches[2]	122 bank branches	206 bank branches	214 bank branches	16 bank branches
	374 insurance agencies	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through partnerships
	Online channels	Online channels	Online channels	Online channels	Online channels	Online channels
Clients (millions, estimate)	3.5	3.6	0.6	1.6	1.3	0.3
Loan portfolio (in billions of EUR)	108	26	8	5	3	11
Deposits and debt securities (in billions of EUR)	131	32	6	8	4	5
Market share (estimate)						
- bank products	20%	19%	10%	11%	10%	9%[3]
- investment funds	32%	23%	7%	13%	14%	–
- life insurance	13%	8%	4%	3%	24%	–
- non-life insurance	9%	8%	3%	7%	11%	–
Main activities and target groups	We offer a wide range of loan, deposit, asset management, insurance and other financial products in virtually all our countries, where our focus is on private individuals, SMEs and high-net-worth clients. Services for corporate clients additionally include cash management, payments, trade finance, lease, money market activities, capital market products, stockbroking and corporate finance.					
Macroeconomic indicators for 2018[4]						
- GDP growth (real)	1.4%	2.9%	4.1%	4.5%	3.5%	7.0%
- Inflation (average annual increase in consumer prices)	2.3%	2.0%	2.5%	2.9%	2.6%	0.7%
- Unemployment (% of the labour force at year-end; Eurostat definition)	5.5%	2.0%	6.1%	3.6%	4.8%	5.3%
- Government budget balance (% of GDP)	-0.8%	0.7%	-0.7%	-2.4%	0.2%	-0.4%
- Public debt (% of GDP)	102.3%	32.2%	49.0%	72.2%	22.0%	64.0%

1 Market shares and client numbers: based on own estimates (when calculating the figure for client numbers, we took account of the estimated overlap between the various companies in the group in each country; this calculation was further refined in 2018 for several countries). For traditional bank products: average estimated market share for loans and deposits. In Belgium, the life insurance market share is based on reserves; for the other countries, it is based on premiums. Loan portfolio: see 'How do we manage our risks?'. Deposits and debt securities: deposits from customers and debt securities (excluding repos). The number of bank branches does not include self-service branches. The Belgium Business Unit also includes the small network of 11 KBC Bank branches established in the rest of Europe, the US and Southeast Asia, which focus on activities and clients with links to KBC's core markets (not included in the number of branches in the table). Market shares are based on the latest available data (e.g., from the end of September 2018).

2 ČSOB bank branches and Postal Savings Bank financial centres.

3 Retail segment (home loans and deposits for private individuals (excluding demand deposits)).

4 Data based on estimates made at the start of 2019.

Belgium

The macroeconomic context in Belgium

The Belgian economy continued in the same vein as in 2017, expanding steadily but very modestly in 2018. Quarter-on-quarter real GDP growth remained at a stable 0.3% throughout the year. Indicators, including that of the National Bank of Belgium, nevertheless showed that the economic outlook became somewhat gloomier in the course of the year. Annual economic growth slowed down slightly, falling from 1.7% in 2017 to 1.4% in 2018 and – as has been the case for the four preceding years – remaining below the growth rate of the euro area.

Belgium's still generally favourable economic picture in 2018 was bolstered by both final domestic demand and net exports. On the other hand, changes in stocks made a negative contribution to GDP growth. Growth in domestic demand was broadly underpinned by household consumption, government spending and investment. Households benefited from further substantial wage increases, but above all from a labour market that continued to perform robustly. Some 250 000 jobs have been created in Belgium on balance since the beginning of the economic recovery in 2013. This helped to further reduce Belgian unemployment to 5.5% at year-end 2018. Labour-intensive economic growth also resulted in a record number of unfilled vacancies.

Inflation stood at 2.3%, up slightly on its 2017 level. It soared throughout the year and peaked at 3.2% in November, due primarily to sharp increases in housing, water and energy prices, but then tumbled (to 2.2% in December) in line with the falling price of oil. On the property market, the rise in house prices eased compared to the previous year: according to Eurostat's harmonised index, Belgian homes increased in price by 3.0% in 2018, compared to 3.6% in 2017. Belgian 10-year government bond yields briefly broke through the 1% level at the beginning of 2018, but remained fairly stable at around 0.8% for the remainder of the year. The spread with their German counterparts widened from approximately 20 basis points at the beginning of the year to about 50 points at year-end.

We expect real GDP growth to ease further in 2019 towards 1.2%, in line with the less positive economic picture in the euro area. Inflation is likely to fall towards 1.8%, meaning that the difference with the euro area would still be in positive territory, but less so.

Specific objectives

- To focus on an omnichannel approach and invest in the seamless integration of our different distribution channels (branches, agencies, advisory centres, websites and mobile apps), while investing in the further digital development of our banking and insurance services and exploiting new technologies to provide our clients with more targeted and proactive advice.
- To collaborate, where necessary, with partners through 'eco-systems' that enable us to offer our clients comprehensive solutions.
- To exploit our potential in Brussels more efficiently via the separate new brand, *KBC Brussels*, which reflects the capital's specific cosmopolitan character and is designed to better meet the needs of the people living there.
- To grow bank-insurance further at CBC in specific market segments and to expand our presence and accessibility in Wallonia.
- To work tirelessly on the ongoing optimisation of our bank-insurance model in Belgium.
- To continue our pursuit of becoming the reference bank for SMEs and mid-cap enterprises based on our thorough knowledge of the client and our personal approach.
- To express our commitment to Belgian society by taking initiatives in areas including environmental awareness, financial literacy, entrepreneurship and demographic ageing, as well by actively participating in the mobility debate and developing solutions.

- 'Best Bank in Belgium' (Euromoney)
- 'Best Private Banker in Belgium' (Euromoney)
- 'Best Trade Finance Provider in Belgium' (Global Finance)
- 'Best Bank Governance in Europe' (Capital Finance International)
- KBC most valuable brand in Belgium (Brand Finance)
- 'Best Bank', 'Best Broker', 'Best App' and 'Best Personal Loan' (Bankshopper.be)
- Top spot in Belgium for the www.kbc.com corporate website (Webranking by Comprend)
- European Commission's 'Startup Accelerator Award' in recognition of Start it @kbc's endeavours for starter companies
- 'Best Financial Communication' (Belgian Financial Analysts Association)
- etc.

A few achievements in 2018

client centricity

We have deliberately chosen to pursue an omnichannel strategy, where clients themselves decide how they want to contact us. We are seeing an increase in contacts via KBC Live (telephone, video and chat facilities) and growing use of our digital systems and apps. In response, we are investing heavily to further expand and improve these systems (such as KBC Touch, KBC Sign, KBC Mobile, KBC Invest, KBC Assist, K'Ching and the Business Dashboard), with the emphasis on innovative solutions that make our clients' lives easier. For instance, we were the first bank in Belgium to add multibanking options to its mobile app and have also integrated a variety of non-banking services in the same app. It is now possible to use it, for example, to pay for parking, to buy public transport tickets and to check luncheon voucher balances directly. In October 2018, we welcomed our millionth KBC/CBC/KBC Brussels Mobile client.

Moving on specifically to our business clients, we developed the 'KBC Trade Club'. This platform, which is designed for companies and businesses in various KBC home markets, offers access to numerous companies in different countries via the Trade Club Alliance and focuses on two important services, namely a matchmaking community and an extensive library of market and other information. We also invested in KBC Live to substantially expand its service offering. Businesses too can now contact it for all types of information.

Ongoing investment in our branch network is another commitment of ours, with an even greater focus on expertise, extended accessibility and an excellent client experience and service. For that reason, we decided in 2018 to further optimise our bank branches in Flanders, including by increasing the number of branches with a full product and service offering and introducing longer opening hours, but also to convert a number of them to unstaffed branches where clients can continue to perform the vast majority of their day-to-day transactions via convenient self-service terminals.

sustainable profitable growth

For several years now, we have been active in Brussels under the separate *KBC Brussels* brand, which has a metropolitan, innovative image and a tailored network. We continued to modernise the branch network in 2018, part of which entailed bolstering the provision of remote advice by further expanding KBC Brussels Live. This service has gone down very well with our clientele in the capital, thanks to its ease of use and accessibility. This, together with a range of other initiatives, helped KBC Brussels attract over 10 000 new clients in 2018.

Our growth strategy advanced significantly in Wallonia too, one aspect of which includes the opening of several new branches. In 2018 specifically, we also moved into the new CBC head office in Namur.

bank-insurance

Our bank-insurance concept continued to enjoy considerable success. At year-end 2018, for instance, roughly half of households that are clients of KBC Bank held at least one KBC Insurance product, while a fifth of households held at least three banking and three insurance products from KBC. To give another example, eight to nine of every ten KBC Bank clients with a home loan also took out a home insurance policy with our group in 2018, while roughly eight out of ten had taken out mortgage protection cover.

role in society

We give concrete shape to our wider role in the community via initiatives relating to entrepreneurship, environmental awareness, financial literacy and demographic ageing.

Several years ago, we launched our business incubator Start it @kbc to stimulate entrepreneurship. It provides new start-ups with accommodation and above all with support and advice, with input from external partners. The focus in 2018 was on women entrepreneurs, internationalisation and corporate ventures.

A fine example in the area of financial literacy is the 'Get-a-Teacher' initiative, which aims to further enhance financial knowledge among young people. 'Get-a-Teacher' gives schools the opportunity to 'order' a teacher from KBC. He or she is a KBC employee who has been screened and selected for this role. The initiative is a free, no-obligation offer and is separated from the group's commercial communication. We also view it as part of our job to guide clients through the digitalisation process by means of our 'DigiWise' offering, for instance, which includes 'Digi Tuesday' sessions, modules on cyber-security and other relevant themes.

As regards the environment and sustainability in general, we issued a green bond and launched an SRI pension-saving fund (discussed in more detail elsewhere in this annual report). Our KBC Mobility project aims to support the transition to 'multi-mobility'. KBC Autolease, for instance, is steadily evolving into a mobility provider by committing itself to different modes of transport. This includes bicycles, as reflected in the successful KBC Cycle Lease product. Our Olympus app, meanwhile, enables our clients to opt for alternative forms of transport such as train, bus, tram, metro, bike and car share, depending on their destination and the time of day.

Contribution to group result

Net result		
Net result 1 450 million euros (-8%)	**Net interest income** 2 576 million euros (-5%[1])	**Cost/income ratio** 58% (52%)
	Technical insurance result[2] 391 million euros (+3%)	**Combined ratio** 87% (86%)
	Net fee and commission income 1 182 million euros (-11%[1])	**Credit cost ratio** 0.09% (0.09%)
	Operating expenses 2 484 million euros (+1%)	**Impaired loans ratio** 2.6% (2.8%)
	Impairment on loans 91 million euros (+5%)	**Return on allocated capital** 22% (26%)

Figures for 2018 (the figures in brackets are for, or indicate the difference with, 2017). A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated financial statements' section.

1 On a comparable basis (see 'Our financial report').

2 Earned premiums - technical charges + ceded reinsurance result.

In 2018, the Belgium Business Unit recorded a net result of 1 450 million euros, compared with 1 575 million euros a year earlier.

Net interest income (2 576 million euros) declined by 5% on a comparable basis. This reflected a number of negative items, including pressure on credit margins and low reinvestment yields, but these were partially offset by factors including the positive effect of lower funding costs and growth in the volume of credit. Our net interest margin in Belgium narrowed slightly from 1.75% in 2017 to 1.72% in 2018. The volume of loans and advances to customers (100 billion euros, excluding reverse repos) rose by 5% and deposits from customers and debt securities (131 billion euros, excluding repos) fell by 1%. Adjusted for debt securities, deposits increased by 5%.

Our net fee and commission income (1 182 million euros) declined by 11% on a comparable basis, primarily on account of lower fee income (both entry and management fees) from our asset management activities (due to the more uncertain investment climate) and, to a lesser extent, to lower securities and credit-related commission income.

The technical result from our insurance activities in Belgium came to 391 million euros. In the non-life segment, premium income grew by 3% (with growth in almost all classes), while claims rose by 5% (2017 had benefited from the one-off release of the indexation provision (26 million euros)) and the reinsurance result declined. The combined ratio for our non-life insurance business came to an excellent 87%. Our life insurance sales – including investment contracts without a discretionary participation feature, which are excluded from the IFRS figures – amounted to 1.4 billion euros, down 6% on the year-earlier figure, with the lower sales of primarily unit-linked life products more than cancelling out the higher sales of guaranteed-rate products.

The other income items chiefly comprised dividends received on securities held in our portfolios (74 million euros), trading and fair value income (101 million euros, down on the 2017 figure due to lower dealing room results, a decline in the value of derivatives used for asset/liability management purposes and the negative influence of various market value adjustments) and other income (225 million euros). Besides mainly the usual items (results from KBC Autolease, VAB, etc.), 'other income' also included a variety of one-off items (including the positive impact of the settlement of old legal cases in 2018).

Our costs in Belgium rose by 1% to 2 484 million euros in 2018, due to various factors, the most notable of which were lower staff expenses and facility services costs, and higher ICT costs, bank taxes and several one-off items. The cost/income ratio for our banking activities came to 58%, compared with 52% in 2017.

As in 2017, loan loss impairment charges were relatively limited (91 million euros, as opposed to 87 million euros a year earlier). In terms of our overall loan portfolio, they amounted to 9 basis points (the same level as in 2017). Loan quality improved once again. Approximately 2.6% of the business unit's loan portfolio at year-end 2018 was impaired (see 'Glossary of financial ratios and terms' for definition), compared with 2.8% a year earlier. Impaired loans that were more than 90 days past due accounted for 1.2% of the portfolio (1.4% in 2017).

Taxes in Belgium came to 513 million euros compared with 797 million euros a year earlier. The decrease was partly attributable to the lower rate of corporation tax introduced in 2018 and the one-off, negative up-front effect of that tax cut, which was recognised in 2017 (85 million euros; also see 'Group Centre').

Czech Republic

The macroeconomic context in the Czech Republic

Following the previous year's strong performance, the Czech economy grew at a slower rate in 2018, in line with economic developments in the euro area. Growth nevertheless remained at a robust level. Real GDP expanded by 2.9%, driven primarily by domestic demand, including private consumption, government spending and investment. On the supply side, there was a considerable decline in manufacturing industry's contribution to growth, which was partly offset by vigorous expansion in the service sector and a bigger contribution from construction. The Czech labour market continued to tighten, as reflected in a low unemployment rate (2.0% at year-end 2018) and accelerating wage growth. To offset the increasing shortage of workers, Czech businesses invested more in order to raise their production capacity and productivity.

At 2.0%, average inflation in 2018 remained slightly below its year-earlier level but around the 2% target set by the central bank (CNB). This, combined with a persistently good macroeconomic performance and a weaker-than-expected exchange rate for the Czech currency, prompted the CNB to continue tightening its monetary policy. As a result, its two-week repo rate rose to 1.75% at year-end 2018, compared to the year-earlier figure of 0.5%.

We expect that economic growth will gradually ease further to 2.6% in 2019, which will still be above the EU average. The unemployment rate should remain constant and very low in this context, ending 2019 at around 2.0%. With a forecast average annual rate of 2.1% in 2019, inflation is expected to be slightly above the CNB's target. We expect two more increases in the policy rate in the Czech Republic before the end of 2020.

Specific objectives

- To move from largely channel-centric solutions to ones that are client-centric, based on an integrated model that brings together clients, third parties and our bank-insurer.
- To also offer new, innovative products and services by making use of digital opportunities and taking account of new trends, shifting client behaviour and new regulations. Our aim is to go 'digital with a human touch'.
- To continue to concentrate on simplifying products, IT capabilities, our organisation, our bank distribution network, our head office and branding, to achieve even greater cost efficiency.
- To expand our bank-insurance activities through steps like introducing a progressive and flexible pricing model, developing combined banking and insurance products, and strengthening our insurance sales teams.
- To keep growing in our traditionally strong fields, such as lending to businesses and providing home loans. We will also advance in areas – like SME and consumer loans – where we have yet to tap our full potential.
- To express our social commitment by focusing on environmental awareness, financial literacy, entrepreneurship and demographic ageing.

- 'Best Bank in the Czech Republic' (Global Finance, The Banker, Euromoney)
- 'Best Private Bank in the Czech Republic' (Euromoney)
- One of the best employers in the Czech Republic (Sodexo) and 'Most Attractive Employer in Banking and Financial Services' (Randstad)
- 'Best Online Bank in the Czech Republic' (Capital Finance International)
- 'Best Trade Finance Provider in the Czech Republic' (Global Finance)
- etc.

A few achievements in 2018

client centricity

As in previous years, we launched a variety of new products and services that respond to our clients' changing needs. As in Belgium, we are seeing a general increase in use of our digital channels, especially ČSOB SmartBanking, but also ČSOB Internet Banking, ČSOB CEB, ČSOB Investice and ČSOB NaNákupy (the mobile wallet app for clients to shop and pay digitally in a straightforward way). The ČSOB CEB apps allow businesses to manage their accounts and other banking products and to link them to their own accounting system. We do not limit ourselves to purely banking or insurance apps. For instance, we recently purchased the services comparison website Ušetreno.cz, which clients can use to compare the costs and other features of energy, telecoms, financial and other services. As in Belgium, we have added a variety of user-friendly features to our digital offering, including multibanking options for our online banking service, and – by analogy with KBC SmartHome in Belgium – we launched the ČSOB NaDoma app, with features such as alerting the user in the event of a water leak at home.

sustainable profitable growth

As in 2017, we achieved decent growth in the areas we targeted, such as consumer finance (+12% in 2018). Lending to SMEs was also up, but to a lesser extent (around 2%). We also made progress in areas where we already have a sound track record, with for instance the volume of home loans expanding by no less than 8% in 2018. Overall, our lending activities increased by 6% in 2018 and clients also placed 8% more deposits with our group in the Czech Republic.
Česká pošta and ČSOB signed a ten-year agreement to collaborate on banking and insurance services, building on a quarter of a century's mutual cooperation under the Poštovní spořitelna (Postal Savings Bank) brand. The agreement came into effect on 1 January 2018, as of which date ČSOB became the sole partner for the supply of financial and insurance services. It is also our aim to integrate Postal Savings Bank under the ČSOB brand by 2020, which will further boost efficiency and accessibility.

bank-insurance

About six out of ten ČSOB clients who took out home loans with the bank in 2018 also purchased home insurance from the group, while approximately half of them also took out life insurance. The number of bank-insurance clients – i.e. clients with at least one banking and one insurance product from our group in their portfolio – increased by 12% in 2018, while the number of stable bank-insurance clients (holding at least two banking and two insurance products from our group) rose by as much as 15%.

role in society

We took a number of initiatives in terms of our social engagement, focusing on environmental awareness, financial literacy, entrepreneurship and demographic ageing.
On the environmental front, for example, we decided that we would exit the coal sector in the Czech Republic and that the current exposure to coal-fired power generation would be reduced to zero by 2023 at the latest. This means no further funding will be provided to any new or existing coal-fired power stations or coal mines from mid-2018 on (with one exception: existing coal-fired power plants, which supply heat to 40% of the Czech population, can continue to be funded until 2035 to allow further ecological improvements to be made to them).
In terms of financial literacy, ČSOB has for several years now boasted over 300 ambassadors from among its ranks who are sent to schools to provide interactive and engaging lessons on financial subjects. Our Education Fund, meanwhile, has worked with the Olga Havel Foundation for many years in supporting students in difficulty. Voluntary work and cooperation with NGOs in the Czech Republic remain highly successful. For example, no fewer than 1 586 colleagues offered their knowledge and skills to an NGO for a day in 2018.
We want to support our clients throughout their lives and, therefore, pay particular attention to senior citizens. In collaboration with the Sue Ryder Home advisory centre, we launched the online portal 'Don't get lost in old age', which provides elderly people and their families with lots of practical information and professional advice.

Contribution to group result

Net result		
654 million euros (-7%)	**Net interest income** 1 043 million euros (+17%[1])	**Cost/income ratio** 47% (42%)
	Technical insurance result[2] 153 million euros (+18%)	**Combined ratio** 97% (97%)
	Net fee and commission income 257 million euros (+12%[1])	**Credit cost ratio** 0.03% (0.02%)
	Operating expenses 729 million euros (+13%)	**Impaired loans ratio** 2.4% (2.4%)
	Impairment on loans 8 million euros (5 million euros)	**Return on allocated capital** 39% (43%)

Figures for 2018 (the figures in brackets are for, or indicate the difference with, 2017). A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated financial statements' section.
1 On a comparable basis (see 'Our financial report').
2 Earned premiums - technical charges + ceded reinsurance result.

In 2018, the Czech Republic Business Unit recorded a net profit of 654 million euros, compared with 702 million euros a year earlier. The Czech koruna appreciated by an average 3% against the euro.

On balance, net interest income in the Czech Republic (1 043 million euros) went up by 17% on a comparable basis, as pressure on commercial margins was offset by higher interest rates, volume growth of loans and the exchange rate effect. As regards volumes, our loans and advances to customers (23 billion euros, excluding reverse repos) rose by 6% in 2018 (due in part to robust growth in home loans). Deposits from customers and debt securities (32 billion euros, excluding repos) grew by 8% year-on-year. The net interest margin in the Czech Republic widened from 2.91% in 2017 to 3.07% in 2018.

At 257 million euros, our net fee and commission income was up by 12% on a comparable basis, due primarily to lower distribution fees paid, higher fee and commission income for asset management and banking services, one-off items and the exchange rate effect.

The technical result from our insurance activities in the Czech Republic came to 153 million euros in 2018, up 18% on the year-earlier figure. Non-life premium income grew by 15%, but there was also an 11% increase in technical charges. The combined ratio for our Czech non-life insurance business amounted to 97%. Sales of life insurance ended the year at 0.3 billion euros, the same level as in 2017.

The other income items chiefly comprised trading and fair value income (72 million euros in 2018, as opposed to 184 million euros in 2017 (on a comparable basis), as dealing room results had been exceptionally strong that year) and other income (14 million euros: down on 2017, which had benefited from several positive one-off items).

Costs rose by 13% to 729 million euros in 2018, owing to higher staff expenses (partly related to wage inflation), higher ICT costs, increased depreciation, the exchange rate effect and one-off items. Consequently, the cost/income ratio for our banking activities amounted to what was still a very solid 47%, compared with 42% in 2017.

Once again, loan loss impairment charges were very limited in 2018 (8 million euros, as opposed to 5 million euros in 2017). In terms of our overall loan portfolio, therefore, these charges amounted to 3 basis points in 2018, compared with 2 basis points in 2017. Loan quality remained excellent. Approximately 2.4% of the business unit's loan portfolio was impaired at year-end 2018, the same level as a year earlier. Impaired loans that were more than 90 days past due accounted for 1.3% of the portfolio (1.6% in 2017). We also recorded 34 million euros in other impairment charges in 2018, mainly on account of revising the residual values of financial car leases.

International Markets

The macroeconomic context in Slovakia, Hungary, Bulgaria and Ireland

Growth in Slovakia and Hungary picked up in 2018, with their respective figures of 4.1% and 4.5% being well above that of the euro area as a whole. At 3.5%, real GDP growth in Bulgaria eased somewhat in 2018. Like most economies in the region, growth in these countries was driven primarily by domestic demand (consumption and investment). Robust economic expansion also translated into favourable wage growth and employment, with unemployment at year-end 2018 amounting to 6.1% in Slovakia, 3.6% in Hungary and 4.8% in Bulgaria, all down on their 2017 levels.

Inflation in the three countries rose further in 2018. Consumer prices in Slovakia and Bulgaria rose by an annual average of 2.5% and 2.6% respectively, which was considerably higher than in 2017 (1.4% and 1.3% respectively). There was a slightly smaller increase in Hungarian inflation, going up from 2.4% in 2017 to 2.9% in 2018. As a result, the average annual increase in consumer prices remained virtually in the middle of the one-percentage-point band either side of the 3% target set by the Hungarian National Bank. It therefore maintained its highly expansive policy in 2018 and kept it in line with that of the European Central Bank (ECB). The Hungarian National Bank has, however, announced a shift in policy for 2019. This will pave the way for gradual normalisation, oriented once again towards the ECB.

We anticipate persistently good economic growth figures in the region for 2019, with 3.7% for Slovakia and 3.4% for Bulgaria. Given the strength of the Hungarian economy's performance in 2018, we expect growth to ease there towards 3.5% in 2019. Consequently, the convergence trend in Central and Eastern Europe, with growth figures that are clearly higher than those for the euro area, will remain intact.

With real GDP growth of 7.0%, the Irish economy was once again one of the euro area's strongest performers in 2018. An important proviso in this respect is that Irish GDP figures are heavily distorted by the activities of large multinationals in the country, which means that underlying economic growth in Ireland might be lower. Other economic indicators, however, confirmed the favourable economic climate. Irish inflation was up on its 2017 level, but nevertheless remained very limited at just 0.7% in 2018. Persistently robust economic growth in 2018 again ensured that Irish public debt declined further to 64% of GDP. We expect growth to slow to 3.5% in 2019, which is still well above the rate forecast for the euro area.

- K&H in Hungary (2018 and 2019), ČSOB in Slovakia (2018) and UBB in Bulgaria (2019): 'Best Trade Finance Provider' (Global Finance)
- K&H in Hungary: silver medal in the 'Finance & Insurance' category for 'Gap in the Market' campaign (Data & Marketing Association's Echo Awards)
- KBC Bank Ireland: gold for 'Best in Financial Services' (Digital Media Awards)
- ČSOB in Slovakia: 'Best Private Bank' (Euromoney)
- DZI Insurance in Bulgaria: 'Life Insurer of the Year' (VUZF University, Association of Bulgarian Insurers, among others)
- K&H in Hungary: 'Reliable Employer' (German-Hungarian Chamber of Industry and Commerce)
- K&H in Hungary: 'Sustainable Bank of the Year' (Mastercard)
- etc.

Specific objectives

- To pursue an omnichannel distribution model in the Central European countries, with particular attention being paid to digital solutions. We are fully committed to implementing a 'Digital First' strategy in Ireland (see below). At the same time, we aim to simplify products and processes in all countries.
- To target income growth in Hungary through vigorous client acquisition in all banking segments and through more intensive cross-selling, in order to raise our market share and our profitability. We also aim to expand our insurance activities substantially, primarily through sales at bank branches and, for non-life insurance, via both online and traditional brokers.
- To maintain our robust growth in strategic products in Slovakia (i.e. home loans, consumer finance, SME funding, leasing and insurance), partly through cross-selling to ČSOB group clients.
- To focus – as regards the banking business in Bulgaria – on increasing our share of the lending market in all segments, while applying a strict risk framework. Our insurer, DZI, is likewise maintaining its goal of growing faster than the market in both life and non-life insurance, via the bank and other channels.
- To further implement our 'Digital First' strategy in Ireland in order to ensure an outstanding client experience. We aim to differentiate ourselves through the instant and proactive delivery of products and services and through a high level of accessibility (including 'mobile' and 'contact centre'). We aim to achieve a market share of at least 10% in the retail and micro-SME segments and are focusing fully on bank-insurance, just as we do in our other core markets.
- To implement a socially responsible approach in all countries, with a particular focus on environmental awareness, financial literacy, entrepreneurship and health.

A few achievements in 2018

client centricity

As in Belgium and the Czech Republic, we look constantly at how we can apply new technologies in order to further align the service we offer to meet the needs of our clients in Slovakia, Hungary, Bulgaria and Ireland. In 2018, for example, KBC in Ireland was the first to offer its clients Garmin Pay alongside Apple Pay, Google Pay and FitBit Pay (see below). The mobile app was also expanded there to include various new features, including the ability to report stolen bank cards and instantly receive a digital replacement.
Considerable attention was likewise paid in Bulgaria to developing mobile apps, drawing in part on the knowledge and experience built up at other group entities. The client experience was considerably enhanced by the new mobile banking service launched in 2018, and United Bulgarian Bank became the reference for mobile banking in Bulgaria.
Launches in Slovakia included ČSOB SmartPay, a new mobile e-wallet app for payments using Near Field Communication (NFC). In Hungary, we rolled out an end-to-end digital solution that allows cash loans to be granted within 30 minutes, introduced biometric signatures for various banking transactions and launched a simple and user-friendly online purchasing process for home insurance policies.
To increase commercial clout and strengthen future viability – and for reasons of cost containment, efficiency and effectiveness – all banks in the International Markets Business Unit have launched a programme for migrating to a shared core banking platform. Two of the four countries are already using a significant part of the architecture and two have embarked on the first implementation phase.

sustainable profitable growth

Our deposits continued to grow in all the Central European core countries. The same goes for lending, which also saw a further improvement in quality. This was reflected, for instance, by a reduction in the proportion of impaired loans in the portfolio. That situation improved in Ireland too, where the impaired loans ratio further benefited from the sale at the end of November of part of KBC Bank Ireland's legacy loan portfolio. The deal significantly reduced that ratio at KBC Bank Ireland (by roughly 10 percentage points) to around 23%.
In Bulgaria, the merger of CIBANK and United Bulgarian Bank (UBB), which was acquired in mid-2017, was virtually completed. We also increased our stake from 60% to 100% in the life insurance joint venture between UBB and MetLife in March 2018, before integrating that business into DZI by the end of the year. The agreement means that we can distribute DZI's life and non-life products through UBB branches and fully roll out our bank-insurance model in Bulgaria, which is one of KBC's core markets. The group's aggregate share of the Bulgarian life insurance market is now more than 20%.

bank-insurance

The number of bank-insurance clients for the business unit as a whole – i.e. clients with at least one banking and one insurance product from our group in their portfolio – increased by roughly half in 2018, as did the number of stable bank-insurance clients (holding at least two banking and two insurance products). Although the recognition of UBB Life (Bulgaria) for the first time in the calculation accounted for a substantial part of this growth, there was robust organic growth in the business unit too. Numerous commercial synergies were also achieved. For instance, group fire insurance was sold in conjunction with more than nine out ten new home loans taken out in Bulgaria and Slovakia, and more than seven out of ten such loans taken out in Hungary.

role in society

We link our social projects to financial literacy, environmental responsibility, entrepreneurship and health. For example, K&H in Hungary has supported the 'K&H MediMagic Programme' for 15 years now, providing financial and material help. In that period, over 600 million Hungarian forints has been spent on equipment that has been used to treat more than 400 000 patients. There is also a particular focus on the treatment of children. For instance, 'K&H MediMagic Storytelling' provides psychological support for young patients as they convalesce in hospital or at home. KBC collaborates in Ireland with WellFest, the country's largest health and wellness festival, to inspire people and provide information on food, fitness and mental well-being. KBC Ireland was also the first bank to offer FitBit Pay in the Irish market, a payment solution for health-conscious clients that can connect with fitness devices.
A fine example in the environmental field, meanwhile, is DZI's collaboration with SPARK in Bulgaria, the first electric car-share firm in Sofia. In the area of entrepreneurship, lastly, K&H's launch of Start it @K&H to promote start-ups in Hungary merits a mention, as does KBC Bank Ireland's support of talented young Irish entrepreneurs by sponsoring the 'Irish Early Career Awards' and launching the 'KBC Early Career Bursary'.

Contribution to group result

Net result	Net interest income	Cost/income ratio
533 million euros (+20%)	896 million euros (+7%[1])	65% (72%)
Slovakia 82 million euros (+4%)	**Technical insurance result[2]** 140 million euros (+20%)	**Combined ratio** 90% (93%)
Hungary 196 million euros (+34%)	**Net fee and commission income** 284 million euros (+9%[1])	**Credit cost ratio** -0.46% (-0.74%)
Bulgaria 96 million euros	**Operating expenses** 909 million euros (+9%)	**Impaired loans ratio** 12% (20%)
Ireland 155 million euros (-7%)	**Impairment on loans** 127-million-euro impairment reversal (197-million-euro reversal)	**Return on allocated capital** 24% (22%)

Figures for 2018 (the figures in brackets are for, or indicate the difference with, 2017). A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated financial statements' section.
1 On a comparable basis (see 'Our financial report').
2 Earned premiums - technical charges + ceded reinsurance result.

In 2018, the net result at our International Markets Business Unit amounted to 533 million euros, as opposed to 444 million euros a year earlier. Hungary accounted for 196 million euros of this figure, Slovakia for 82 million euros, Bulgaria for 96 million euros and Ireland for 155 million euros. The results for the business unit as a whole and for Bulgaria include the results recorded by United Bulgarian Bank (UBB) and Interlease for a full year in 2018 and for six months of 2017.

Net interest income for the business unit as a whole came to 896 million euros in 2018, up 7% year-on-year on a comparable basis, due primarily to Ireland and Bulgaria (UBB included for 12 rather than six months). As regards volumes, loans and advances to customers for the business unit as a whole (24 billion euros, excluding reverse repos) were at roughly their year-earlier level, with the decline in Ireland (-9%, mainly on account of the sale of a loan portfolio at the end of the year that was originally worth 1.9 billion euros) being largely offset by increases in Slovakia (+8%, due in part to home loans), Hungary (+7% for the same reason) and Bulgaria (+3%). Deposits from customers and debt securities at the business unit (23 billion euros, excluding repos) went up by 2%. Deposits were up in Slovakia (+5%), Hungary (+6%) and Bulgaria (+5%) but down in Ireland (-9%, mainly in the corporate segment). The business unit's average net interest margin widened from 2.77% to 2.80%.

Net fee and commission income (284 million euros) went up by 9% on a comparable basis, which was chiefly attributable to fees received for payments in Slovakia and Hungary, and also to Bulgaria (UBB included for 12 rather than six months).

The business unit's insurance activities, which are confined to Hungary, Slovakia and Bulgaria (we work via partnerships in Ireland), generated a technical result of 140 million euros in 2018. In the non-life segment, premium income increased by 14% (with growth in all countries), claims incurred fell by 3% (primarily in Bulgaria) and the ceded reinsurance result deteriorated (in Bulgaria). The combined ratio for the business unit's non-life activities amounted to 90%. Sales of life insurance – including investment contracts without a discretionary participation feature, which are excluded from the IFRS figures – came to 141 million euros, up slightly on the figure for 2017, due mainly to higher sales of both unit-linked and guaranteed-rate life insurance products in Bulgaria (thanks in part to the inclusion of UBB Life).

The other income items chiefly comprised trading and fair value income (74 million euros), and other income (17 million euros). The latter was significantly higher than in 2017, when it had been negatively influenced by a provision of 116 million euros being recognised for the sector-wide review of tracker mortgages originated in Ireland prior to 2009 (see Note 3.6 in the 'Consolidated financial statements' section).

Costs rose by 9% to 909 million euros in 2018. This was mostly attributable to staff expenses (wage drift), ICT costs, professional fees and depreciation, and also to Bulgaria (UBB included for 12 rather than six months (eliminating that factor, costs went up by approximately 3%)). Consequently, the cost/income ratio for the banking activities came to 65%, as opposed to 72% in 2017.

There was a 127-million-euro net reversal of loan loss impairment charges in 2018 (with a positive impact on the results), compared to a net reversal of 197 million euros in 2017. This good performance in 2018 was mainly attributable once again to Ireland, where there was a net reversal of 112 million euros relating primarily to the positive impact of higher house prices on the portfolio of home loans. In terms of our overall loan portfolio, loan loss impairment charges for the business unit as a whole amounted to -46 basis points compared with -74 basis points in 2017 (a negative figure indicates a net reversal of impairment and hence a positive impact on the results). The figures per country were -96 basis points for Ireland, -18 basis points for Hungary, 6 basis points for Slovakia and -31 basis points for Bulgaria. Loan quality improved once again. Approximately 12% of the business unit's loan portfolio was impaired at year-end 2018, compared with 20% a year earlier. This improvement partly reflected the sale of a portfolio of (chiefly non-performing) legacy loans in Ireland at the end of the year, as a result of which the impaired loans ratio in that country fell by 10 basis points. Impaired loans that were more than 90 days past due accounted for 8% of the business unit's portfolio (11% in 2017).

Group Centre

Besides financial reporting for three business units, we also report on a separate Group Centre. In 2018, it generated a net result of -67 million euros, compared with -146 million euros a year earlier.

This consisted of:

- Traditional items, such as the operating expenses of our group's holding-company activities, certain costs related to capital and liquidity management and funding and other costs related to the holding of participating interests (-68 million euros in 2018 as opposed to -91 million euros in 2017).
- The results of the remaining companies scheduled for run-down, including the former Antwerp Diamond Bank, KBC Finance Ireland, etc. (58 million euros in 2018 compared with 91 million euros in 2017). It should be noted that the figure for 2017 had been positively influenced by the recognition of 66 million euros in deferred tax assets in respect of the liquidation of IIB Finance.
- Other items (-57 million euros in 2018 compared with -147 million euros in 2017). The 2018 figure reflects the negative effect, amongst other things, of a legal case (-38 million euros). The figure for 2017 includes -126 million euros relating to the change in the Belgian corporation tax system (primarily the up-front impact of the announced reduction in the rate of corporation tax on deferred taxes recognised on the balance sheet, where the portion related to the legacy business is charged to the Group Centre (see Note 3.12 in the 'Consolidated financial statements' section)).

A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated financial statements' section.

How do we manage our risks?

Mainly active in banking, insurance and asset management, we are exposed to a number of typical industry-specific risks such as credit risk, movements in interest rates and exchange rates, liquidity risk, insurance underwriting 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 risks (relating to the macroeconomic situation, competition, regulations, etc.) are described in the 'Our business model' section.

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

- the 'Risk governance' section;
- parts of the 'Credit risk' section: the introduction, 'Managing credit risk at transactional level', 'Managing credit risk at portfolio level', part of the 'Loan and investment portfolio, banking' table, 'Forbearance measures', the 'Other credit exposure, banking' table, 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 trading activities' section: the introduction, 'Managing market risk' and 'Risk analysis and quantification';
- 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 group' 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';
- parts of the 'Liquidity risk' section: the introduction, 'Managing liquidity risk' and 'Maturity analysis';
- the 'Technical insurance risk' section.

Risk governance

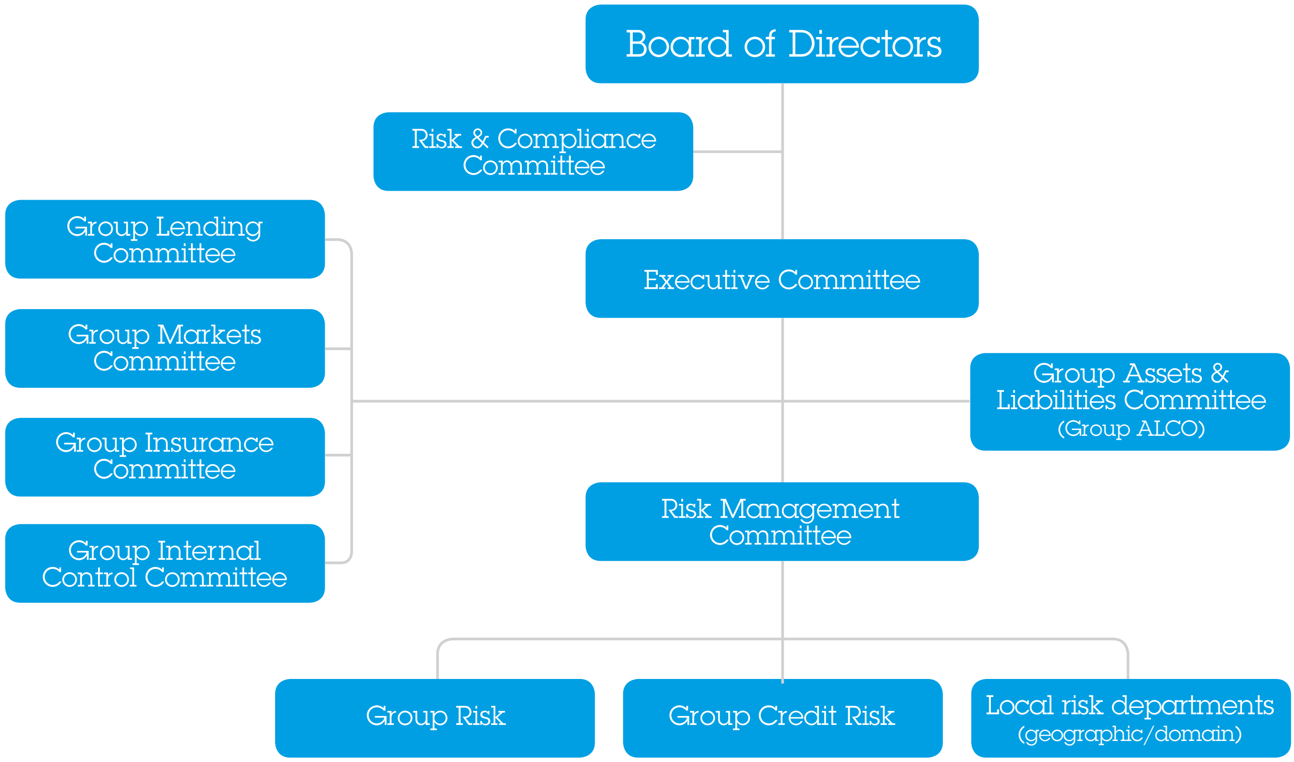
Main elements in our risk governance model:

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

Relevant risk management bodies and control functions:

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

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



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

Risk appetite

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

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

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

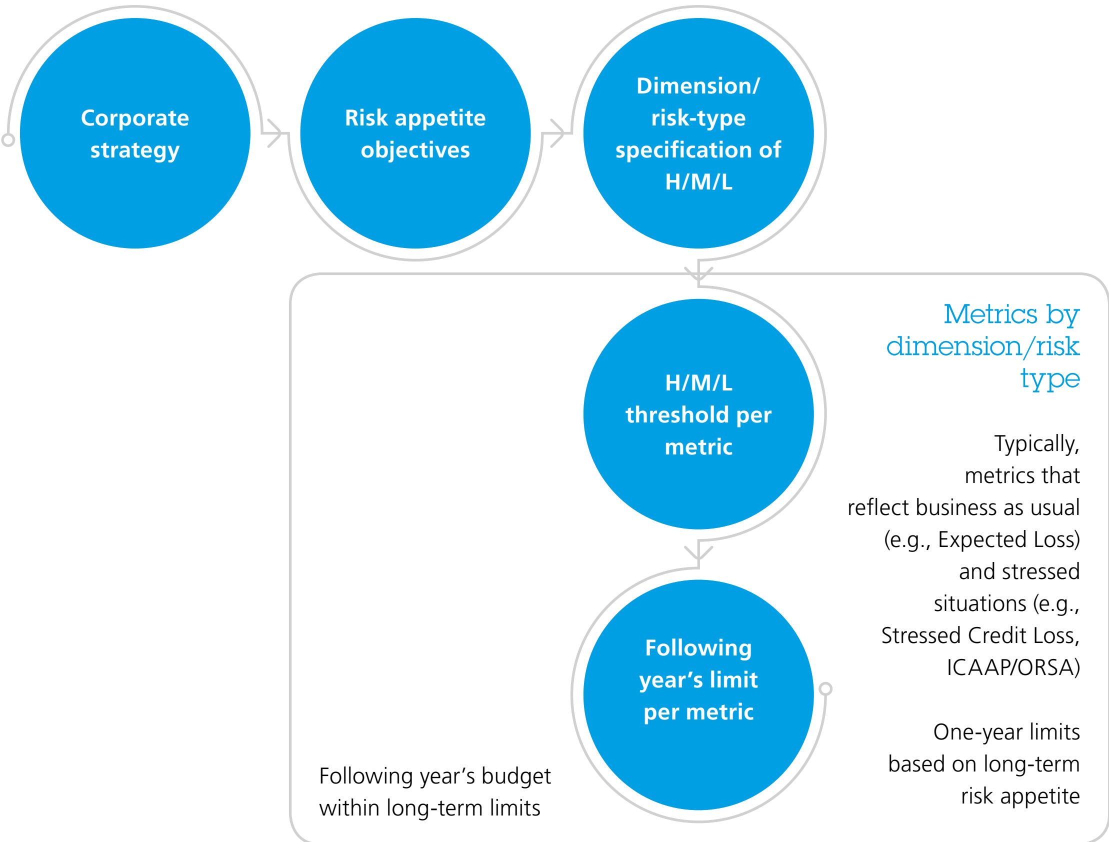
The ability to accept risk (also referred to as risk-taking capacity) is limited both by financial constraints (available capital, liquidity profile, etc.) and non-financial constraints (regulations, laws, etc.), whereas the willingness to accept risk depends on the interests of the various stakeholders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

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

More information

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

Long-term planning & risk appetite setting



Credit risk

What is it?

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

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

We have sound acceptance policies and procedures in place for all kinds of credit risk exposure. We are limiting our description below to exposures related to traditional loans to businesses and to lending to individuals, as these account for the largest part of the group's credit risk exposure.

Managing credit risk at transactional level

Lending to individuals (e.g., mortgages) is subject to a standardised process, during which the output of scoring models plays an important role in the acceptance procedure. Lending to businesses is subject to an acceptance process in which relationship management, credit acceptance committees and model-generated output are taken into account.

We review loans to large corporations at least once a year, with the internal rating being updated as a minimum. If ratings are not updated in time, a capital add-on is imposed. Loans to small and medium-sized enterprises and to private individuals are reviewed periodically, with account being taken of any new information that is available (such as arrears, financial data, or a significant change in the risk class). This monthly exercise can trigger a more in-depth review or may result in measures being taken for the client.

Managing credit risk at portfolio level

We also monitor credit risk on a portfolio basis, *inter alia* by means of monthly and/or quarterly reports on the consolidated credit portfolio in order to ensure that lending policy and limits are being respected. In addition, we monitor the largest risk concentrations via periodic and *ad hoc* reports. Limits are in place at borrower/guarantor, issuer or counterparty level, at sector level and for specific activities or geographic areas. Moreover, we perform stress tests on certain types of credit, as well as on the full scope of credit risk.

Whereas some limits are in notional terms, we also use measures such as 'expected loss' and 'loss given default'. Together with 'probability of default' and 'exposure at default', these concepts form the building blocks for calculating the regulatory capital requirements for credit risk, as KBC has opted to use the Internal Ratings Based (IRB) approach. By the end of 2018, the main group entities and some smaller entities had adopted the IRB Advanced approach, apart from United Bulgarian Bank in Bulgaria (Standardised approach) and ČSOB in Slovakia (IRB Foundation approach). 'Non-material' entities will continue to adopt the Standardised approach.

Risk modelling

For most types of credit risk exposure, monitoring is determined primarily by the risk class, with a distinction being made based on the Probability of Default (PD) and the Loss Given Default (LGD). The latter reflects the estimated loss that would be incurred if an obligor defaults.

In order to determine the risk class, we have developed various rating models for measuring how creditworthy borrowers are and for estimating the expected loss of various types of transactions. A number of uniform models throughout the group (models for governments, banks, large companies, etc.) are in place, while others have been designed for specific geographic markets (SMEs, private individuals, etc.) or types of transaction. We use the same internal rating scale throughout the group.

We use the output generated by these models to split the non-defaulted loan portfolio into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk) for the PD. We assign an internal rating ranging from PD 10 to PD 12 to a defaulted obligor. PD class 12 is assigned when either one of the obligor's credit facilities is terminated by the bank, or when a court order is passed instructing repossession of the collateral. PD class 11 groups obligors that are more than 90 days past due (in arrears or overdrawn), but that do not meet PD 12 criteria. PD class 10 is assigned to obligors for which there is reason to believe that they are unlikely to pay (on time), but that do not meet the criteria for classification as PD 11 or PD 12. 'Defaulted' status is fully aligned with the 'non-performing' and 'impaired' statuses. Obligors in PD classes 10, 11 and 12 are therefore referred to as 'defaulted' and 'impaired'. Likewise, 'performing' status is fully aligned with the 'non-defaulted' and 'non-impaired' statuses.

For credit linked to defaulted borrowers in PD classes 10, 11 and 12, we record impairment losses based on an estimate of the net present value of the recoverable amount. This is done on a case-by-case basis, and on a statistical basis for smaller credit facilities. In addition, we record impairment losses on a 'portfolio basis' for non-defaulted credit in PD classes 1 to 9. As of 2018, impairment losses are recorded according to IFRS 9 requirements (calculated on a lifetime expected credit loss (ECL) basis for defaulted borrowers and on a 12-month or lifetime ECL basis for non-defaulted borrowers, depending on whether there has been a significant increase in credit risk and a corresponding shift from 'Stage 1' to 'Stage 2'). Specific IFRS 9 models are used for this purpose.

Credit risk exposure in the banking activities arising from lending and investing

In the following sections, we take a closer look at the credit risk exposure of the entities of the KBC group.

Credit risk arises in both the banking and insurance activities of the group. As regards the banking activities, the main source of credit risk is the bank's loan portfolio. It includes all the loans and guarantees that KBC has granted to individuals, companies, governments and banks. Debt securities are included in the investment portfolio if they are issued by companies or banks. Government bonds are therefore not included in the investment portfolio. Furthermore, the table does not take into account the credit risk related to the trading book (issuer risk) and the counterparty credit risk related to derivative transactions. We describe these items separately below.

2018

165	95%	4.3%	-0.04%
billion-euro portfolio of outstanding loans	in Europe	in impaired loans	credit cost ratio

As of 2018, we have slightly changed the definition of 'loan portfolio', whereby the amount outstanding is no longer the drawn principal amount, but is instead identified in accordance with the new IFRS 9 definition of gross carrying amount, i.e. including accrued and reserved interest. The additional recognition of reserved interest has resulted in an increase in the reported amount of impaired loans, among other things. In addition, the scope of the loan portfolio has been extended to include the following four items: (i) bank exposure (money market placements, documentary credit, accounts), (ii) KBC Commercial Finance debtor risk, (iii) unauthorised overdrafts, and (iv) reverse repos (excluding central bank exposure).

The 2017 figures in the table below have not been restated. For reference purposes, if we had restated them, the total outstanding amount would come to 162.0 billion euros (instead of 154.2 billion euros). Broken down by business unit, this would be 104.1 billion euros for Belgium (instead of 97.8 billion euros), 25.1 billion euros for the Czech Republic (instead of 24.3 billion euros); 28.3 billion euros for the International Markets (instead of 27.7 billion euros) and 4.4 billion euros for the Group Centre (instead of 4.3 billion euros).

The loan and investment portfolio as defined in this section differs from 'Loans and advances to customers' in Note 4.1 of the 'Consolidated financial statements' section. For more information, please refer to the 'Glossary of financial ratios and terms'.

Loan and investment portfolio, banking

Total loan portfolio	31-12-2018	31-12-2017
Total loan portfolio (in billions of EUR)		
Amount outstanding and undrawn	205	191
Amount outstanding	165	154
Loan portfolio breakdown by business unit (as a % of the outstanding portfolio)[1]		
Belgium[2]	65.8%	63.4%
Czech Republic	15.6%	15.8%
International Markets	16.3%	18.0%
Group Centre	2.3%	2.8%
Total	100.0%	100.0%
Loan portfolio breakdown by counterparty sector (as a % of the outstanding portfolio)[1]		
Private individuals	39.9%	42.1%
Finance and insurance	7.4%	5.2%
Governments	3.5%	2.8%
Corporates	49.2%	49.8%
Services	11.2%	11.6%
Distribution	7.5%	7.6%
Real estate	6.6%	7.0%
Building and construction	4.1%	4.2%
Agriculture, farming, fishing	2.7%	2.8%
Automotive	2.5%	2.3%
Other (sectors < 3%)	14.5%	14.3%
Total	100.0%	100.0%
Loan portfolio breakdown by region (as a % of the outstanding portfolio)[1,3]		
Home countries	86.6%	88.5%
Belgium	55.0%	55.5%
Czech Republic	15.0%	14.8%
Ireland	6.5%	7.8%
Slovakia	5.0%	4.9%
Hungary	3.2%	3.3%
Bulgaria	2.0%	2.1%
Rest of Western Europe	7.9%	7.4%
Rest of Central and Eastern Europe	0.5%	0.4%
North America	1.4%	1.4%
Asia	1.6%	0.8%
Other	1.9%	1.4%
Total	100.0%	100.0%
Loan portfolio breakdown by risk class (as a % of the outstanding portfolio, based on internal rating scale)[1]		
Unimpaired		
PD 1 (lowest risk, default probability ranging from 0.00% up to, but not including, 0.10%)	28.8%	27.3%
PD 2 (0.10% – 0.20%)	9.0%	8.4%
PD 3 (0.20% – 0.40%)	14.9%	16.7%
PD 4 (0.40% – 0.80%)	14.1%	14.5%
PD 5 (0.80% – 1.60%)	12.0%	11.5%
PD 6 (1.60% – 3.20%)	8.5%	7.9%
PD 7 (3.20% – 6.40%)	4.6%	3.9%
PD 8 (6.40% – 12.80%)	1.9%	1.8%
PD 9 (highest risk, ≥ 12.80%)	1.8%	1.8%
Unrated	0.1%	0.2%
Impaired		
PD 10	1.9%	2.6%
PD 11	0.7%	1.0%
PD 12	1.8%	2.4%
Total	100.0%	100.0%

Loan and investment portfolio, banking

Loan portfolio breakdown by IFRS 9 ECL Stage[4] (as a % of the outstanding portfolio)[1]		
Stage 1 (no significant increase in credit risk since initial recognition)	83.9%	–
Of which PD 1–4	63.1%	–
Of which PD 5–9 (incl. unrated)	20.8%	–
Stage 2 (significant increase in credit risk since initial recognition – not credit impaired) incl. POCI[5]	11.8%	–
Of which PD 1–4	3.7%	–
Of which PD 5–9 (incl. unrated)	8.1%	–
Stage 3 (significant increase in credit risk since initial recognition – credit impaired) incl. POCI[5]	4.3%	–
Of which PD 10–12 (impaired)	4.3%	–
Total	100.0%	–

Impaired loan portfolio	31-12-2018	31-12-2017
Impaired loans (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans[6]	7 151	9 186
Of which more than 90 days past due	4 099	5 242
Impaired loans by business unit (as a % of the impaired loan portfolio)[1]		
Belgium[2]	38.9%	29.6%
Czech Republic	8.8%	6.3%
International Markets	45.9%	59.6%
Ireland	34.2%	46.3%
Slovakia	2.2%	2.1%
Hungary	2.7%	3.5%
Bulgaria	6.8%	7.7%
Group Centre	6.4%	4.6%
Total	100.0%	100.0%
Impaired loans by sector (as a % of impaired loan portfolio)[1]		
Private individuals	43.0%	47.1%
Distribution	13.2%	8.7%
Real estate	9.1%	14.1%
Services	6.9%	7.4%
Building and construction	6.8%	6.4%
Metals	4.5%	1.6%
Electricity	2.4%	1.1%
Other (sectors < 2%)	14.2%	13.6%
Total	100.0%	100.0%
Loan loss impairment (in millions of EUR)		
Portfolio-based impairment (i.e. based on PD 1–9, incl. unrated)	–	237
Specific impairment (i.e. based on PD 10–12)	–	4 039
Of which specific impairment for impaired loans that are more than 90 days past due	–	3 361
Impairment for Stage 1 portfolio	130	–
Impairment for Stage 2 portfolio, incl. POCI[5] (cured)	321	–
Impairment for Stage 3 portfolio, incl. POCI[5] (still impaired)	3 203	–
Of which impairment for impaired loans that are more than 90 days past due	2 695	–
Credit cost ratio		
Belgium Business Unit[2]	0.09%	0.09%
Czech Republic Business Unit	0.03%	0.02%
International Markets Business Unit	-0.46%	-0.74%
Ireland	-0.96%	-1.70%
Slovakia	0.06%	0.16%
Hungary	-0.18%	-0.22%
Bulgaria	-0.31%	0.83%
Group Centre	-0.83%	0.40%
Total	-0.04%	-0.06%

Impaired loan portfolio	31-12-2018	31-12-2017
Impaired loans ratio		
Belgium Business Unit[2]	2.6%	2.8%
Czech Republic Business Unit	2.4%	2.4%
International Markets Business Unit	12.2%	19.7%
Ireland	23.0%	35.0%
Slovakia	2.0%	2.6%
Hungary	3.8%	6.5%
Bulgaria	15.0%	21.6%
Group Centre	12.0%	9.8%
Total	4.3%	6.0%
Of which more than 90 days past due	2.5%	3.4%
Coverage ratio		
Loan loss impairment / impaired loans	44.8%	44.0%
Of which more than 90 days past due	65.7%	64.1%
Loan loss impairment / impaired loans (excl. mortgage loans)	49.3%	54.0%
Of which more than 90 days past due	73.5%	73.4%

1 Unaudited figures.

2 Also includes the small network of 11 KBC Bank branches established in the rest of Europe, the US and Southeast Asia. These branches, which focus on activities and clients with links to KBC's core markets, had a total outstanding portfolio of approximately 7.6 billion euros at 31 December 2018.

3 A more detailed breakdown by country is available in KBC's quarterly reports (at www.kbc.com).

4 Under IFRS 9, financial instruments that are subject to impairment are classified into three stages, namely Stage 1: Performing; Stage 2: Underperforming (where lifetime expected credit losses are required to be measured); and Stage 3: Non-performing or impaired. For more information on these stages, see notes 1.1 and 1.2 of the 'Consolidated financial statements' section.

5 Purchased or originated credit impaired assets; gross amounts, as opposed to net amounts in the accounting treatment.

6 Figures differ from those appearing in Note 4.2 of the 'Consolidated financial statements' section, due to differences in scope.The 2 035-million-euro decline between year-ends 2017 and 2018 breaks down as follows: an increase at the Belgium Business Unit (+66 million euros), an increase at the Czech Republic Business Unit (+53 million euros), a decrease at the International Markets Business Unit (-2 191 million euros, -1 805 million euros of which was attributable to Ireland) and an increase at the Group Centre (+37 million euros).

At the end of November 2018, KBC Bank Ireland sold part of its legacy corporate and buy-to-let mortgage loan portfolio to entities established and financed by Goldman Sachs. The sale worth approximately 1.9 billion euros comprised the non-performing corporate book, non-performing Irish buy-to-let mortgage loans and performing and non-performing UK buy-to-let mortgage loans. This deal has accelerated the run-down of the non-performing portfolio and reduced the impaired loan ratio for KBC Bank Ireland by 10 percentage points.

Details for the loan and investment portfolio of KBC Bank Ireland*	31-12-2018	31-12-2017
Total portfolio (outstanding, in billions of EUR)	11	12
Breakdown by loan type		
Mortgage, retail	96%	90%
Non-mortgage, retail	1%	0%
Corporate	3%	10%
Breakdown by risk class		
Normal (PD 1–9)	77%	65%
Impaired (PD 10)	10%	18%
Impaired (PD 11 + 12)	13%	17%
Credit cost ratio	-0.96%	-1.70%
Coverage ratio	39%	36%

* For a definition, see 'Credit risk exposure in the banking activities arising from lending and investing' (i.e. excluding *inter alia* government bonds).

Forbearance measures

In order to avoid a situation where an obligor facing financial difficulties ends up defaulting, it can be decided to renegotiate its loans and grant forbearance measures in accordance with internal policy guidelines.

Forbearance measures consist of concessions towards a borrower facing, or about to face, financial difficulties. They may involve:

- lowering or postponing interest or fee payments;
- extending the term of the loan to ease the repayment schedule;
- capitalising arrears;
- declaring a moratorium (temporary principal and/or interest payment holidays);
- providing debt forgiveness.

After a forbearance measure has been decided upon, a forbearance tag is attached to the file in the credit systems for identification, monitoring and reporting purposes.

A client with a forborne loan will in principle be assigned a PD class that is higher than the one it had before the forbearance measure was granted, given the higher risk of the client. In accordance with IFRS 9 requirements and with effect from 1 January 2018, a facility tagged as 'forborne' is allocated to 'Stage 2' (please note that this only applies to non-defaulted clients, since defaulted clients are always classified in 'Stage 3').

If a client/facility has been assigned 'defaulted' status (before or at the time forbearance measures are granted), the client/forborne facility (depending on whether defaulted status is assigned at client or facility level) must remain defaulted for at least one year. Only upon strict conditions can the client/facility be reclassified as 'non-defaulted'. A forborne facility with a 'non-defaulted' status will be tagged as 'forborne' for at least two years after the forbearance measure has been granted, or after the client/facility becomes non-defaulted, and can only be removed when strict extra criteria have been met (non-defaulted, regular payments, etc.).

As forbearance measures constitute an objective indicator (i.e. impairment trigger) that requires assessing whether impairment is needed, all forbearance measures are subject to an impairment test.

At the end of 2018, forborne loans accounted for some 2% of our total loan portfolio. Compared to the end of 2017, the forborne loan exposure decreased by 2 percentage points, mainly resulting from the sale of a predominantly non-performing portfolio in Ireland, and, to a lesser extent, from cures, repayments and write-offs. In Ireland, this type of exposure fell by 11 percentage points.

On-balance-sheet exposures with forbearance measures (in millions of EUR) **– movements between opening and closing balances**

		Movements					
Gross carrying value	**Opening balance**	**Loans which have become forborne**	**Loans which are no longer considered to be forborne**	**Repayments**	**Write-offs**	**Other[1]**	**Closing balance**
2018							
Total	5 841	423	-750	-240	-196	-1 187	3 890
Of which KBC Bank Ireland	3 824	97	-361	-7	-115	-1 243	2 195
2017							
Total	7 083	954	-1 677	-375	-478	335	5 841
Of which KBC Bank Ireland	5 083	167	-787	-220	-419	–	3 824
		Movements					
Impairment	**Opening balance**	**Existing impairment on loans which have become forborne**	**Decrease in impairment because loans are no longer forborne**	**Increase in impairment on forborne loans**	**Decrease in impairment on forborne loans**	**Other[2]**	**Closing balance**
2018							
Total	1 422	47	-298	217	-176	-557	655
Of which KBC Bank Ireland	838	0	-148	192	-34	-495	353
2017							
Total	1 967	75	-586	222	-284	28	1 422
Of which KBC Bank Ireland	1 511	0	-537	92	-227	0	838

1 Includes foreign-exchange effects for loans granted in currencies other than the local currency, changes in the drawn/undrawn portion of facilities, increases in the gross carrying value of existing forborne loans and additions or disposals through business combinations.

2 Includes the use of impairment in respect of write-offs and additions or disposals through business combinations.

Forborne loans	As a % of the outstanding portfolio	Breakdown by PD class (as a % of the entity's portfolio of forborne loans)			
		PD 1–8	PD 9	PD 10 (impaired, less than 90 days past due)	PD 11–12 (impaired, 90 days and more past due)
31-12-2018					
Total	2%	11%	20%	46%	23%
Of which KBC Bank Ireland	21%	1%	28%	46%	25%
By client segment[1]					
Private individuals[2]	4%	9%	25%	41%	25%
SMEs	1%	26%	12%	33%	29%
Corporations[3]	1%	8%	10%	65%	17%
31-12-2017					
Total	4%	9%	13%	49%	28%
Of which KBC Bank Ireland	32%	0%	18%	55%	27%
By client segment[1]					
Private individuals[2]	6%	8%	18%	53%	21%
SMEs	1%	25%	11%	32%	32%
Corporations[3]	3%	8%	4%	47%	42%

1 Unaudited.
2 99% of the forborne loans total relates to mortgage loans in 2018 (99% in 2017).
3 33% of the forborne loans relates to commercial real estate loans in 2018 (47% in 2017).

Other credit risks in the banking activities

The main sources of other credit risk in the banking activities are:

Trading book securities. These securities carry an issuer risk (potential loss on default by the issuer). We measure exposure to this type of risk on the basis of the market value of the securities. Issuer risk is curtailed through the use of limits both per issuer and per rating category.

Counterparty credit risk of derivatives transactions. The amounts shown in the table are the group's pre-settlement risks, measured using the internal model method for the interest rate and foreign exchange derivatives in the Belgium Business Unit (as of 2018), and calculated as the sum of the (positive) current replacement value ('mark-to-market' value) of a transaction and the applicable add-on for the interest rate and foreign exchange derivatives of the other business units and for inflation, equity and commodity derivatives. Risks are curtailed by setting limits per counterparty. We also use close-out netting and collateral techniques. Financial collateral is only taken into account if the assets concerned are considered eligible risk-mitigants for regulatory capital calculations.

Other credit exposure, banking (in billions of EUR)	31-12-2018	31-12-2017
Issuer risk[1]	0.2	0.2
Counterparty credit risk of derivatives transactions[2,3]	4.0	8.3

1 Excluding a nominative list of central governments, and all exposure to EU institutions and multilateral development banks.
2 After deduction of collateral received and netting benefits.
3 The decrease was mainly the result of transferring money market placements to the loan and investment portfolio as of 2018.

Government securities in the investment portfolio of banking entities. We measure exposure to governments in terms of nominal value and book value. Such exposure relates mainly to EU states (particularly Belgium, France and the Czech Republic). We have put in place limiting caps for both non-core and core country sovereign bond exposure. Details on the exposure of the combined banking and insurance activities to government bonds are provided in a separate section below.

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 component of the portfolio.

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

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

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

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

4 Including covered bonds and non-bank financial companies.

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

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

1 Based on internal ratings.

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

Exposure to sovereign bonds (banking and insurance portfolios combined)

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.

Structured credit exposure (banking and insurance portfolios)

At 0.7 billion euros, the total net portfolio (i.e. excluding de-risked positions) of structured credit products (consisting primarily of European residential mortgage-backed securities (RMBS)) was down 0.3 billion euros on its level at year-end 2017, due to redemptions. Furthermore, the legacy Atomium US CDO and RMBS portfolio, which amounted to 59 million euros at the end of 2017, has been sold. One new investment amounting to 25 million euros in a 'AAA'-rated RMBS was made in 2018.

Regulatory capital

The regulatory capital requirements for credit risk increased from 6 248 million euros at the end of 2017 to 6 447 million euros at the end of 2018. This increase in weighted credit risks during 2018 was driven largely by new regulatory requirements and limitations imposed by supervising authorities and by volume increases in the core countries. For more details, please see the 'Credit risk' section in KBC's Risk Report, which is available at www.kbc.com.

Market risk in trading activities

What is it?

We define market risk as the potential negative deviation from the expected value of a financial instrument (or portfolio of such instruments) due to changes in the level or in the volatility of market prices, e.g., interest rates, exchange rates and equity or commodity prices. The interest rate, foreign exchange and equity risks of the non-trading positions in the banking book and of the insurer's positions are all included in ALM exposure.

We are exposed to market risk via the trading books of our dealing rooms in Belgium, the Czech Republic, Slovakia and Hungary, as well as via a minor presence in the UK and Asia. Limited trading activities are also carried out at the recently acquired United Bulgarian Bank (UBB) in Bulgaria (regulatory capital charges for market risk amounted to 3 million euros at the end of 2018).
For the sake of completeness, it should be mentioned that, although the remaining three legacy business lines (i.e. reverse mortgages, insurance derivatives and fund derivatives) have effectively been wound down, they still attract some market risk capital charges by virtue of the current regulatory framework (accounting for about 1% of the total regulatory capital charges for market risk set out in the table at the end of this section).

The dealing rooms, with Belgium accounting for the largest part of the limits and risks, focus on trading in interest rate instruments, while activity on the foreign exchange markets has traditionally been limited. All dealing rooms focus on providing customer service in money and capital market products and on funding the bank activities.

Managing market risk

The objective of our market risk management is to measure, report and advise on the market risk of the aggregate trading position at group level, with due account being taken of the main risk factors and specific risk, to ensure that activities are consistent with the group's risk appetite. This function includes pro-active and re-active aspects. In its pro-active role, the risk function analyses the results of value and risk calculations, market developments, industry trends, new modelling insights, changes in regulations, etc. and draws up advice for the Group Markets Committee (GMC) with a view to changing or refining measurement methods, limits, hedging methods or positions.

The re-active role involves compiling the necessary external and internal reports, issuing advice on business proposals and monitoring and advising on the risks attached to the positions.

We monitor and manage the risks of the positions by means of:

- a risk limit framework consisting of a hierarchy of limits and early warning indicators;
- a comprehensive stress test framework;
- day-to-day and month-to-day stop loss limits at both desk and trader level;
- internal assessments;
- a large variety of controls (including parameter reviews, daily reconciliation processes, and analyses of the material impact of proxies).

As regards the risk framework, the principal tool we use for measuring and monitoring market risk exposures in the trading book is the Historical Value-at-Risk (HVaR) method, where certain composite and/or illiquid instruments that cannot be modelled in an HVaR context are subject to nominal and/or scenario limits. VaR is defined as an estimate of the amount of economic value that might be lost on a given portfolio due to market risk over a defined holding period, with a given confidence level. We use the historical simulation method, which does not have to rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years. Our HVaR model is used for both Management HVaR and for the calculation of regulatory capital (see 'Regulatory capital' in this section). The use of Management HVaR is broader than the scope used for Regulatory HVaR, as it covers all positions that can be modelled by HVaR (i.e. including the entities for which – for reasons of materiality – we did not seek approval from the local regulator to use it), and limits are set at various levels (i.e. at KBC group level, entity level and desk level). Historically, both the Management HVaR and Regulatory HVaR were calculated observing the relevant CRD IV standards (99% one-sided confidence interval, ten-day holding period, historical data going back at least 250 working days, for which – after analysis – we choose to use 500 working days of historical data). In October 2018, the GMC decided to change the holding period for Management HVaR to one day, as it is more intuitive for senior management and is more in line with P&L reporting, day-to-day management, stop losses and back-testing.

As with any model, there are a certain number of uncertainties/deficiencies. However, the model is subject to regular review and improvements. The most important development for the HVaR model in 2018 was the enhancement of FX options pricing to more accurately calculate the change in the value of these options for the different scenarios used in the HVaR calculations. The total impact of the introduction of these new risk drivers on the HVaR result was, however, limited.

We monitor risk concentrations via a series of secondary limits, including equity concentration limits, FX concentration limits and basis-point-value limits for interest rate risk and basis risk. The specific risk associated with a particular issuer or country is also subject to concentration limits. There are also scenario analysis limits and – where deemed appropriate – stress scenario limits involving multiple shifts of underlying risk factors.

In addition to the risk limit framework, we conduct extensive stress tests. Whereas the HVaR model captures potential losses under normal market conditions, stress tests show the impact of exceptional circumstances and events with a low degree of probability. The historical and hypothetical stress-test scenarios incorporate both market risk and the liquidity aspects of disruptions in the market. The stress tests are discussed at GMC meetings to enable the members to gain an insight into potential weaknesses in the positions held by the group.

During 2018, the GMC approved a new historical stress testing framework. This new framework now uses full revaluation for interest rate risk, foreign exchange risk and equity risk factors, as well as an integrated historical stress test result, and includes scenarios from the more recent past. A new stress testing framework was also approved for the equity desk. For more details about stress testing, please refer to the relevant sub-section of the ‘Market risk management’ section in KBC’s Risk Report, which is available at www.kbc.com.

One of the building blocks of sound risk management is prudent valuation. We perform a daily independent middle-office valuation of front-office positions. Whenever the independent nature or the reliability of the valuation process is not guaranteed, we perform a monthly parameter review. Where applicable, we make adjustments to the fair value to reflect close-out costs, mark-to-model-related valuation adjustments, counterparty risk and liquidity risk.

In addition to the parameter review, we perform periodic risk controls, including all checks that do not entail parameter or P&L testing as carried out in the parameter review, but that are necessary for sound risk management. Moreover, we set up a business case for every new product or activity in order to analyse the risks and the way in which they will be managed.

Although the group’s trading activity is managed centrally both from a business and a risk management perspective, the residual trading positions are not at a central location, but are held at the separate trading entities, each of which is subject to a local regulator and its own regulatory capital requirements. To redress this discrepancy, we started up the Global Trading Project which – when completed (expected towards the end of 2019) and where suitable – will centralise all the residual trading positions at KBC Bank NV, thus aligning regulatory scope with the existing business and risk management scope. Not only is this understood to be in line with the preference of the European regulator, but this centralisation exercise will also reduce costs and simplify compliance with any future regulations.

Risk analysis and quantification

The table below shows the Management HVaR (99% confidence interval, one-day holding period, historical simulation) for the linear and non-linear exposure at all the dealing rooms of the KBC group that can be modelled by HVaR.

Market risk (Management HVaR) (in millions of EUR)	**2018**	**2017**
Average for 1Q	6	6
Average for 2Q	5	8
Average for 3Q	5	8
Average for 4Q	5	7
As at 31 December	6	6
Maximum in year	7	11
Minimum in year	4	5

A breakdown of the risk factors (averaged over the full year) in KBC's HVaR model is shown in the table below. Please note that the equity risk stems from the equity desk, and also from KBC Securities.

Breakdown by risk factor of trading HVaR for the KBC group (Management HVaR; in millions of EUR)	**Average for 2018**	**Average for 2017**
Interest rate risk	5.2	7.5
FX risk	0.4	0.6
FX options risk	0.2	0.3
Equity risk	0.6	0.4
Diversification effect	-1.3	-1.3
Total HVaR	5.1	7.5

We test the reliability of the VaR model daily via a back-test, which compares the one-day VaR figure to daily P&L figures. This is done both at the top level and can be drilled down to the different entities, desks and even to trader account level. For more details about back-testing, please refer to the relevant sub-section of the 'Market risk management' section in KBC's Risk Report, which is available at www.kbc.com.

We have provided an overview of the derivative products under Note 4.8 in the 'Consolidated financial statements' section.

Regulatory capital

As shown in the table, approximately 80% of the regulatory capital requirements are calculated using Approved Internal Models (AIMs). However, this percentage increases to about 90% if the capital requirements for foreign exchange risk in the banking book is removed (calculated using the Standardised approach and included in this table according to regulatory requirements, but not related to our dealing room activities). During 2018, the AIM-based regulatory capital requirements constituted the sum of the capital requirements calculated using the AIMs of KBC Bank NV in Belgium and ČSOB in the Czech Republic (authorised by their respective regulators). The two AIMs are also used for the calculation of Stressed VaR (SVaR), which is one of the CRD III Regulatory Capital charges that entered into effect at year-end 2011. The calculation of an SVaR measure is based on the normal VaR calculations and follows the same methodological assumptions, but is constructed as if the relevant market factors were experiencing a period of stress. The period of stress is calibrated at least once a year (checked monthly to ensure the period is still valid) by determining which 250-day period between 2006 and the (then) present day produces the severest losses for the relevant positions

The resulting capital requirements for trading risk at year-ends 2017 and 2018 are shown in the table below. It shows the regulatory capital requirements by risk type, as assessed by the internal model. The regulatory capital requirements for the trading risk of local KBC entities (where – for reasons of materiality – approval was not sought from the regulator to use an internal model for capital calculations), as well as the business lines not included in the VaR calculations, are measured according to the Standardised approach and likewise shown by risk type.

Trading regulatory capital requirements by risk type (in millions of EUR)		**Interest rate risk**	**Equity risk**	**FX risk**	**Commo-dity risk**	**Total**
31-12-2018						
Market risks assessed by internal model	HVaR	46	7	4	–	58
	SVaR	99	46	8	–	153
Market risks assessed by the Standardised approach		22	5	18	0	45
Total		167	58	30	0	256
31-12-2017						
Market risks assessed by internal model	HVaR	77	3	5	–	85
	SVaR	129	7	14	–	151
Market risks assessed by the Standardised approach		18	6	9	0	33
Total		225	16	28	0	269

The total capital requirement at year-end 2018 was 13 million euros lower (163 million euros in risk weighted assets) than its year-earlier level, due mainly to a decrease in the HVaR component, partially offset by an increase in Standardised capital requirements (although that was accounted for almost entirely by an increase in foreign exchange risk in the banking book and, therefore, not related to our dealing room activities). The SVaR component was quite stable, as the decrease in the interest-rate risk driver was roughly matched by an increase in the equity risk driver. The very large shifts in dividend yields for some scenario dates during the SVaR period (around the time of the Lehman Brothers crisis) mean that even relatively small positions in dividend yielding stocks at the equity desk can lead to high SVaR figures.

Non-financial risks

Operational risk

What is it?

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

Managing operational risk

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

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

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

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

The building blocks for managing operational risks

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

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

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

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

Regulatory capital requirements

We use the Standardised approach for operational risk under Basel III. Operational risk capital at KBC group level totalled 876 million euros at the end of 2017 and 887 million euros at the end of 2018. The higher figure was due mainly to increased business in the Czech Republic and in asset management.

Additional focus on information risk management

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

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

Reputational risk

What is it?

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

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

The Reputational Risk 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). The Reputational Risk Management Framework will be updated to reflect the new KBC methodology on how to deal with 'step-in' risk, which is in line with the new guidelines issued by the Basel Committee on Banking Supervision for this subject area.

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

Business and strategic risks

What is it?

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

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

Business and strategic risks are assessed as part of the strategic planning process, starting with a structured risk scan that identifies the top financial and non-financial risks. Exposure to the identified business and strategic risks is monitored on an ongoing basis. Besides the risk scan, business and strategic risks are continually monitored by means of risk signals being reported to top management. In addition, these risks are discussed during the aligned planning process and are quantified under different stress test scenarios and long-term earnings assessments.

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

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

Market risk in non-trading activities

What is it?

The process of managing our structural exposure to market risks (including interest rate risk, equity risk, real estate risk, foreign exchange risk and inflation risk) is also known as Asset/Liability Management (ALM).
'Structural exposure' encompasses all exposure inherent in our commercial activity or in our long-term positions (banking and insurance). Trading activities are consequently not included. Structural exposure can also be described as a combination of:

- mismatches in the banking activities linked to the branch network's acquisition of working funds and the use of those funds (via lending, among other things);
- 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).

Managing market risk in non-trading activities

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

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

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

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

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

Management of the positions implies that the treasury function uses derivatives to hedge against imbalances, due to interest rate and foreign exchange risks. To avoid profit and loss volatility that would result from the different accounting treatment of balance sheet investment items and derivatives, hedge accounting techniques are widely applied.

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 the KBC group
(in millions of EUR)

	Impact on value[1] 2018	2017
Banking	-65	-76
Insurance	16	12
Total	-49	-64

1 Full market value, regardless of accounting classification or impairment rules.
2 In accordance with changing market standards, sensitivity figures are based on a risk-free curve (swap curve).

We manage the ALM interest rate positions of the banking entities via a system of market-oriented internal pricing for products with a fixed maturity date, and via a replicating portfolio technique for products without a fixed maturity date (e.g., current and savings accounts).

The bank takes interest rate positions mainly through government bonds, with a view to acquiring interest income, both in a bond portfolio used for reinvesting equity and in a bond portfolio financed with short-term funds. The table shows the bank's exposure to interest rate risk in terms of 10 BPV.

Swap BPV (10 basis points) of the ALM book, banking activities*
(in millions of EUR)

	2018	2017
Average for 1Q	-76	-79
Average for 2Q	-64	-74
Average for 3Q	-61	-73
Average for 4Q	-65	-76
As at 31 December	-65	-76
Maximum in year	-76	-79
Minimum in year	-61	-73

* Unaudited figures, except for those 'As at 31 December'.

In line with the Basel guidelines, we conduct a 200-basis-point stress test at regular intervals. It sets off the total interest rate risk in the banking book (given a 2% parallel shift in interest rates) against total capital and reserves. For the banking book at KBC group level, this risk came to 2.9% of total capital and reserves at year-end 2018. This is well below the 20% threshold, which is monitored by the National Bank of Belgium.

The following table shows the interest sensitivity gap of the ALM banking book. In order to determine the sensitivity gap, we break down the carrying value of assets (positive amount) and liabilities (negative amount) according to either the contractual repricing date or the maturity date, whichever is earlier, in order to obtain the length of time for which interest rates are fixed. We include derivative financial instruments, mainly to reduce exposure to interest rate movements, on the basis of their notional amount and repricing date.

Interest sensitivity gap of the ALM book (including derivatives), banking activities
(in millions of EUR)

	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2018	7 337	-5 922	763	3 558	5 561	1 512	-12 810	0
31-12-2017	-624	-7 114	4 165	5 656	4 540	2 120	-8 743	0

The interest sensitivity gap shows our overall position in interest rate risk. Generally, assets reprice over a longer term than liabilities, which means that KBC's net interest income benefits from a normal yield curve. The economic value of the KBC group is sensitive primarily to movements at the long-term end of the yield curve.

An analysis of net interest income is performed by measuring the impact of a one percent upward shock to interest rates over a one-year period, assuming a constant balance sheet. For the banking activities, the analysis shows that net interest income would remain under pressure over the next year due to the low rate environment.

Where the group's insurance activities are concerned, the fixed-income investments for the non-life reserves are invested with the aim of matching the projected payout patterns for claims, based on extensive actuarial analysis.

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

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

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

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

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

[1] Contracts in Central and Eastern Europe.

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

Credit spread risk

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

Exposure to sovereign bonds at year-end 2018, carrying value[1] (in millions of EUR)

Total (by portfolio)

	At amortised cost	At fair value through other comprehensive income (FVOCI)	Held for trading	Total	*For comparison purposes: total at year-end 2017*	Economic impact of +100 basis points[3]
KBC core countries						
Belgium	11 488	3 768	79	15 336	*17 474*	-796
Czech Republic	5 137	1 055	342	6 534	*6 737*	-325
Hungary	2 004	393	82	2 479	*2 406*	-108
Slovakia	2 498	376	35	2 909	*2 881*	-166
Bulgaria	469	654	14	1 137	*1 159*	-63
Ireland	1 103	144	0	1 247	*1 286*	-55
Other countries						
France	4 231	1 836	0	6 068	*6 280*	-420
Spain	2 014	632	0	2 646	*2 957*	-129
Italy	854	1 120	0	1 974	*2 178*	-91
Poland	1 238	432	0	1 670	*1 707*	-68
US	1 008	10	0	1 018	*976*	-39
Germany	685	103	0	788	*936*	-42
Austria	458	242	0	699	*803*	-44
Rest[2]	2 525	1 257	4	3 786	*4 630*	-139
Total carrying value	35 710	12 025	557	48 292	*52 410*	–
Total nominal value	34 092	10 882	542	45 516	*48 223*	–

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

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

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

Main changes in 2018:

- The carrying value of the total sovereign bond exposure fell by 4.1 billion euros. There was a limited increase in exposure to sovereign bonds in some of our Central European markets (Hungary (+73 million euros) and Slovakia (+28 million euros)) and in the US (+42 million euros), and a general decrease in exposure to bonds issued by other countries (including Belgium (-2.1 billion euros)).

Revaluation reserve at fair value through other comprehensive income (FVOCI) at year-end 2018:

- The carrying value of the total government bond portfolio measured at FVOCI incorporated a revaluation reserve of 0.7 billion euros, before tax (279 million euros for Belgium, 109 million euros for France, 41 million euros for Bulgaria, 38 million euros for Spain and 208 million euros for the other countries combined).

Portfolio of Belgian government bonds:

- Despite declining in 2018, Belgian sovereign bonds accounted for 32% of our total government bond portfolio at the end of 2018, reflecting the importance to KBC of Belgium, the group's primary core market.
- At year-end 2018, the credit ratings assigned to Belgium by the three main international agencies were 'Aa3' from Moody's, 'AA' from Standard & Poor's and 'AA-' from Fitch. More information on Belgium's macroeconomic performance is provided in the separate section dealing with Belgium. For more information, please refer to the rating agencies' websites.
- Apart from interest rate risk, the main risk to our holdings of Belgian sovereign bonds is a widening of the credit spread. To assess the potential impact of a 100-basis-point upward shift in the spread (by year-end 2018), we apply two approaches:
  - 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 796 million euros (see previous table).
  - The IFRS approach, whose impact on IFRS profit or loss is marginal since the lion's share of the portfolio of Belgian sovereign bonds is classified as 'At amortised cost' implying that sales prior to maturity are unlikely (74.9%; impact only upon realisation). The remaining part is classified as 'FVOCI' (24.6%; no impact on profit or loss); the impact of a 100-basis-point increase on IFRS unrealised gains is -155 million euros (after tax) for FVOCI assets.

In addition to the sovereign portfolio, the KBC group holds a non-sovereign bond portfolio (banks, corporations, supranational bodies). The sensitivity of the value of this portfolio to a 100-basis-point change in the credit spread is shown in the following table.

Exposure to non-sovereign bonds at year-end, by rating: economic impact of +100 basis points

(in millions of EUR)	31-12-2018	31-12-2017
Bonds rated AAA	-146	-158
Bonds rated AA+, AA, AA-	-141	-161
Bonds rated A+, A, A-	-110	-140
Bonds rated BBB+, BBB, BBB-	-52	-80
Non-investment grade and non-rated bonds	-25	-82
Total carrying value	12 145	13 168
Total nominal value	12 082	12 921

Equity risk

The main exposure to equity is within our insurance business, where the ALM strategies are based on a risk-return evaluation, account taken of the market risk attached to open equity positions. Please note that a large part of the equity portfolio is held for the Discretionary Profit Sharing (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. We have provided more information on total non-trading equity exposures at KBC in the tables below.

Equity portfolio of the KBC group (breakdown by sector, in %)	**Banking activities**		**Insurance activities**		**Group**	
	31-12-2018	**31-12-2017**	**31-12-2018**	**31-12-2017**	**31-12-2018**	**31-12-2017**
Financials	46%	47%	24%	24%	27%	27%
Consumer non-cyclical	1%	0%	10%	8%	9%	7%
Communication	0%	0%	3%	2%	2%	2%
Energy	0%	0%	6%	6%	5%	5%
Industrials	36%	37%	38%	39%	38%	38%
Utilities	0%	0%	2%	1%	2%	1%
Consumer cyclical	7%	8%	12%	15%	11%	14%
Materials	0%	0%	5%	6%	4%	5%
Other and not specified	10%	8%	0%	0%	2%	1%
Total	100%	100%	100%	100%	100%	100%
In billions of EUR	0.26	0.25	1.33	1.47	1.59*	1.72
of which unlisted	0.21	0.2	0.01	0.0	0.22	0.2

* The main differences between the 1.59 billion euros in this table and the 2.27 billion euros for 'Equity instruments' in the table appearing in Note 4.1 of the 'Consolidated financial statements' section – besides a number of minor differences in the scope of consolidation – are that:
(a) Shares in the trading book (0.76 billion euros) are excluded above, but are included in the table in Note 4.1.
(b) Real estate participations that are not consolidated are classified as 'investments in building' in this table, but classified as 'shares' in the table in Note 4.1 (as they are not consolidated).
(c) Most 'investments in funds' are treated on a 'look-through' basis (according to the underlying asset mix of the fund and therefore also partially classified as 'fixed-income instruments'), whereas they are classified as 'shares' in the table in Note 4.1.

Impact of a 25% drop in equity prices (in millions of EUR)	**Impact on value**	
	2018	**2017**
Banking activities	-65	-69
Insurance activities	-332	-366
Total	-396	-436

Non-trading equity exposure (in millions of EUR)	**Net realised gains (in income statement)**		**Net unrealised gains on year-end exposure (in equity)**	
	31-12-2018	**31-12-2017**	**31-12-2018**	**31-12-2017**
Banking activities	–	89	16	60
Insurance activities	110	81	173	401
Total*	110	170	189	468

* The total figure includes gains from some equity positions directly attributable to the KBC group.

Real estate risk

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

Impact of a 25% drop in real estate prices (in millions of EUR)	Impact on value 2018	2017
Bank portfolios	-94	-100
Insurance portfolios	-81	-67
Total	-175	-167

Inflation risk

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

In 2018, the undiscounted value of the inflation-sensitive cashflows was estimated at 608 million euros, against which a 387-million-euro portfolio of indexed bonds was held. In the years ahead, investments in inflation-linked bonds will be increased further. 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, essentially seeking to avoid currency risk. Foreign exchange exposures in the ALM books of banking entities with a trading book are transferred to the trading book where they are managed within the allocated trading limits. The foreign exchange exposure of banking entities without a trading book, of the insurance entities and of other entities has to be hedged, if material. Equity holdings in non-euro currencies that are part of the investment portfolio do not need to be hedged. Participating interests in foreign currency are in principle funded by borrowing an amount in the relevant currency equal to the value of the net assets.

Impact of a 10% decrease in currency value* (in millions of EUR)	Impact on value Banking 31-12-2018	31-12-2017	Impact on value Insurance 31-12-2018	31-12-2017
USD	-0.64	-0.63	-29.66	-30.35
GBP	0.03	0.14	-16.16	-14.52
CHF	0.00	0.02	-7.72	-6.46
SEK	0.00	-0.00	-2.46	-2.23
RON	-2.33	-5.13	0.00	-0.00
DKK	0.00	-0.01	-1.18	-1.17
CZK	-0.67	-0.96	-0.10	0.21

* Exposure for currencies where the impact exceeds 0.5 million euros in Banking or Insurance.

Capital sensitivity to market movements

The available capital is impacted when the market is stressed. Stress can be triggered by a number of market parameters, including by swap rates or bond spreads that increase or by equity prices that fall. At KBC, we use this capital sensitivity as a common denominator to measure the vulnerability of the banking book to different market risk shocks.

Common equity tier-1 (CET1) capital is sensitive to a parallel increase in bond spreads. This sensitivity is caused by investments in sovereign and corporate bonds whose spread component has not been hedged. The loss in available capital in the event of a fall in equity prices is caused primarily by positions in pension funds that would be hit by such a shock.

CET1 sensitivity to main market drivers (under Danish compromise), KBC group (as % points of CET1 ratio)

IFRS impact caused by	31-12-2018	31-12-2017
+100-basis-point parallel shift in interest rates	-0.0%	-0.2%
+100-basis-point parallel shift in spread	-0.2%	-0.7%
-25% in equity prices	-0.2%	-0.2%
Joint scenario	-0.4%	-1.2%

Hedge accounting

Assets and liabilities management uses derivatives to mitigate interest rate and foreign exchange risks. The aim of hedge accounting is to reduce the volatility in P&L resulting from the use of these derivatives.
KBC decided not to apply hedge accounting to credit and equity risks. Hedge accounting is implemented at group and local level. When the necessary criteria are met, it is applied to remove the accounting mismatch between the hedging instrument and the hedged item. For more information about hedge accounting, please see 'Notes on the accounting policies' in the 'Consolidated financial statements' section.

Risk categories applying to hedge accounting

Interest rates

Hedging derivatives are used to mitigate an interest rate risk that arises from a difference in the interest rate profile of assets and their funding liabilities. The hedge accounting status of a hedge can be associated with either the asset or the liability item.

Interest rate derivatives can be designated as:

- Hedges of the fair value of recognised assets or liabilities. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the ineffective portion is also recognised in profit or loss.
- Hedges of the cashflow of recognised assets and liabilities which are either certain or highly probable forecasted transactions. The effective portion of changes in the fair value of derivatives that are designated and qualify as cashflow hedges is recognised in the cashflow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised directly in profit or loss.

KBC uses macro hedge accounting strategies for homogeneous portfolios of smaller items, where the frequency of occurrence or the relatively small size of the average operation renders the one-to-one relationship sub-optimal. This is the case for *inter alia* mortgages, loans to SMEs and customer deposits. Macro hedge strategies may be dynamic and undergo frequent changes based on balancing the portfolio ('open portfolio hedge'), among other things. The micro hedge designation is used when large individual assets or liabilities are hedged. Typical assets are large corporate loans and bond acquisitions for which the credit spread profile is relevant. Liabilities can include KBC's own issues or specific long-term facilities offered by a central bank. Micro hedges are either fair-value or cashflow based.

Foreign exchange

KBC has strategic investments denominated in non-euro currencies. The net asset value of significant participations is funded in the local currency by deposits and foreign exchange derivatives. By using hedges of net investments in foreign operations, the foreign exchange component is reported in equity until realisation (unwinding of funding due to liquidation, dividend payments or other decreases in net asset value).

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, as well as through periodic prospective and retrospective effectiveness assessments to ensure that a relevant relationship between the hedged item and the hedging instrument exists and remains valid.

Effectiveness testing

For interest rates, several prospective and retrospective tests are performed to ensure the relationship between the hedged item and the hedging instrument qualifies for the hedge accounting strategy.
Prospective tests are mostly based either on a sensitivity analysis (verifying if the basis point value of the hedged portfolio relative to the hedging instrument stays within the 80–125% interval) or volume tests (if the principal amount of hedge-eligible items exceeds the notional volume of hedging instruments expected to be repriced or repaid in each specified time bucket).
For macro cashflow hedges, extensive forward-looking analysis assess the sufficient likelihood that the future volume of hedged items will largely cover the volume of hedging instruments. A hedge ratio – measuring the proportion of a portfolio that is hedged by derivatives – is calculated for each hedging strategy.
The retrospective effectiveness test of the hedge relationship is periodically carried out by comparing the change in fair value of the portfolio of hedging instruments relative to the change in fair value of the hedged eligible items imputable to the hedged risk over a given period (the ratio of fair value changes remains within the 80-125% interval).
For foreign exchange hedging, effectiveness is ensured by adjusting the sum of the nominal amount of the funding deals and foreign exchange derivatives to the nominal amount of the net asset value of the strategic participations.

Sources of hedge ineffectiveness

Ineffectiveness for interest rate swaps may occur due to:

- differences in relevant terms between the hedged item and the hedging instrument (it can include discrepancies in interest curves and in periodicity);
- a reduction in volume of the hedged item that would fall under the volume of hedging instruments for any time bucket;
- the credit value adjustment on the interest rate swap not being matched by the loan. However, hedging swaps are fully collateralised or traded through clearing houses and the credit value adjustment is limited.

Regarding the hedge of the net investment in foreign currency, the interest rate component from the hedging instruments can be a source of inefficiency.

Discontinuation of hedge accounting

Hedge accounting strategies failing the effectiveness tests are discontinued, which has an impact on profit and loss. A de-designated hedging instrument can be re-designated in a new hedge relationship. Effective hedge accounting strategies may also be discontinued for technical or strategic reasons.

Liquidity risk

What is it?

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

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

Managing liquidity risk

A group-wide 'liquidity risk management framework' is in place to define the risk playing field.

Liquidity management itself is organised within the Group Treasury function, which acts as a first line of defence and is responsible for the overall liquidity and funding management of the KBC group. The Group Treasury function monitors and steers the liquidity profile on a daily basis and sets the policies and steering mechanisms for funding management (intra-group funding, funds transfer pricing). These policies ensure that local management has an incentive to work towards a sound funding profile. The Group Treasury function also actively monitors its collateral on a group-wide basis and is responsible for drafting the liquidity contingency plan that sets out the strategies for addressing liquidity shortfalls in emergency situations.

Our liquidity risk management framework is based on the following pillars:

- *Contingency liquidity risk.* This is the risk that KBC may not be able to attract additional funds or replace maturing liabilities under stressed market conditions. This risk is assessed on the basis of liquidity stress tests, which measure how the liquidity buffer of the group's bank and insurance entities changes under extreme stressed scenarios. This buffer is based on assumptions regarding liquidity outflows (retail customer behaviour, professional client behaviour, drawing of committed credit lines, etc.) and liquidity inflows resulting from actions to increase liquidity ('repoing' the bond portfolio, reducing unsecured interbank lending, etc.). The liquidity buffer has to be sufficient to cover liquidity needs (net cash and collateral outflows) over (i) a period that is required to restore market confidence in the group following a KBC-specific event, (ii) a period that is required for markets to stabilise after a general market event and (iii) a combined scenario, which takes a KBC-specific event and a general market event into account. The overall aim of the liquidity framework is to remain sufficiently liquid in stress situations, without resorting to liquidity-enhancing actions which would entail significant costs or which would interfere with the core banking and insurance business of the group.
- *Structural liquidity risk.* This is the risk that KBC's long-term assets and liabilities might not be (re)financed on time or can only be refinanced at a higher-than-expected cost. We manage our funding structure so as to maintain substantial diversification, to minimise funding concentrations in time buckets, and to limit the level of reliance on short-term wholesale funding. We manage the structural funding position as part of the integrated strategic planning process, where funding – in addition to capital, profits and risks – is one of the key elements. At present, our strategic aim is to maintain sufficiently high buffers in terms of LCR and NSFR via a funding management framework, which sets clear funding targets for the subsidiaries (own funding, reliance on intra-group funding) and provides further incentives via a system of intra-group pricing to the extent subsidiaries face a funding mismatch.
In the table below, we have illustrated the structural liquidity risk by grouping the assets and liabilities according to the remaining term to maturity (using the contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net funding gap'. At year-end 2018, KBC had attracted 24 billion euros' worth of funding on a gross basis from the professional interbank and repo markets.

- *Operational liquidity risk*. Operational liquidity management is conducted in the treasury departments, based on estimated funding requirements. Group-wide trends in funding liquidity and funding needs are monitored on a daily basis by the Group Treasury function, ensuring that a sufficient buffer is available at all times to deal with extreme liquidity events in which no wholesale funding can be rolled over.

Maturity analysis

Liquidity risk (excluding intercompany deals)* (in billions of EUR)	**≤ 1 month**	**1–3 months**	**3–12 months**	**1–5 years**	**5–10 years**	**> 10 years**	**On demand**	**Not defined**	**Total**
31-12-2018									
Total inflows	33	9	21	64	49	33	17	23	249
Total outflows	38	13	9	35	5	1	122	25	249
Professional funding	14	3	2	5	0	0	0	0	24
Customer funding	19	8	4	6	2	0	122	0	161
Debt certificates	1	2	3	24	3	1	0	0	34
Other	5	–	–	–	–	–	–	25	30
Liquidity gap (excl. undrawn commitments)	-5	-4	12	29	43	32	-105	-2	0
Undrawn commitments	–	–	–	–	–	–	–	-37	–
Financial guarantees	–	–	–	–	–	–	–	-10	–
Net funding gap (incl. undrawn commitments)	-5	-4	12	29	43	32	-105	-49	-47
31-12-2017									
Total inflows	34	13	17	65	46	32	28	22	256
Total outflows	45	18	8	41	7	1	112	25	256
Professional funding	18	8	1	5	0	0	1	0	34
Customer funding	21	9	4	8	1	0	111	0	153
Debt certificates	3	1	3	28	6	1	0	0	41
Other	3	–	–	–	–	–	–	25	28
Liquidity gap (excl. undrawn commitments)	-12	-5	10	24	39	31	-84	-3	0
Undrawn commitments	–	–	–	–	–	–	–	-36	–
Financial guarantees	–	–	–	–	–	–	–	-10	–
Net funding gap (incl. undrawn commitments)	-12	-5	10	24	39	31	-84	-50	-46

* Cashflows exclude interest rate flows consistent with internal and regulatory liquidity reporting. Inflows/outflows that arise from margin calls posted/received for MtM positions in derivatives are reported in the 'not defined' bucket. Professional funding' includes all deposits from credit institutions and investment firms, as well as all repos. Instruments are classified on the basis of their first callable date. Some instruments are reported at fair value (on a discounted basis), whereas others are reported on an undiscounted basis (in order to reconcile them with Note 4.1 of the 'Consolidated financial statements' section). Due to the uncertain nature of the maturity profile of undrawn commitments and financial guarantees, these instruments are reported in the 'Not defined' bucket. The 'Other' category under 'Total outflows' contains own equity, short positions, provisions for risks and charges, tax liabilities and other liabilities.

Typical for the banking operations of a bank-insurance group, funding sources generally have a shorter maturity than the assets that are funded, leading to a negative net liquidity gap in the shorter time buckets and a positive net liquidity gap in the longer term buckets. This creates liquidity risk if we would be unable to renew maturing short-term funding. Our liquidity framework imposes a funding strategy to ensure that the liquidity risk remains within the group's risk appetite.

Liquid asset buffer

We have a solid liquidity position. At year-end 2018, the KBC group had 62 billion euros' worth of unencumbered central bank eligible assets (the figures for such assets take legal lending limits into account, unlike in the 2017 report), 52 billion euros of which in the form of liquid government bonds (85%). The remaining available liquid assets were mainly other ECB/FED eligible bonds (13%). Most of the liquid assets are expressed in euros, Czech koruna and Hungarian forint (all home market currencies). Available liquid assets were almost three times the amount of net short-term wholesale funding, while funding from non-wholesale markets was accounted for by stable funding from core customer segments in our core markets.

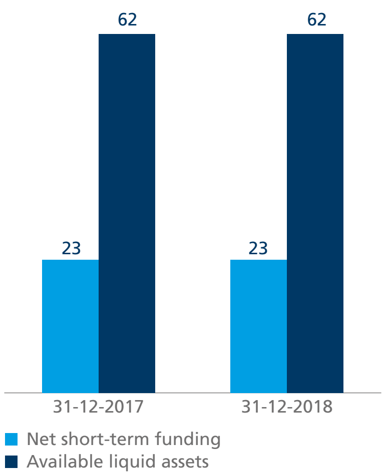
Funding information

We have a strong retail/mid-cap deposit base in our core markets, resulting in a stable funding mix. A significant portion of the funding is attracted from core customer segments and markets.

The KBC group's funding mix (at 31 December 2018) can be broken down as follows:

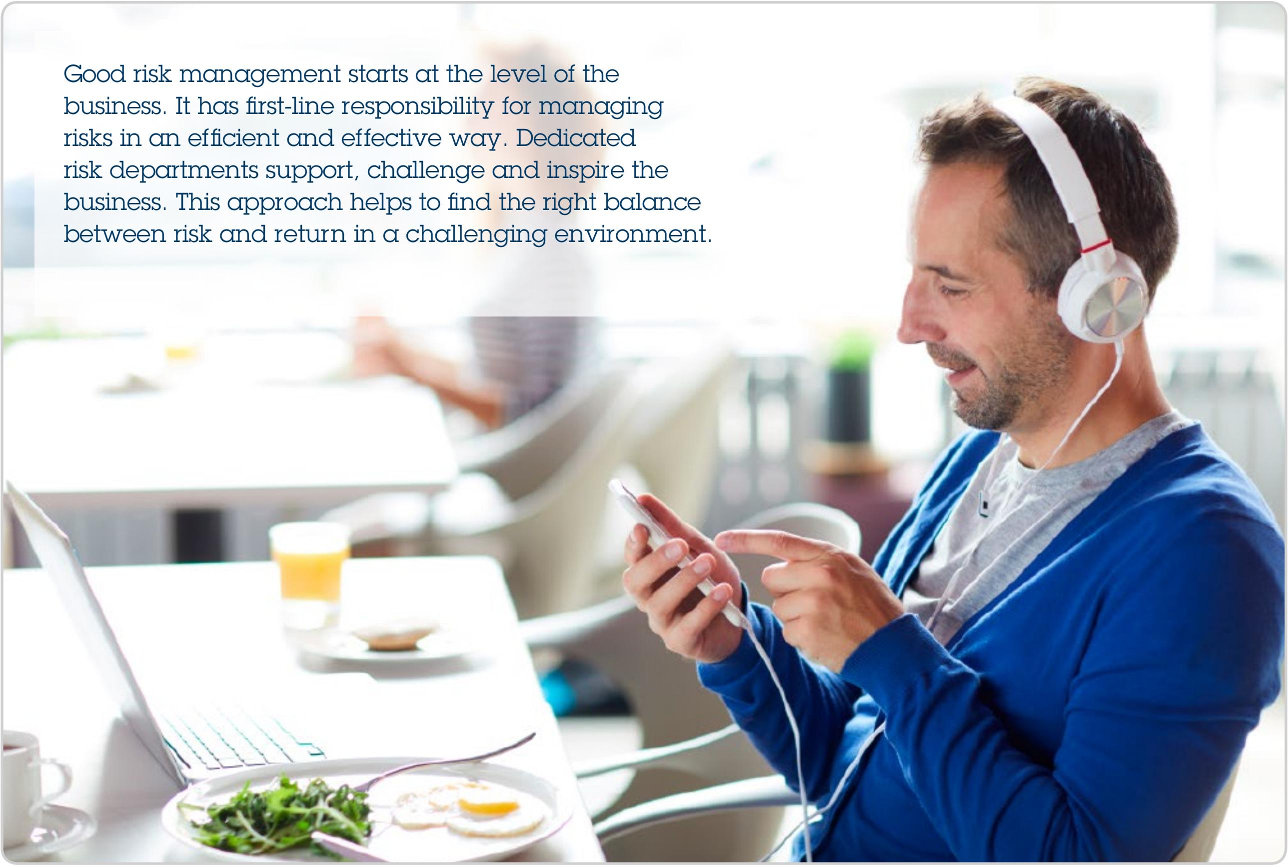
- Funding from customers (circa 163.8 billion euros, 77% of the total figure), consisting of demand deposits, term deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network. Some 62% of the funding from customers relates to private individuals and SMEs.
- Debt issues placed with institutional investors (14.9 billion euros, 7% of the total figure), mainly comprising IFIMA debt issues (0.9 billion euros), covered bonds (7.9 billion euros), tier-2 issues (2.0 billion euros) and KBC Group NV senior debt (4.0 billion euros).
- Net unsecured interbank funding (18.6 billion euros, 9% of the total figure).
- Net secured funding (-20.1 billion euros in repo funding, -9% of the total figure) and certificates of deposit (15.6 billion euros, 7% of the total figure). Net secured funding was negative at year-end 2018 due to the fact that KBC carried out more reverse repo transactions than repo transactions.
- Total equity (19.6 billion euros, 9% of the total figure, including additional tier-1 issues of 1.4 billion euros and 1.0 billion euros).

Unsecured short-term funding compared to liquid assets
(in billions of EUR)



Please note that:

- In November 2012, we announced our 10-billion-euro Belgian residential mortgage covered bonds programme. This programme gives KBC access to the covered bond market, allowing it to diversify its funding structure and reduce the cost of long-term funding. Since then, we have issued covered bonds each year (including 1.0 billion euros' worth in 2018).
- In 2016 and 2017, we borrowed 4.2 and 2.3 billion euros, respectively, from the ECB under the targeted long-term refinancing operations (TLTRO II).
- The 1.4-billion-euro additional tier-1 instrument issued in 2014 is still included in the year-end figures, but is scheduled to be called on 19 March 2019 (see further in this section).



LCR and NSFR

Both the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are defined in the 'Glossary of financial ratios and terms'. At year-end 2018, our NSFR stood at 136% while our 12-month average LCR for 2018 came to 139%.

Technical insurance risk

What is it?

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.

Managing technical insurance risk

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

The Insurance Risk Management Framework is designed primarily around the following building blocks:

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

Risk modelling

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

Reinsurance

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

Changes in storm and precipitation patterns and in the frequency of floods have caused the level of claim settlements to fluctuate over the past few years, but without leading to a structural increase in such settlements and, therefore, in premiums. This is being monitored as part of the Insurance Risk Management Framework and relevant processes.

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

Adequacy of technical provisions

As part of its mission to independently monitor insurance risks, the Group risk function regularly carries out in-depth studies. These confirm that there is a high degree of probability that the life and non-life technical provisions at subsidiary level are adequate. Various group companies conduct Liability Adequacy Tests (LAT) that meet local and IFRS requirements for technical provisions. Starting from the best estimate model, we make calculations using a discount rate that is set for each insurance entity based on local macroeconomic conditions and regulations.

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

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

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

Actuarial function

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

Solvency II results

Solvency II results and more detailed information on how all the ratios developed in 2018 are provided under 'Solvency of KBC Bank and KBC Insurance separately' in the 'How do we manage our capital?' section.

A good and solid risk culture is increasingly more important in this highly digitalised and innovative world. New challenges and new risks are scanned, screened and managed by the business side and risk departments before any new products and services are launched.

New developments

Brexit

At the time this report was approved by the Board of Directors in mid-March 2019, the outcome of the Brexit negotiations was still uncertain. Despite the political labyrinth involved, we are working on the assumption that there will be a Brexit deal before or after the 29 March deadline, i.e. a 'softish' but not a 'smooth' Brexit scenario. This means that a transition deal would be agreed that will last until the end of 2020. Negotiations on a final deal during that period are most likely to move towards a deal entailing free trade in goods, broad regulatory alignment and the absence of a hard border on the island of Ireland. It is also assumed that the details of that deal and the broader outline of the proposed future relationship between the UK and the EU would ensure that Brexit will not materially derail the expected growth scenario for either the euro area or the UK. Aside from this assumption, KBC is keeping track of all the possible consequences of any harder scenarios, with strategic contingency plans being developed in 2018.

KBC Bank London branch

The Prudential Regulatory Authority of the Bank of England has confirmed that KBC does not have to apply separately to be part of the Temporary Permissions Regime because we had already submitted our application for direct authorisation as a third-country branch in April 2018. Provided the ECB also agrees with KBC's application to act as a third-country branch in the UK, KBC's UK activities will be safeguarded for a period of three years.

Clearing of derivatives by UK players

At the end of December 2018, the EU also decided on emergency measures for issues that could cause financial disruption or systemic risks, such as the derivative clearing business in a hard Brexit scenario. This resulted in transitional arrangements for EU banks and companies, which would be allowed to continue using UK-based clearing houses to process derivatives trades if Brexit negotiations fail, but strictly for the short term (one year for derivatives and two years for central securities depositaries). In order to deal with the limited transition period, KBC is already active on an alternative platform for derivatives clearing on the EU continent.

Domains significantly affected in the event of Brexit

- KBC Bank Ireland: The open nature of the Irish economy and its close links to the UK underpin the consensus view that, on balance, the impact of a hard Brexit on Ireland is likely to be negative. Available impact studies suggest a hard Brexit could lower annual Irish real growth by 3–7%. This effect would be felt predominantly over a three to five-year period. However, these negative effects may be offset by several positive ones. For instance, an ESRI (Economic & Social Research Institute) study suggests significant offsetting gains because of the relocation of UK-based institutions to Ireland. Even on reasonably conservative assumptions, such inflows could boost GDP by up to 3%. Moreover, significant disinflationary impulses can be expected that would assist competitiveness and support household consumer power.
- Exposure to corporations and SMEs: the most affected export sectors are likely to be agriculture and the agri-food and textiles industries, as they will suffer from a further depreciation of Sterling and higher tariff rates.
- Net interest income: a hard Brexit could slow down economic growth and inflation in the euro area and as such contribute to lower interest rates for a longer period.
- Asset management activities: we expect the fee business to be impacted should there be a significant decline on the UK and European stock markets.

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 is due to come into effect on 1 January 2020) 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 prepare a transition plan. It is monitoring all market developments and is contributing to the public consultations run by the ECB Risk Free Rate Working Group. KBC will also launch pre-studies and implementation plans for ESTER.

Environmental data is provided under 'Our strategy' in the 'Report of the Board of Directors' section.

Model risk

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

Digital transformation in risk management

Digitisation is a crucial factor that is impacting and transforming the environment within which KBC operates. This trend brings not only new challenges for risk management, it also creates opportunities. During 2018, the Risk function invested even more energy in achieving alignment with KBC's front-office functions as regards the internal use of robotic process automation, big data and artificial intelligence, and FinTech/RegTech solutions. These trends can typically improve the internal efficiency of processes and allow risk management to gain new insights into specific risk types. By partnering with innovation facilitators, the Risk function is not only developing new skills and knowledge to better understand the risks related to the digital trends impacting our business, it is also learning how to leverage usage of trends to improve our risk management (toolset).

Climate change

Climate-related risks and opportunities remain high on the agenda of the business and control functions such as Risk, Compliance and Legal. These risks are covered by the KBC Corporate Sustainability Strategy, are continuously monitored and, if necessary, reported in the form of risk signals to senior management.
To deal with the growing expectations of different stakeholders such as institutional investors, governments and clients, a sustainable finance project was launched in 2018 to further support the gradual implementation of climate-related risks into the overall KBC Risk Management Framework in a more structured way.

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

- KBC became a supporting company of the Task Force on Climate-Related Financial Disclosures (TCFD) in December 2017.
- KBC is already actively engaged in the transition to a low-carbon economy, and manages these risks by having strict policies in place to limit the environmental impact of our core lending, investment and insurance activities.
- The KBC Group Sustainability Framework was added to the New and Active Product Process (NAPP) charter. When deciding on any new products, sustainability and climate-related policies have to be taken into account.
- KBC issued its inaugural KBC Green Bond in June 2018 and continues to focus on SRI product development.
- The impact of more extreme weather conditions is incorporated into the Insurance Risk Management Framework. KBC uses a number of internal and external measures to analyse the impact of acute natural catastrophe risks. These risks are also analysed in multiple internal and external stress tests and in *ad hoc* deep dives following risk signals or management requests.
- During the latest risk scan exercise, climate change was acknowledged as a top risk for KBC (it is also included in the strategic Alignment of Planning Cycles (APC) process).
- We continue to disclose climate-related issues under the Carbon Disclosure Project (for which we have achieved an 'A-' Leadership score, whereas the average sector score is 'B-', both in Europe and worldwide). This is the highest score awarded by the international organisation, reflecting KBC's awareness of climate issues, management methods and its progress in acting on climate change.

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 at KBC group level

We report the solvency of the group, the bank and the insurance company based on IFRS data and according to the rules imposed by the regulator. For the KBC group, this implies that we calculate our solvency ratios based on CRR/CRD IV, which has gradually been implemented since 2014 (phasing-in). As from 1 January 2018, there is no longer any difference between the fully loaded and phased-in reported figures at KBC group level.

The minimum solvency ratios required under CRR/CRD IV are 4.5% for the common equity tier-1 (or CET1) ratio, 6% for the tier-1 capital ratio and 8% for the total capital ratio (i.e. pillar 1 minimum ratios).

As a result of its supervisory review and evaluation process (SREP), the competent supervisory authority (in KBC's case, the ECB) can require that higher minimum ratios be maintained (= pillar 2 requirements) because, for instance, not all risks are properly reflected in the regulatory pillar 1 calculations. Following the SREP for 2018, the ECB formally notified KBC of its decision (applicable from 1 March 2019) to maintain the pillar 2 requirement (P2R) at 1.75% CET1 and the pillar 2 guidance (P2G) at 1% CET1.

The overall capital requirement for KBC is determined not only by the ECB, but also by the decisions of the local competent authorities in its core markets. The decision taken by the relevant Czech and Slovak authorities to further increase the countercyclical buffer requirement to 1.5% in the third quarter of 2019 and the introduction of a 1% countercyclical buffer requirement in Ireland correspond with an additional CET1 requirement of 0.10% at KBC group level (bringing the countercyclical buffer at KBC group level to around 0.45%).

For Belgian systemic financial institutions, the NBB had already announced its systemic capital buffers at an earlier date. For the KBC group, this means that an additional capital buffer of 1.5% of CET1 is required from 2018 onwards. Lastly, the capital conservation buffer will increase from 1.875% in 2018 to 2.5% in 2019.

Altogether, this brings the fully loaded CET1 requirement (under the Danish compromise) to 10.7% (4.5% (pillar 1) + 1.75% (P2R) + 2.5% (conservation buffer) + 1.5% (systemic buffer) +0.45% (countercyclical buffer)), with an additional pillar 2 guidance (P2G) of 1%. KBC clearly exceeds this requirement: at year-end 2018, the fully loaded CET1 ratio came to 16%, which represented a capital buffer of 4 998 million euros relative to the minimum requirement of 10.7%. Furthermore, since part of the capital requirements is to be gradually built up by 2019, the relevant requirement (under the Danish compromise) for 2018 on a phased-in basis amounts to 9.875% of CET1 (4.5% (pillar 1) + 1.75% (P2R) + 1.875% (conservation buffer) +1.5% (systemic buffer) + 0.25% (countercyclical buffer)). The regulatory minimum solvency targets were also amply exceeded throughout the entire financial year.

The general rule under CRR/CRD IV for insurance participations is that an insurance participation is deducted from common equity at group level, unless the competent authority grants permission to apply a risk weighting instead (Danish compromise). KBC received such permission from the supervisory authority and hence reports its solvency on the basis of a 370% risk weighting being applied to the holdings of own fund instruments of the insurance company (a historical

carrying value of 2 469 million euros), after having deconsolidated KBC Insurance from the group figures.

In addition to the solvency ratios under CRD IV, KBC – as a financial conglomerate – also has to disclose its solvency position as calculated in accordance with the Financial Conglomerate Directive (FICOD; 2002/87/EC). In line with this directive, available capital is calculated on the basis of the consolidated position of the group and the eligible items recognised as such under the prevailing sectoral rules, which are CRD IV for the banking business and Solvency II for the insurance business. The resulting available capital is to be compared with a capital requirement expressed as a risk weighted asset amount. For this latter figure, the capital requirements for the insurance business (based on Solvency II) are multiplied by 12.5 to obtain a risk weighted asset equivalent (instead of the 370% risk weighting applied to the participation in the insurance company under the Danish compromise). At year-end 2018, the common equity ratio (under FICOD) was 14.9%.

KBC aims to be one of the better capitalised financial institutions in Europe. Each year, therefore, we assess the common equity ratios of a peer group of European banks that are active in the retail, SME, and corporate client segments, and then position ourselves relative to the median fully loaded CET1 ratio of that peer group. We reflect this ambition in an 'own capital target', which amounts to 14% of common equity. On top of this, KBC wants to maintain a flexible additional buffer of up to 2% common equity for potential add-on mergers and acquisitions in our core markets. Any M&A opportunity will be assessed subject to very strict financial and strategic criteria. This buffer is additional to the 'own capital target' of the KBC group. Together they form the reference capital position, which stands at 16%.

A detailed calculation of the KBC group's solvency ratios under the Danish compromise method is given below, with summary calculations provided for the FICOD and deduction methods.

Solvency at group level (consolidated; under CRR/CRD IV, Danish compromise method) (in millions of EUR)	**31-12-2018 Fully loaded = Phased-in**	**31-12-2017 Phased-in**	**31-12-2017 Fully loaded**
Total regulatory capital, after profit appropriation	**18 217**	**18 725**	**18 706**
Tier-1 capital	**16 150**	**16 549**	**16 504**
Common equity[1]	**15 150**	**15 131**	**15 104**
Parent shareholders' equity (after deconsolidating KBC Insurance)	16 992	16 841	16 841
Intangible fixed assets, incl. deferred tax impact (-)	-584	-475	-475
Goodwill on consolidation, incl. deferred tax impact (-)	-602	-604	-604
Minority interests	0	0	0
Available-for-sale revaluation reserves (-)[3]	–	-117	–
Hedging reserve, cashflow hedges (-)	1 263	1 339	1 339
Valuation differences in financial liabilities at fair value – own credit risk (-)	-14	-1	-1
Value adjustment due to requirements for prudent valuation (-)[2]	-63	-111	-124
Dividend payout (-)	-1 040	-837	-837
Coupon on AT1 instruments (-)	-7	-2	-2
Deduction with regard to financing provided to shareholders (-)	-91	-91	-91
Deduction with regard to irrevocable payment commitments (-)	-32	–	–
IRB provision shortfall (-)	-100	-268	-268
Deferred tax assets on losses carried forward (-)	-571	-542	-672
Additional going concern capital	**1 000**	**1 418**	**1 400**
Grandfathered innovative hybrid tier-1 instruments	0	18	0
Grandfathered non-innovative hybrid tier-1 instruments	0	0	0
CRR-compliant AT1 instruments[4]	1 000	1 400	1 400
Minority interests to be included in additional going concern capital	0	0	0
Tier-2 capital	**2 067**	**2 176**	**2 202**
IRB provision excess (+)	204	316	316
Subordinated liabilities	1 864	1 860	1 886
Subordinated loans to non-consolidated financial sector entities (-)	0	0	0
Minority interests to be included in tier-2 capital	0	0	0
Total weighted risk volume	**94 875**	**91 972**	**92 410**
Banking	85 474	82 679	83 117
Insurance	9 133	9 133	9 133
Holding-company activities	302	202	202
Elimination of intercompany transactions	-34	-43	-43
Solvency ratios			
Common equity ratio	16.0%	16.5%	16.3%
Tier-1 ratio	17.0%	18.0%	17.9%
Total capital ratio	19.2%	20.4%	20.2%

1 Audited figures (excluding 'IRB provision shortfall' and 'Value adjustment due to requirements for prudent valuation').

2 CRR ensures that prudent valuation is reflected in the calculation of available capital. This means that the fair value of all assets measured at fair value and impacting the available capital (by means of fair value changes in P&L or equity) need to be brought back to their prudent value. The difference between the fair value and the prudent value (also called the 'additional value adjustment' or AVA) must be deducted from the CET1 ratio.

3 Relates to the prudential filter for positive revaluation reserves from equity.

4 See explanation under the heading 'Additional information concerning the calculation of solvency according to CRR/CRD IV (Danish compromise, fully loaded)'.

Solvency at group level (consolidated; FICOD method) (in millions of EUR)	31-12-2018 Fully loaded	31-12-2017 Phased-in	31-12-2017 Fully loaded
Common equity	15 885	16 015	15 988
Total weighted risk volume	106 380	105 625	106 062
Common equity ratio	14.9%	15.2%	15.1%

Solvency at group level (consolidated; CRR/CRD IV, deduction method) (in millions of EUR)	31-12-2018 Fully loaded	31-12-2017 Fully loaded
Common equity	14 199	14 146
Total weighted risk volume	89 537	87 052
Common equity ratio	15.9%	16.3%

Additional information concerning the calculation of solvency according to CRR/CRD IV (Danish compromise, fully loaded):

- Parent shareholders' equity: see 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section.
- Share buyback: see 'Our employees, capital, network and relationships' under 'Our business model' in the 'Report of the Board of Directors' section.
- First time application of IFRS 9: this had a negative impact of 0.4 percentage points on the common equity ratio (see also Notes 1.1 and 1.4 in the 'Consolidated financial statements' section).
- Additional tier-1 instruments: on 17 April 2018, KBC Group NV issued 1 billion euros' worth of AT1 securities with a coupon of 4.25%. KBC received approval from the ECB to call the 1.4-billion-euro AT1 instrument issued in 2014 on 19 March 2019 (call date). As a consequence, the 1.4 billion euros involved has been excluded from the solvency figures at year-end 2018. Information on new additional tier-1 instruments issued in February 2019 is provided in Note 6.8 of the 'Consolidated financial statements' section.
- Total weighted risk volume: since its implementation in 2008, the Internal Rating Based (IRB) approach has primarily been used by KBC to calculate its risk weighted assets. It is used for approximately 92% of the weighted credit risks, approximately 87% of which are calculated according to the Advanced approach and roughly 5% according to the Foundation approach. The remaining weighted credit risks are calculated according to the Standardised approach. The increase in weighted risks in 2018 was largely driven by new regulatory requirements and limitations imposed by supervising authorities and by volume increases in various core countries, among other things.

At year-end 2018, our fully loaded leverage ratio at group level stood at 6.1% (see table below). More details, including a description of the processes used to manage the risk of excessive leverage, can be found in KBC's Risk Report, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor).

Leverage ratio at group level (consolidated; under CRR/CRD IV, Danish compromise method) (in millions of EUR)	31-12-2018 Fully loaded	31-12-2017 Fully loaded
Tier-1 capital	16 150	16 504
Total exposure	266 594	272 373
Total assets	283 808	292 342
Deconsolidation of KBC Insurance	-31 375	-32 802
Adjustment for derivatives	-3 105	-3 908
Adjustment for regulatory corrections in determining tier-1 capital	-2 043	-2 235
Adjustment for securities financing transaction exposures	408	816
Off-balance sheet exposures	18 900	18 160
Leverage ratio	6.1%	6.1%

Besides the ECB and NBB, which supervise KBC on a going concern basis, KBC is also subject to requirements set by the Single Resolution Board (SRB). The SRB is developing resolution plans for the major banks in the euro area. Such a plan describes how the resolution authorities will approach the resolution of a bank that is failing (or likely to fail) in a way that protects its critical functions, government funds and financial stability. It takes account of the specific features of the bank and is tailor-made. A key feature of the resolution plan is deciding at which level the competent resolution authorities will intervene. A choice has to be made between a single resolution authority that resolves the group as a whole (Single Point of Entry or 'SPE') or different authorities that separately resolve those parts of the group that fall within their jurisdiction (Multiple Point of Entry or 'MPE').

The resolution plan for KBC is based on a Single Point of Entry (SPE) approach at KBC group level, with 'bail-in' as the primary resolution tool. Bail-in implies a recapitalisation and stabilisation of the bank by writing down certain unsecured liabilities and issuing new shares to former creditors as compensation. The SPE approach at group level reflects KBC's business model, which relies heavily on integration, both commercially (e.g., banking and insurance) and organisationally (e.g., risk, finance, treasury, etc.). Debt instruments that are positioned for bail-in are issued by KBC Group NV. This approach keeps the group intact in resolution and safeguards the bank-insurance model in going concern.

It is crucial that there are adequate liabilities eligible for bail-in. This is measured by the minimum requirement for own funds and eligible liabilities (MREL). At year-end 2018, the MREL ratio based on instruments issued by KBC Group NV stood at 25% of risk weighted assets ('point of entry' view).

MREL: point-of-entry view (in millions of EUR)	**31-12-2018 Fully loaded**	**31-12-2017 Fully loaded**
Own funds and eligible liabilities	23 752	22 207
CET1 capital (consolidated, CRR/CRD IV, Danish compromise method)	15 150	15 104
AT1 instruments (nominal amount)	2 400	1 400
T2 instruments (nominal amount, remaining maturity > 1 year)	2 182	2 182
Senior debt (nominal amount, remaining maturity > 1 year)	4 020	3 521
Risk weighted assets (consolidated, CRR/CRD IV, Danish compromise method)	94 875	92 410
MREL ratio	25.0%	24.0%

Based on the broader SRB definition, which also includes certain senior/subordinated instruments issued at lower levels within the group ('consolidated view'), the MREL ratio amounted to 26% of risk weighted assets. The SRB/NBB require KBC Group NV to achieve an MREL ratio of 9.76% as a percentage of Total Liabilities and Own Funds (TLOF) – which is equivalent to 25.9% as a percentage of risk weighted assets – by 1 May 2019.

MREL: consolidated view (in millions of EUR)	**31-12-2018**	**31-12-2017**
Own funds and eligible liabilities	24 711	24 330
CET1 capital (consolidated, CRR/CRD IV, Danish compromise method)	15 150	15 134
AT1 capital (consolidated, CRR/CRD IV)	1 000	1 418
T2 capital (consolidated, CRR/CRD IV)	2 068	2 176
Subordinated liabilities (not included in AT1 & T2)	2 022	1 513
Senior debt (nominal amount, remaining maturity > 1 year)	4 473	4 089
Risk weighted assets (consolidated, CRR/CRD IV, Danish compromise method)	94 875	92 410
MREL ratio as a % of RWA	26.0%	26.3%
Total Liabilities and Own Funds (TLOF)	245 225	251 364
MREL as a % of TLOF	10.1%	9.7%

Solvency of KBC Bank and KBC Insurance separately

In the table below, we have provided solvency information for KBC Bank and KBC Insurance, separately. More detailed information can be found in their consolidated financial statements and in KBC's Risk Report, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor). As is the case for the KBC group, the solvency of KBC Bank is calculated based on CRR/CRD IV. The solvency of KBC Insurance is calculated on the basis of Solvency II.

Solvency, KBC Bank (CRR/CRDIV, fully loaded, in millions of EUR)	**31-12-2018**	**31-12-2017**
Total regulatory capital, after profit appropriation	15 749	15 756
Tier-1 capital	13 625	13 484
Of which common equity	12 618	12 077
Tier-2 capital	2 124	2 273
Total weighted risks	85 474	83 117
Common equity ratio	14.8%	14.5%
Tier-1 ratio	15.9%	16.2%
Total capital ratio	18.4%	19.0%

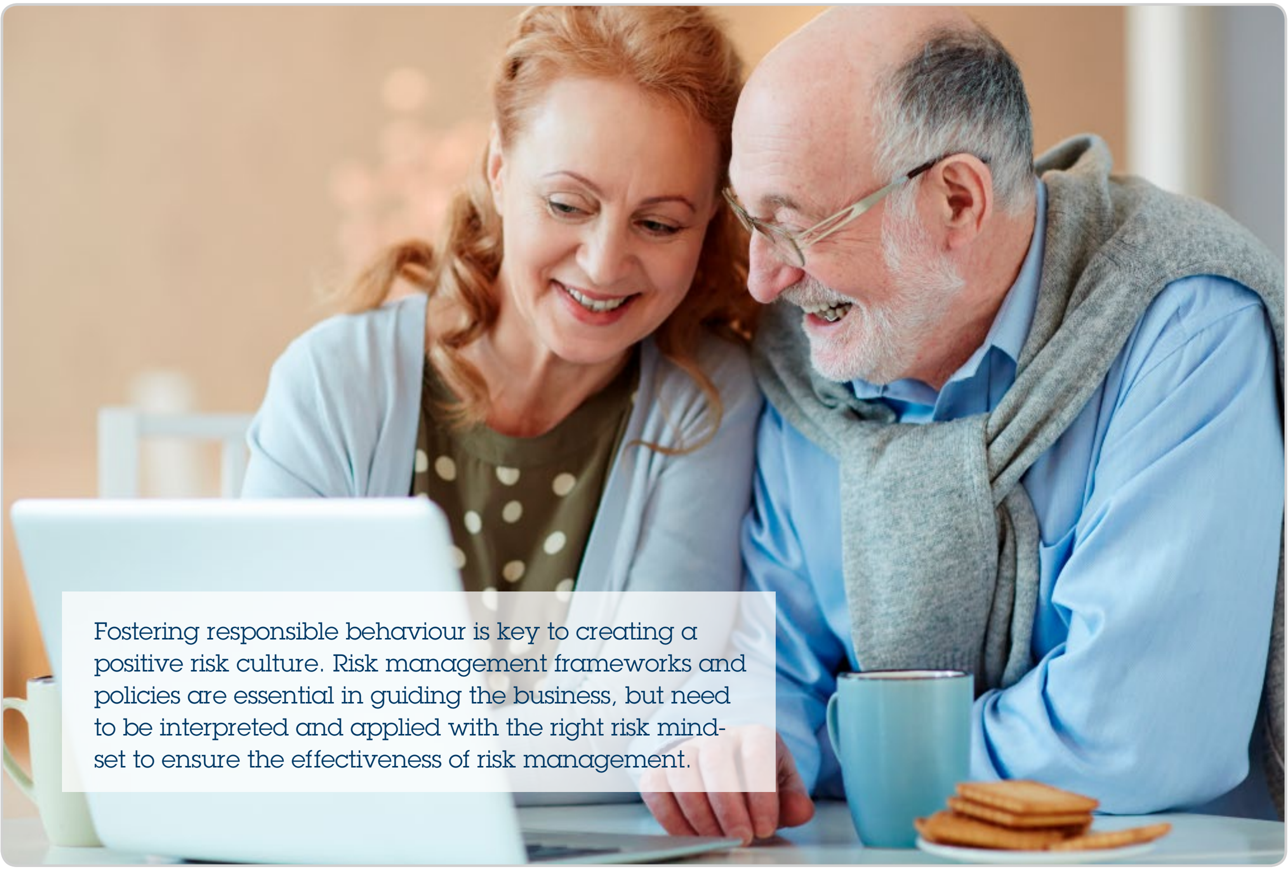
Solvency, KBC Insurance (incl. volatility adjustment) (Solvency II, in millions of EUR)	**31-12-2018**	**31-12-2017**
Own funds	3 590	3 865
Tier-1	3 090	3 365
IFRS parent shareholders' equity	2 728	3 051
Dividend payout	-132	-8
Deduction of intangible assets and goodwill (after tax)	-124	-128
Valuation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

ICAAP and ORSA

KBC's ICAAP (Internal Capital Adequacy Assessment Process) consists of numerous business and risk processes that together contribute to the objective of assessing and ensuring at all times that we are adequately capitalised in view of our risk profile and the quality of our risk management and control environment. For this purpose, we also have an internal capital model in place to complement the existing regulatory capital models. This model is used, for example, to measure risk adjusted performance, to underpin and set risk limits and to assess capital adequacy. It is complemented by a framework for assessing earnings that aims to reveal vulnerabilities in terms of the longer term sustainability of our business model.

A backbone process in our ICAAP is the Alignment of Planning Cycles (APC). This yearly process aims to create an integrated three-year plan in which the strategy, finance, treasury and risk perspectives are collectively taken into account. In this process, the risk appetite of the group is set and cascaded by setting risk limits at group and entity level.
The APC is not only about planning, it is also about closely monitoring the execution of the plan in all its aspects (P&L, risk weighted assets, liquidity). Such monitoring is reflected in dedicated reports drawn up by the various Group functions.

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



Fostering responsible behaviour is key to creating a positive risk culture. Risk management frameworks and policies are essential in guiding the business, but need to be interpreted and applied with the right risk mind-set to ensure the effectiveness of risk management.

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 our ICAAP and 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 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.

EBA 2018 stress test

We remained adequately capitalised under the 2018 EU-wide EBA stress test, as announced by the European Banking Authority (EBA) in November 2018. The starting point for this test was a fully loaded common equity ratio of 15.96% at year-end 2017 restated to include the first time application of IFRS 9. Under the baseline scenario, the common equity ratio would increase by 260 basis points to 18.56%, while under the adverse scenario, our fully loaded common equity ratio would fall by 236 basis points to 13.6%.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Corporate governance statement

The main aspects of our corporate governance policy are set out in the *Corporate Governance Charter* of KBC Group NV (the 'Charter', which is published at www.kbc.com). We have adopted the 2009 version of the Belgian *Corporate Governance Code* (the 'Code') as our benchmark. This Code can be downloaded at www.corporategovernancecommittee.be.
More factual information regarding corporate governance and on the application of certain statutory provisions is contained in this corporate governance statement.

Unless otherwise indicated, the period dealt with runs from 1 January 2018 to 31 December 2018.

A number of terms have been abbreviated as follows in this section of the annual report:

- Board of Directors: Board
- Executive Committee: EC
- Audit Committee: AC
- Risk & Compliance Committee: RCC

Composition of the Board and its committees

The following table shows the members of the Board and its committees on 31 December 2018. A list of the external offices held by all members of the Board is provided at www.kbc.com, as is a brief CV for each director. The number of meetings attended is shown in the columns relating to the committees.

Name	Primary responsibility	Period served on the Board in 2018	Expiry date of current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors	EC	AC	RCC	Nomination Committee	Remuneration Committee
Number of meetings in 2018				11					6	9	4	4
Thomas Leysen	Chairman of the Board	Full year	2019	10	■		■				4 (c)	4 (c)
Philippe Vlerick	Deputy Chairman of the Board CEO, Vlerick Group	Full year	2021	11	■	■					4	4
Johan Thijs	President of the EC and Executive Director, KBC	Full year	2020	11				■ (c)				
Alain Bostoen	CEO, Christeyns Group	Full year	2019	11	■	■						
Katelijn Callewaert	Managing Director, Cera and KBC Ancora	Full year	2021	11	■	■						
Sonja De Becker	Chairperson, MRBB	Full year	2020	10	■	■					4	
Franky Depickere	Managing Director/CEO, Cera and KBC Ancora	Full year	2019	11	■	■				9 (c)	4	
Frank Donck	Managing Director, 3D	Full year	2019	11	■	■			6	9		
Júlia Király	Professor, International Business School of Budapest	Full year	2022	11	■		■		6			4
Walter Nonneman	Professor Emeritus in Economics at the University of Antwerp, Director, Cera	Full year	2021	11	■	■						
Vladimira Papirnik	Retired Partner, Squire Patton Boggs (US) LLP	Full year	2020	11	■		■		6	9	4	
Theodoros Roussis	CEO, Ravago Group	Full year	2020	11	■	■						
Hendrik (Rik) Scheerlinck	Executive Director, KBC	Full year	2021	11				■				
Christine Van Rijsseghem	Executive Director, KBC	Full year	2022	10				■				
Matthieu Vanhove	Director and Senior Manager, Cera	Full year	2021	11	■	■						
Marc Wittemans	Managing Director/CEO, MRBB	Full year	2022	11	■	■			6 (c)	9		

Statutory auditor: PricewaterhouseCoopers (PwC), represented by Roland Jeanquart and Tom Meuleman.

Secretary to the Board of Directors: Johan Tyteca.

(c) Chairman of this committee.

Changes in the composition of the Board in 2018

- At the General Meeting of 3 May 2018, Júlia Király was re-appointed as an independent director for a term of four years and Marc Wittemans and Christine Van Rijsseghem were re-appointed as directors.

Changes in the composition of the Board proposed to the General Meeting on 2 May 2019

- On the advice of the Nomination Committee, the Board will propose that Thomas Leysen be re-appointed as an independent director for a new four-year term of office and that Alain Bostoen, Franky Depickere and Frank Donck be re-appointed as directors likewise for a new four-year term of office.
- On the advice of the Nomination Committee, the Board will propose that Koenraad Debackere be appointed as director for a four-year term of office. After reaching the age limit, Walter Nonneman will resign his seat on the Board following the General Meeting. The Board deeply appreciates all the work that he has done in his capacity as a director.

Brief CV for the proposed new director:

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

Like to know more?

The corporate governance charter can be found under 'Corporate Governance' at www.kbc.com.
The agenda for the General Meeting of 2 May 2019 is available at www.kbc.com.

The Group Executive Committee (EC)

Johan Thijs	Daniel Falque	John Hollows	Erik Luts	Luc Popelier	Hendrik Scheerlinck	Christine Van Rijsseghem
°1965	°1963	°1956	°1960	°1964	°1956	°1962
Belgian	Belgian	British	Belgian	Belgian	Belgian	Belgian
Master's Degree in Science (Applied Mathematics) and Actuarial Sciences (KU Leuven)	Master's Degree in International Relations (Université catholique de Louvain)	Master's Degree in Law and Economics (Cambridge University)	Master's Degree in Pedagogy (KU Leuven)	Master's Degree in Applied Economics (UFSIA Antwerp)	Master's Degree in Law (KU Leuven)	Master's Degree in Law (UGent)
Joined company in 1988*	Joined company in 2009*	Joined company in 1996*	Joined company in 1988*	Joined company in 1988*	Joined company in 1984*	Joined company in 1987*
Group CEO (Chief Executive Officer)	CEO of the Belgium Business Unit	CEO of the Czech Republic Business Unit	CIO (Chief Innovation Officer)	CEO of the International Markets Business Unit	CFO (Chief Financial Officer)	CRO (Chief Risk Officer)

* 'Joined company in …' refers to KBC Group NV, group companies or pre-merger entities (Kredietbank, Cera, ABB, etc.).

The composition of the EC remained unchanged in 2018.

More information about the members of the EC – including CVs – is provided at www.kbc.com.

Governance model

The Board of KBC Group has 16 members, namely:
- its Chairman, who is an independent director;
- two other independent directors;
- three members of the EC, i.e. the Group CEO, the Group CFO and the Group CRO;
- 10 representatives of the core shareholders.

Given that the Belgian Act of 25 April 2014 on the legal status and supervision of credit institutions and stockbroking firms stipulates that at least three members of the EC should also be directors (acting as 'executive directors'), it is legally not possible to implement a dual governance structure with a clear split between the Board (dealing with strategy, risk appetite and the supervision of management) and the EC (operational management). The Group CEO, the Group CFO and the Group CRO are all executive directors.

The core shareholders (Cera, KBC Ancora, MRBB and the other core shareholders) have concluded a shareholder agreement in order to ensure shareholder stability and a long-term focus for the management of KBC 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 by 10 directors.

Therefore, there is no majority of independent directors on the Board. However, KBC has placed a strong emphasis on selecting high-calibre, independent directors at the level of KBC Group, as well as on the boards of KBC Bank and KBC Insurance. These individuals are of high standing, come from diverse backgrounds and bring specific financial and governance expertise to the Board.

The core shareholders' wish for their representatives to hold a majority on the Board and have a significant representation on the advisory committees is considered the corollary of the commitment they have made in the context of their shareholder agreement, which aims to ensure shareholder stability and guarantee continuity for the group. Given the long-term nature of their commitment, the core shareholders inherently pay particular attention to sustainable value creation and prudent risk management.

All members of the EC participate in the Board’s meetings, except when it meets in executive session to discuss the operations of the EC.

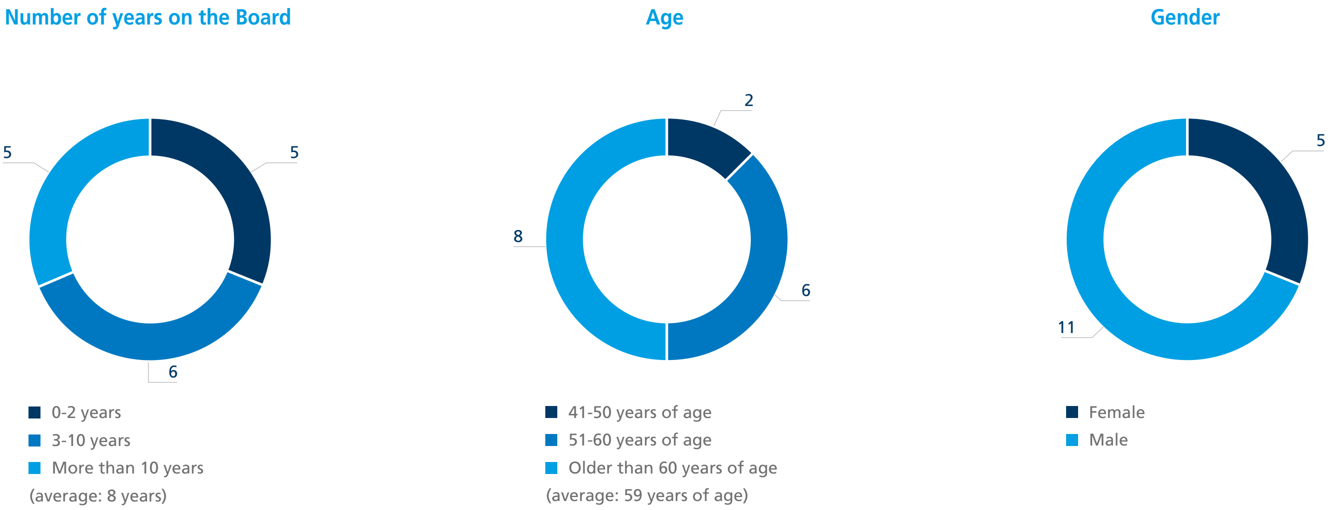
Diversity policy

The Board has drawn up a policy regarding the desired amount of diversity in the composition of the Board itself and in the EC. The primary aim of this policy is to guarantee diversity in terms of know-how, experience, gender and geographical background. It aims to ensure that both the Board and the EC can fall back on a broad base of relevant competences and know-how and that they receive diverse opinions and input for their decision-making process.

The policy stipulates that the Board should have a balanced composition to ensure that it – as a whole – has suitable expertise in the area of banking and insurance, the requisite experience in executive management and a broad awareness of societal and technological developments.

The policy also stipulates that:
- at least one-third of the Board’s members must be of a different gender than the other members;
- the members of the Board must be of different nationalities, with due account being taken of the different geographical areas where KBC is active;
- at least three directors must be independent within the meaning of and in line with the criteria set out in Article 526*ter* of the Belgian Companies Code;

Composition of the Board of Directors



- three members of the EC must also sit on the Board (in accordance with the Belgian Act on the status and supervision of credit institutions).

When selecting the members of the Board, account is taken of the specific shareholder structure and, in particular, of the presence of the core shareholders.

The policy also stipulates that the EC should have a balanced composition to ensure that it – as a whole – has suitable expertise regarding the financial sector and, in particular, the requisite know-how relating to all areas in which KBC operates.

The policy also stipulates that:
- at least one member of the EC must be of a different gender than the other members;
- the EC should strive towards achieving diversity in terms of the nationality and age of its members;
- all members of the EC must have the necessary financial knowledge, professional integrity and management experience, but have followed different career paths.

On the advice of the Nomination Committee, the Board will see to it that this diversity policy is applied properly, when deciding on the profile of a new director or a new member of the EC (if a vacancy arises) and when nominating someone for appointment to the Board.

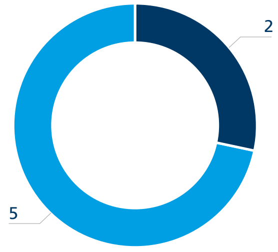
The Nomination Committee regularly checked to see whether this policy was being applied in practice and established that this was the case in 2018. Our aim in the years ahead is to further increase diversity in the composition of the EC. As far as the Board is concerned, it should be noted that the Board of Directors of KBC Group NV meets regularly with the Boards of Directors of KBC Bank and KBC Insurance. The two additional independent directors on each of these two boards provide extra expertise and diversity.

A complete CV for each member of the Board and the EC is provided at www.kbc.com > Corporate Governance > Leadership. An overview of the qualifications held by the members of the Board is provided in a bar chart in the 'Our business model' section.

The following nationalities (apart from Belgian) are represented on the boards of KBC Group NV, KBC Bank and KBC Insurance: Hungarian, Czech/American, Irish, British, Swedish, Danish and French.

Composition of the Executive Committee

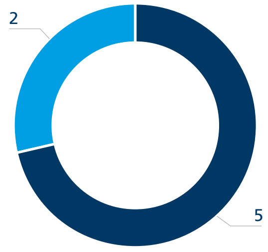
Number of years on the EC



- 0-2 years
- 3-10 years

(average: 6 years)

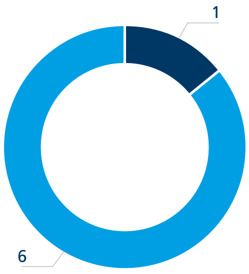
Age



- 51-60 years of age
- Older than 60 years of age

(average: 57 years of age)

Gender



- Female
- Male

AC: application of Article 96 § 1 9° of the Companies Code

On 31 December 2018, the AC had two independent directors within the meaning of and in line with the criteria set out in Article 526*ter* of the Companies Code and in the Code.

- Vladimira Papirnik (independent director), who holds a Juris Doctor Degree (Northwestern University (US), 1982). She was a senior partner in the law firm of Squire Patton Boggs and – until June 2017 – worked in both Prague and Chicago. Ms Papirnik continues to work on projects for the firm and its clients. She focuses her international business practice on banking, project finance and corporate law (mergers and acquisitions, corporate governance).
- Júlia Király (independent director), who is a graduate of the Budapest University of Economics (1980) and holds a Ph.D in Economics from the Hungarian Academy of Sciences. She was Associate Professor of Finance at the Corvinus University of Budapest for 15 years, specialising in risk management, risk measurement, Basel principles in theory and practice, capital budgeting and bank financial management. She was also responsible for risk management at the Hungarian Central Bank. At present, Ms Király is Head of Department at the International Business School of Budapest and Research Associate at the Centre for Economic and Regional Studies of the Hungarian Academy of Sciences.

The other members of the AC are:

- Marc Wittemans (non-executive director), who holds a Master's Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences. He is Managing Director of MRBB CVBA, the holding company of the Boerenbond (farmers' union), and is the Chairman of the AC.
- Frank Donck (non-executive director), who holds a Master's Degree in Law (UGent) and a Master's Degree in Finance (Vlerick Business School). He is Managing Director of 3D NV, Chairman of Atenor Group NV and Tele Columbus AG, and independent director at Barco NV and Elia System Operator NV.

It can be concluded on the basis of the profiles and competences of the members of the AC that the committee is constructed and has the requisite skills and experience in accordance with the requirements of the Charter and of Article 526*bis*, § 2 of the Companies Code.

RCC: application of section 6.3.6 of the Charter

On 31 December 2018, the RCC of KBC Group NV had one independent director within the meaning of and in line with the criteria set out in Article 526*ter* of the Companies Code and in the Code:

- Vladimira Papirnik (see CV above).

The other members of the RCC are:

- Franky Depickere (non-executive director), who holds Master's Degrees in Trade & Finance (UFSIA Antwerp) and in Financial Management (VLEKHO Business School). He was internal auditor at CERA Bank and has held positions and offices in various financial institutions. He is currently Managing Director at Cera and KBC Ancora. Mr Depickere is the Chairman of the RCC.
- Frank Donck (see CV above).
- Marc Wittemans (see CV above).

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

Non-compliance with the Corporate Governance Code

The corporate governance statement included in the annual report must indicate whether any provisions of the Corporate Governance Code have not been complied with and state the reasons for non-compliance (the 'comply-or-explain' principle). This information is provided below.

Provision 5.2./4 of Appendix C to the Corporate Governance Code specifies that at least a majority of the members of the AC should be independent. Provision 5.3./1 of Appendix D to the Corporate Governance Code stipulates that the Board should set up a nomination committee composed of a majority of independent non-executive directors.

At year-end 2018, the AC was composed of four non-executive directors, two of whom were independent and two who represented the core shareholders. Independent directors were, therefore, in the minority on this committee.

On 31 December 2018, the Nomination Committee was composed of five directors, one of whom was the Chairman of the Board (who is also an independent director), a second independent director, and three who represented the core shareholders. Therefore, two independent directors sit on this committee. Furthermore, an independent director of KBC Bank is invited to attend every meeting of the Nomination Committee. In this way, three independent directors are involved in its activities.

When selecting the members of the AC and Nomination Committee – as is also the case with the Board – the group takes account of the specific shareholder structure and, in particular, of the presence of the core shareholders. Given their long-term engagement (as explained under 'Governance model'), the Board considered it appropriate to involve them in a suitable manner in the activities of the committees via their representatives on the Board.

Statutory auditor

The statutory auditor, PwC Bedrijfsrevisoren cvba (PwC), was represented by Messrs Roland Jeanquart and Tom Meuleman.

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

Details of the statutory auditor's remuneration are provided in Note 6.4 of the 'Consolidated financial statements' section.

Report on the activities of the Board and its committees in 2018

Board of Directors (Board)

Besides carrying out the activities required under the Companies Code, reviewing the quarterly results and the activities of the AC, RCC, Nomination Committee and Remuneration Committee, and handling and taking decisions on the dossiers submitted by these committees, the Board also dealt with the following matters:

- the insurance strategy;
- the strategy and operations in the business units/countries (the Czech Republic, Belgium, Hungary and Ireland);
- the IT strategy and digital transformation;
- the market activities and asset management activities;
- the HR diversity policy;
- the ICAAP-ILAAP Report;
- the Risk Appetite Statement;
- the risk reports;
- the compliance reports;
- the KBC Group Recovery Plan.

The EC also reported monthly on the trend in the results and the general course of business at the group's various business units. It also paid regular attention to the strategy and specific challenges for the different areas of activity.

Implementation of the *Sustainable KBC* strategy is tracked using the KBC Corporate Sustainability scorecard, which contains sustainability parameters to enable the situation within the KBC group to be monitored and adjustments to be made, where necessary. The Board assesses the performance of these parameters twice a year.

Audit Committee (AC)

The AC is tasked with a number of responsibilities, including advising the Board on the integrity of financial reporting and the effectiveness of the internal control process and risk management. It provides guidance to the internal audit function and oversees the external auditor.

The AC met in the presence of the President of the EC, the Group CRO, the Group CFO, the internal auditor, the compliance officer and the statutory auditors. Besides reviewing the company and consolidated financial statements, the annual report, the half-year and quarterly figures, approving the relevant press releases and discussing the auditor's findings, it also discussed the quarterly reports drawn up by the internal auditor.

The AC also examined:

- the Statement of effective management with regard to the assessment of internal control systems and the monitoring of the resulting action plans;
- (potential) intra-group conflicts of interest;
- the results of inspections performed by the supervisory authorities and the action plans drawn up by management;
- the updated Internal Audit Charter for 2018.

Risk & Compliance Committee (RCC)

The RCC advises the Board on current and future risk tolerance and on risk strategy, and assists it in supervising how the EC implements this strategy. It ensures that the prices of assets and liabilities and of categories of off-balance-sheet products that are offered to clients, factor in the risks run by the institution, with due account taken of its business model and risk strategy, viz. risks – especially reputational risks – that might arise from the types of product offered to clients. The RCC monitors the risk and compliance functions.

The RCC met in the presence of the President of the EC, the Group CRO, the Group CFO, the internal auditor, the compliance officer and the statutory auditors. Besides discussing the periodic reports from the risk function and the compliance officer (including the annual reports), it also examined the reports drawn up by the legal, tax and branch inspection departments.

In addition, the following special reports were dealt with:

- the Statement of effective management with regard to the assessment of internal control systems and the monitoring of the resulting action plans;
- the ICAAP-ILAAP Report for 2018;
- the KBC Recovery Plan for 2018;
- the Risk Appetite Statement;
- Information Security and Cyber Risk;
- anti-money laundering;
- the risk-related elements of remuneration policy and the pricing of products offered to clients;
- the results of inspections performed by the supervisory authorities and the action plans drawn up by management;
- the updated Compliance Charter for 2018;
- the updated Integrity Policy for 2018;
- the Compliance Annual Report to the Board for 2018.

Nomination Committee

Please note that the Nomination Committee of KBC Group NV acts in the same capacity for KBC Insurance and KBC Bank.

The main matters dealt with were:

- appointments and re-appointments to the Board;
- the composition of the Board and the advisory committees;
- the diversity policy.

Remuneration Committee

The Remuneration Committee met each time in the presence of the Chairman of the RCC, with the President of the EC often in attendance too. Please note that the Remuneration Committee of KBC Group NV acts in the same capacity for KBC Insurance and KBC Bank.

The main matters dealt with were:

- the assessment of the criteria for evaluating the EC in 2017;
- the criteria for evaluating the EC in 2018;
- the annual remuneration review;
- the impact of a new tax ruling on the flat-rate expenses allowance;
- the remuneration paid to members of the EC;
- the risk-adjusted profit for 2017;
- a number of individual severance payments and retention payments;
- the new remuneration structure for senior management in Belgium.

For a general description of how the Board and its committees function, see sections 5 and 6 of the Charter of KBC Group NV (at www.kbc.com).

Principal features of the evaluation process for the Board, its committees and its members

With a view to constantly improving its own effectiveness, the Board – led by its Chairman – evaluates a number of elements each year, including the composition of the Board, the selection, appointment and training of its members, practical operations (relating to the agenda, meetings, chairmanship, secretariat), reporting to the Board, the type of culture within the Board, the performance of its duties, remuneration, the working relationship with the EC, the shareholders and other stakeholders, the Board's committees, proposed agenda items and training proposals.

On the initiative of the Chairman of the Board, directors who are nominated for re-appointment are subject to an individual evaluation that focuses on their efforts and effectiveness within the Board and – where appropriate – their performance as chairman or member of a committee of the Board. This evaluation is performed by the Chairman. The Board evaluates the Chairman who must not be present when the evaluation is being performed.

Once a year, non-executive directors assess how they interact with the executive management. To that end, they meet at least once a year without the executive directors.

Each Board committee regularly carries out an evaluation of its own composition and workings, before reporting its findings and, where necessary, making proposals to the Board.

On the initiative of the President of the EC, the full EC discusses its objectives and assesses its performance once a year. Each year, the President of the EC evaluates each member of the EC individually. The individual evaluation of the President is performed by the Chairman of the Board.

Policy regarding transactions between the company and its directors, not covered by the statutory regulations governing conflicts of interest

The Board worked out an arrangement regarding transactions and other contractual ties between the company (including its affiliated companies) and its directors, not covered by the conflict of interest rule set out in Articles 523 or 524*ter* of the Companies Code. It has been incorporated into the Charter. There were no transactions that required this arrangement to be applied during the 2018 financial year.

Measures regarding insider dealing and market manipulation

The Dealing Code requires a list of key employees to be drawn up, annual blocking periods to be set, and transactions by persons with managerial responsibility and with persons connected with them to be reported to the Belgian Financial Services and Markets Authority (FSMA).

Conflicts of interest that fall within the scope of Article 523, 524 or 524*ter* of the Companies Code

During the 2018 financial year, the proposal to approve indemnification required the application of Article 523 of the Companies Code. There were no conflicts of interest that required the application of Article 524 or 524*ter* of the Companies Code.

The proposal for granting indemnification was discussed at the Board meeting of 21 June 2018, the relevant minutes of which are provided below:

'I.

It was proposed to introduce indemnification for (i) current and future members of the supervisory body (having the task of setting strategy and supervising operational management) or the executive body (having responsibility for operational management) of any legal entity belonging to the KBC group, with the exception of KBC Group NV, KBC Bank NV and KBC Insurance NV, and for (ii) all other persons who, now or in the future, at the request and on behalf of an entity belonging to the KBC group, exercise a function as a member of a supervisory or executive body in a legal entity outside the KBC group.

In compliance with Article 523 of the Belgian Companies Code, the following directors stated that they had a personal interest and would abstain from the discussion and decision: Franky Depickere, Marc Wittemans and Christine Van Rijsseghem. They leave the meeting. Luc Popelier, John Hollows, Daniel Falque and Erik Luts also leave the meeting.

The Board of KBC Group NV noted that there is an increasing trend of regulators and authorities taking enforcement actions against financial institutions in the event of alleged misconduct. It agreed that this trend leads to an increased risk of personal liability on the part of the members of the supervisory and executive bodies of the KBC group. It was of the opinion that an indemnification agreement, supplementing D&O insurance, would be to the corporate benefit of KBC Group NV. It recognised that it would be difficult to assess the possible financial impact of such indemnification. The financial impact for KBC Group NV will consist of the future payments that the company would need to make within the framework of the indemnification agreement.

The Board preferred that, in the event of a dispute between a director and KBC regarding indemnification, it would be dealt with by arbitration.

The Board agreed that indemnification be introduced as proposed.

II.

It was further proposed to the Board of Directors of KBC Group NV to introduce indemnification for the benefit of all current and future members of the Boards of Directors and Executive Committees of KBC Bank NV and KBC Insurance NV.

In compliance with Article 523 of the Belgian Companies Code, all directors – except Val (Vladimira) Papirnik and Júlia Király – stated that they had a personal interest and would abstain from the discussion and decision. They leave the meeting. In compliance with Article 16 § 1 of the Articles of Association, the Board decision can validly be taken by joint decision of Val Papirnik and Júlia Király.

They referred to the discussion held with respect to the introduction of indemnification for the categories of board members mentioned in the previous decision. They agreed that the arguments in favour of such an indemnification agreement also hold for the members of the Boards of Directors and Executive Committees of KBC Bank NV and KBC Insurance NV and they decided unanimously that indemnification should be extended under the same conditions to these mandate holders. They recognised the difficulty in assessing the possible financial impact of such indemnification, which will consist of future payments that the company would need to make within the framework of the indemnification agreement.'

After financial year 2018, it was established that Hendrik Scheerlinck had been exercising a mandate as director in KBC Credit Investments NV at the time of the decision of 21 June 2018, as a result of which he also had a personal interest in part I of this decision. Therefore, the Board of Directors ratified that part of the decision during its meeting of 14 March 2019. Franky Depickere, Marc Wittemans, Hendrik Scheerlinck and Christine Van Rijsseghem abstained from the discussion and decision. Johan Thijs, Luc Popelier, John Hollows, Daniel Falque and Erik Luts also left the meeting.

Main features of the internal control and risk management systems

Part 1: Description of the main features of the internal control and risk management systems at KBC

A clear strategy, organisational structure and division of responsibilities set the framework for the proper performance of business activities

We examine the strategy and organisational structure of the KBC group in the 'Our business model' and 'Our strategy' sections of this annual report.

The KBC group has a dual governance structure based on the Belgian model:

- The Board is responsible for defining general strategy and policy. It exercises all the responsibilities and activities reserved to it under the Companies Code and – based on a proposal by the EC – decides on the overall risk appetite.
- The EC is responsible for the operational management of the company within the confines of the general strategy and policy approved by the Board. To assume its specific responsibility towards financial policy and risk management, the EC appoints a chief financial officer (CFO) and a chief risk officer (CRO) from among its ranks.

The Charter describes the mutual responsibilities of both management bodies, their composition and activities, as well as the qualification requirements for their members. Their composition and activities are dealt with in more detail elsewhere in this section.

Corporate culture and integrity policy

Ethical behaviour and integrity are essential components of sound business practice. Honesty, integrity, transparency and confidentiality, together with sound risk management, are part of the high ethical standards that KBC stands for – both in the spirit and the letter of the applicable regulations. Therefore, KBC treats its clients in a loyal, fair and professional manner.

These principles are set out in the integrity policy, as well as in specific codes, procedures and codes of conduct. They are also incorporated into specific training courses and campaigns for staff. The main policy guidelines and codes of conduct are communicated in a fully transparent manner and can be found at www.kbc.com > Corporate Sustainability > Setting rules and policies.

One of the topics covered by the integrity policy is 'conduct risk', a concept that identifies the risk arising from the inappropriate provision of financial services. To address this matter, KBC has drawn up a comprehensive policy that includes prevention, monitoring and reporting. Extensive, group-wide communication campaigns and dilemma training ensure that the necessary awareness of this risk is in place. The integrity policy was updated in 2018 to bring it into line and to keep up with new regulatory developments (anti-money laundering, data protection) and new developments in the digital world, without losing sight of our values, including client centricity.

KBC's Integrity Policy focuses primarily on the following areas, for which – where appropriate – specific group-wide compliance rules have been issued, i.e. for:

- combating money laundering and the funding of terrorism, observing embargoes, and preventing proliferation financing of weapons of mass destruction;
- preventing fiscal irregularities including special mechanisms for tax evasion;
- protecting the investor by, for instance, complying with relevant codes of conduct for investment services and the distribution of financial services, preventing conflicts of interest (MiFID) and market abuse, including insider trading;
- protecting privacy, banking secrecy, confidentiality of information and the professional duty of discretion;
- fostering ethics and combating fraud;
- protecting insurance policyholders;
- complying with anti-discrimination legislation;
- respecting rules on unfair trade practices and on consumer protection, and following up complaints;
- respecting the governance aspects of CRD IV, Solvency II and/or local laws, including the separation of duties between executive management and supervisory bodies, the functioning of committees, incompatibility of offices, remuneration policy, 'Fit & Proper' requirements, conflicts of interest, loans to members of the EC, directors and shareholders with a significant participation, and the provision of advice on outsourcing.

The integrity policy also maintains a strong and comprehensive focus on ethics and combating fraud:

- By running focused campaigns and training courses, KBC proactively ensures that this ethical attitude is ingrained in the DNA of each employee. The elements of this policy are firmly embedded in the 'KBC Group Ethics & Fraud Policy' and various other policy guidelines referred to in this section.
- Various departments such as Compliance, Inspection, Internal Audit – as well as KBC's business side – engage in the prevention and detection of fraud. For complex fraud cases and/or incidents with an impact at group level, investigations are conducted and/or co-ordinated by Group Compliance in its capacity as the group competence centre for fraud.
- The 'Policy for the Protection of Whistleblowers in the KBC group' ensures that employees who act in good faith to report fraud and gross malpractice are protected (see below).
- In line with the UK's Modern Slavery Act, KBC has published a 'Modern Slavery Act Statement' in which it resolves to combat every form of 'modern slavery' in its business activities.

The 'Code of Conduct for KBC Group Employees' is a generalised document based on a set of group values that outlines how all members of staff should conduct themselves. It forms the basis for developing specialised codes of conduct for specific target groups and for drawing up policy guidelines at group level. It is also the source of inspiration for awareness-raising campaigns and training courses.

Combating corruption and bribery

The 'KBC Anti-Corruption & Bribery Policy' affirms KBC's position in the fight against and its resolve to prevent corruption in its activities and operations, while setting out the measures that have been or will be taken to achieve this. It applies to all KBC employees, entities, business activities and transactions, as well as to KBC's counterparties and suppliers. Consequently, it covers all transactions carried out by KBC staff and by all persons or entities performing activities on behalf of KBC or who represent KBC in any capacity.

The main risks associated with corruption and bribery include potential undue influence, conflicts of interest, non-objective pricing and subjective awarding of contracts. Given the potential consequences of these risks and especially the impact on the group's reputation, KBC pursues a policy of zero-tolerance towards fraud and gross malpractice.

Combating corruption and avoiding conflicts of interest, in general, are dealt with as part of an authoritative training course, which 7 735 KBC Bank, KBC Insurance and KBC Asset Management employees in Belgium attended in 2018, along with the tied insurance agents and their staff. All the staff at Commercial Finance likewise received training on how to combat corruption and avoid conflicts of interest. At the group's Central European entities, the anti-corruption course is integrated into compliance training and provided face-to-face or via e-learning. 10 740 members of staff took this course in the Czech Republic, over 2 800 in Slovakia and almost 900 in Hungary. In Bulgaria, training courses were provided to 2 071 employees and insurance agents. In Ireland, this training formed part of the compliance ethics e-learning course, which is provided each year (almost 1 500 staff members took the course).

Another element of the Anti-Corruption & Bribery Policy is the 'policy on gifts, donations and sponsorship' through which KBC endeavours to protect its employees and the other parties involved by means of criteria that have been drawn up to foster transparent and reasonable behaviour. This policy states that gifts, donations or invitations, whose equivalent value exceeds a certain sum (on an annual basis), must be reported to and approved by the competent executive committee/ management level. In 2018, 41 incidents of this kind were approved in Belgium. In Central Europe, too, gifts and donations above a certain value have to be reported (58 such incidents were reported in the Czech Republic, 24 in Slovakia and none in Hungary and Bulgaria). Three incidents of this kind were approved in Ireland.

Anti-money laundering practices

Given that KBC does not want to be involved in any activity that could be considered as money laundering or the funding of terrorism, an anti-money laundering policy has been developed at group level. The aim of this policy is to establish a general framework for combating money laundering and the funding of terrorism (including proliferation financing of weapons of mass destruction). Each group entity has developed its own AML programme based on specific, group-wide compliance rules (including 'Know Your Customer' and 'Know Your Transactions' standards) covering the minimum requirements, but also ensuring that there is scope to implement local legislation. In order to properly identify all the risks, an annual risk assessment is carried out at all entities. Precisely because KBC does not want to be involved in these activities, training courses are provided at regular intervals to all employees, tied agents and their staff. Furthermore, employees, tied agents and their staff are expected to strictly follow established procedures and guidelines and to exercise due vigilance when identifying customers and checking transactions. They are also expected to report anything suspicious to the Compliance function.

Responsible taxpayer

The basic principle behind the *KBC Tax Strategy* is that KBC Group NV and all its entities must act as responsible taxpayers, basing themselves on professionally executed compliance with tax laws, legitimate tax planning and supported by valid business objectives that take precedence over tax considerations. KBC does not take extremely aggressive tax positions simply because it wishes to safeguard its reputation as a responsible taxpayer, and it adheres to a strict tax risk management policy based on those principles. KBC staff are not allowed to provide clients with advice of a nature that might prompt them to commit tax fraud. Any tax advice or tax information provided must be legally correct and clearly worded. All of KBC's tax returns and tax payments are filed correctly and on time. When conducting tax audits, full disclosure in line with prevailing local tax legislation is the guiding principle. KBC reacts in good time to all legislative changes by investing in the necessary IT systems and by adapting its tax processes to ensure they comply with the new rules. Proper governance is in place to follow up and monitor the *KBC Tax Strategy*.

Whistleblower policy

KBC has a policy in place regarding whistleblowers. It expects its employees, tied agents and their staff – when going about their work – to look out for signs of crime, any serious infringements of rules or regulations and other malpractice on the part of employees and clients. All employees, tied agents and their staff have a basic moral duty – as well as the legal means – to report any suspicions of such conduct. KBC prefers customary lines of reporting to be used so that specific concerns can be discussed with line management. If that is not possible, the person in question can resort to one of the reporting channels specified in the policy for the protection of whistleblowers. A new procedure has been drawn up specifically for and communicated to Belgian employees, tied agents and their staff. KBC may report directly and anonymously to the respective supervisors in their areas of competence.

KBC undertakes to protect the identity of whistleblowers and to protect them against any detrimental consequences of acting in good faith to voice their suspicions in the way set out in the internal rules. In accordance with these principles, KBC likewise protects and respects the rights of the person about whom concerns are reported. Group Compliance oversees how this policy is implemented in practice. In principle, the local compliance function is the entity where all the reports and files are centralised. It has to inform the Group Compliance's Ethics & Fraud Unit about every whistleblowing file. The whistleblower policy is required to be published internally and externally (the 'Policy for the Protection of Whistleblowers in the KBC group' is available under 'Corporate Sustainability' at www.kbc.com).

The 'Three Lines of Defence' model arms KBC against risks that could prevent targets from being achieved

To arm itself against the risks that it is exposed to in achieving its mission, the EC – under its responsibility and the supervision of the Board – has implemented a multi-layered internal control system. This system is commonly known as the 'Three Lines of Defence' model.

1 The business side assumes responsibility for managing its own risks

The business operations side is fully responsible for all the risks in its area of activity and has to ensure that effective controls are in place. In so doing, it ensures that the right controls are performed in the right way, that self-assessment of the business side is of a sufficiently high standard, that there is adequate awareness of risk and that sufficient priority/capacity is allocated to risk themes.

2 As independent control functions, the Group risk function and Compliance, and – for certain matters – Finance, Legal and Tax, constitute the second line of defence

Independent of the business side, the second-line risk and control functions formulate their own opinion regarding the risks confronting KBC. In this way, they provide an adequate degree of certainty that the first-line control function is keeping these risks under control, without taking over primary responsibility from the first line. In this regard, the second-line functions are tasked to identify, measure and report risks. The risk function has a veto right to ensure that it is respected. The second-line risk and control functions also support the consistent implementation of the risk policy, the risk framework, etc., throughout the group, and supervise how they are applied.

Compliance is an independent function within the KBC group, protected by its modified status (as described in the *Compliance Charter*), its place in the organisation chart (hierarchically under the CRO with a functional reporting line to the President of the EC) and its reporting lines (reporting to the RCC as the highest body and even to the Board in certain cases). Its prime objective is to prevent KBC from running a compliance risk or from incurring loss/damage – regardless of its nature – due to non-compliance with applicable laws, regulations or internal rules that fall either within the scope of the compliance function or within the areas assigned to it by the EC. Hence, the compliance function devotes particular attention to adherence to the integrity policy.

3 As independent third line of defence, Internal Audit provides support to the EC, AC, RCC and the Board in monitoring the effectiveness and efficiency of the internal control and risk management system

Internal Audit provides reasonable assurance about whether the internal control and risk management system, including corporate governance and risk policy, are effective and efficient. As independent third line of defence reporting to the AC, it performs risk-oriented audits to this end and ensures that policy measures and processes are in place and consistently applied within the group to guarantee the continuity of operations.

Responsibilities, features, organisational structure and reporting lines, scope, audit methodology, co-operation between internal audit departments of the KBC group, and outsourcing of internal audit activities are set out in the *Audit Charter* of KBC Group NV.

In accordance with international professional audit standards, an external entity screens the audit function on a regular basis (the last time this happened was in 2014). The results of that exercise were reported to the EC and the AC.

The AC and RCC play a central role in monitoring the internal control and risk management systems

Each year, the EC evaluates whether the internal control and risk management system is still compliant and reports its findings to the AC and RCC.

These committees supervise, on behalf of the Board, the integrity and effectiveness of the internal control measures and the risk management system set up under the EC, with the AC paying special attention to correct financial reporting. They also examine the procedures set up by the company to see whether they comply with the law and other regulations.

Their role, composition and activities, along with the qualifications of their members, are laid down in their respective charters, which are included under the Charter of KBC Group NV. More information on these committees is provided elsewhere in this section.

Part 2: Description of the main features of the internal control and risk management systems in relation to the financial reporting process

It is vitally important that timely, accurate and understandable financial reports are provided to both internal and external stakeholders. To ensure this is the case, the underlying process needs to be sufficiently robust.

Periodic reporting at company level is based on a documented accounting process. A manual on the accounting procedures and financial reporting process is available. Periodic financial statements are prepared directly from the general ledger. Bookkeeping accounts are examined to see whether they correspond to underlying inventories. The result of these controls can be demonstrated. Periodic financial statements are prepared in accordance with local accounting policies and periodic reports on own funds in accordance with the most recent National Bank of Belgium (NBB) resolutions.

The main affiliated companies have their own accounting and administrative organisation, as well as a set of procedures for internal financial controls. The consolidation process is explained in a descriptive document. The consolidation system and the consolidation process have been operational for some time and have numerous built-in consistency controls.

The consolidated financial statements are prepared in accordance with IFRS accounting policies that apply to all the companies included in the scope of consolidation. The relevant senior financial managers (CFOs) of the subsidiaries certify to the accuracy and completeness of the financial figures reported in accordance with group accounting policies. The Approval Committee, which is chaired by the general managers of the Investor Relations Office and of Experts, Reporting & Accounting, monitors compliance with IFRS accounting policies.

Pursuant to the Act of 25 April 2014 on the status and supervision of credit institutions, the EC of KBC Group NV evaluated the internal control system for the financial reporting process and prepared a report on its findings.

The group-wide roll-out of 'fast close' procedures, the monitoring of intercompany transactions within the group, and permanent follow-up of a number of indicators relating to risk, performance and quality (Key Risk Indicators and Key Performance Indicators) continually help raise the quality of both the accounting process and the financial reporting process.

The internal control of the accounting process has been based on Group Key Control Accounting and External Financial Reporting standards since 2006. These rules for managing the main risks attached to the accounting process involve the establishment and maintenance of accounting process architecture, the establishment and maintenance of accounting policies and accounting presentations, compliance with authorisation rules and the separation of responsibilities when transactions are registered in the accounts, and the establishment of appropriate first- and second-line account management.

The Challenger Framework (2012) and Data Management Framework (2015) define a solid governance structure and clearly describe the roles and responsibilities of the various players in the financial reporting process. The aim here is to radically reduce reporting risks by challenging input data and improving the analysis of – and therefore insight into – the reported figures.

Each year, when preparing the Internal Control Statement for the supervisory authorities, the legal entities have to assess themselves as to whether they comply with the Group Key Control Accounting and External Financial Reporting standards. The findings of this self-assessment are registered in the risk function's Group Risk Assessment Tool. Business process management (BPM) techniques are also applied, using process inventories, process descriptions (turtle diagrams) and analyses of the potential risks in the processes (Failure Mode & Effects Analysis (FMEA)), supplemented by the questionnaire completed by the CFOs. In this way, the CFOs formally confirm by substantiated means that all the defined roles and responsibilities relating to the end-to-end process for external financial reporting have been properly assumed within their entity. The veracity of this confirmation can be checked at any time by all the internal and external stakeholders involved.

KBC Group NV's Internal Audit function conducts an end-to-end audit of the accounting process and external financial reporting process at both company and consolidated level.

For details of the AC's supervisory work, see the preceding paragraphs.

Disclosure under Article 34 of the Belgian Royal Decree of 14 November 2007 concerning the obligations of issuers of financial instruments admitted to trading on a regulated market

1 Capital structure on 31 December 2018

The share capital was fully paid up and was represented by 416 155 676 shares of no nominal value. More information on the group's capital can be found in the 'Company annual accounts and additional information' section.

2 Restrictions on transferring securities as laid down by law or the Articles of Association

Each year, KBC Group NV carries out a capital increase reserved for its employees and the employees of certain of its Belgian subsidiaries. If the issue price of the new shares is less than the closing price, these new shares may not be transferred by the employee for two years, starting from the payment date, unless he or she dies. The shares subscribed to by employees under the capital increase decided upon by the

Board on 14 November 2018 are blocked until 19 December 2020. The shares issued under the capital increase in 2017 also remain blocked (until 19 December 2019).

The options on KBC Group NV shares held by employees of the various KBC group companies and allocated to them under stock option plans set up at different points in time, may not be transferred *inter vivos*. For information on stock options for staff, see Note 3.8 in the 'Consolidated financial statements' section.

3 Holders of any securities with special control rights

None.

4 Systems of control of any employee share scheme where the control rights are not exercised directly by the employees

None.

5 Restrictions on exercising voting rights as laid down by law or the Articles of Association

The voting rights attached to the shares held by KBC Group NV and its direct and indirect subsidiaries are suspended. At 31 December 2018, these rights were suspended for 50 284 shares.

6 Shareholder agreements known to KBC Group NV that could restrict the transfer of securities and/or the exercise of voting rights

The core shareholders of KBC Group NV comprise KBC Ancora Comm.VA, its parent company Cera CVBA, MRBB CVBA, and a group of legal entities and individuals referred to as 'Other core shareholders'.

Based on the most recent notifications provided to KBC, their shareholdings are:

- KBC Ancora Comm.VA: 77 516 380
- Cera CVBA: 11 127 166
- MRBB CVBA: 47 887 696
- Other core shareholders: 30 304 101

That is a total of 166 835 343 KBC Group NV shares representing an equal number of voting rights, or 40.09% of the total number of such rights on 31 December 2018.

A shareholder agreement was concluded between these core shareholders in order to ensure shareholder stability and guarantee continuity within KBC Group NV, 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.

The core shareholder agreement provides for a contractual shareholder syndicate. It sets out the rules for the syndicated shares, management of the syndicate, syndicate meetings, voting rights within the syndicate, preferential subscription rights in the event of the transfer of syndicated shares, withdrawal from the agreement, and duration of the agreement. Apart from a limited number of decisions, the syndicate meeting may – in the absence of a consensus – take decisions by a two-thirds majority vote, on the understanding that none of the shareholder groups can block a decision. The agreement was extended for a new ten-year period, with effect from 1 December 2014.

7 Rules governing the appointment and replacement of board members and the amendment of the Articles of Association of KBC Group NV

Appointment and replacement of members of the Board:

Following the approval of or notification to the supervisory authority, proposals to appoint nominated directors or to re-appoint directors are submitted by the Board to the General Meeting for approval. Each proposal is accompanied by a documented recommendation from the Board, based on the advice of the Nomination Committee. Without prejudice to the applicable legal provisions, nominations are communicated as a separate agenda item for the General Meeting at least thirty days before it is held.

When nominating an independent director, the Board will state whether the individual meets the independence criteria of the Companies Code. The General Meeting appoints directors by a simple majority of votes cast. From among its non-executive members, the Board elects a chairman and one or more deputy chairmen, if necessary. Outgoing directors are always eligible for re-appointment.

If, during the course of a financial year, a directorship falls vacant as a result of decease, resignation, dismissal or for any other reason, the remaining directors may provisionally arrange for a replacement and appoint a new director. In that case, the next General Meeting will proceed to a definitive appointment. A director appointed to replace a director whose term of office had not yet come to an end will complete this term of office, unless the General Meeting decides on a different term of office when making the definitive appointment.

Amendment of the Articles of Association:

Unless stipulated otherwise, the General Meeting is entitled to amend the Articles of Association. Accordingly, the General Meeting may only validly deliberate and take decisions about such amendments if they have been expressly proposed in the convening notice and if those attending the meeting represent at least half the share capital. If the latter condition is not satisfied, a new convening notice is required and the new meeting can validly deliberate and take decisions, regardless of the share of capital represented by the shareholders attending the meeting. An amendment is only adopted if it receives three-quarters of the votes cast (Article 558 of the Companies Code).

If an amendment to the Articles of Association pertains to the object of the company, the Board must justify the proposed amendment in a detailed report that is referred to in the agenda. A statement of assets and liabilities drawn up no longer than three months previously must be included in this report and be reported on separately by the statutory auditors. Copies of the reports in question can be obtained in accordance with Article 535 of the Companies Code. If these reports do not appear, decisions taken at the General Meeting will be null and void. The General Meeting may only deliberate and take decisions validly on changes in the object of the company if those present not only represent half of the share capital (…). If this condition is not satisfied, a second convening notice is required. To ensure that the second meeting can deliberate and take decisions validly, it is sufficient that some of the capital is represented. An amendment will then only be adopted if it receives at least four-fifths of the votes cast. (…) (excerpt from Article 559 of the Companies Code).

8 Powers of the Board with regard to the issue and repurchase of treasury shares

The General Meeting authorised the Board until 23 October 2023 to increase, in one or more steps, the share capital in cash or in kind, by issuing shares. The Board is also authorised until the same date to decide on one or more occasions to issue convertible bonds (whether subordinated or otherwise) or warrants that may or may not be linked to bonds (whether subordinated or otherwise) that could result in capital being increased. This authorisation related to a sum of 291 000 000 euros, where the Board is entitled – in the company's interest – to suspend or restrict the preferential subscription rights of existing shareholders, and to a sum of 409 000 000 euros, without the Board having the power to suspend or restrict preferential subscription rights.

On 14 November 2018, the Board decided to use its authorisation to increase capital by issuing shares without preferential subscription rights to employees at a price of 51.92 euros per share and with a limit of 67 shares per employee. On 21 December 2018, the issued share capital was increased by 905 962.59 euros (represented by 258 109 new shares). For the impact of excluding preferential subscription rights, see 'Notes to the company annual accounts'. As a result, the authorised capital amounted to 699 094 037.41 euros at year-end 2018, with the possibility to suspend the preferential subscription rights of existing shareholders being restricted to a maximum 290 094 037.41 euros. Consequently, when account is taken of the accounting par value of the share on 31 December 2018, a maximum of 199 172 090 new shares can still be issued, with the existing shareholders' preferential subscription rights for 82 647 873 of these shares being suspended (i.e. 47.86% and 19.86%, respectively, of the number of shares in circulation at that time).

The Extraordinary General Meeting of 3 May 2018 authorised the Board for a period of one year, which started with immediate effect, to acquire a maximum of 2 700 000 own shares on the stock market at a price per share that could not be higher than the last closing price on Euronext Brussels prior to the date of acquisition, plus 10%, and not lower than 1 euro. The Board was also authorised to cancel the acquired shares at such time it saw fit. The Board exercised this authority and decided on 16 May 2018 to buy back 2 700 000 shares. The share buyback programme was completed on 3 July 2018 and the duly acquired shares cancelled on 8 August 2018 following a Board decision (for more information, see 'Our employees, capital, network and relationships' in the 'Our business model' section).

The General Meeting of 2 May 2013 authorised the Board (and also granted it a power of sub-delegation) to acquire a maximum of 250 000 shares over a five-year period, i.e. up to and including 3 May 2018. The shares could be acquired at a price that could not be higher than the last closing price on Euronext Brussels prior to the date of acquisition, plus 10%, and not lower than 1 euro. Within the confines of the law, this authorisation was valid for all acquisitions for a consideration, in the broadest sense of the term, on or off the exchange. This authorisation was not used in 2018.

Pursuant to Article 627 § 2 of the Companies Code, KBC Bank NV – in its capacity as professional stockbroker – sold 15 853 KBC Group NV shares and purchased 1 290 such shares in 2018.

On 31 December 2018, KBC Group NV and its *direct* subsidiaries did not hold any KBC Group NV shares, apart from 50 282 shares held by KBC Bank NV in its capacity as professional stockbroker. These shares have an accounting par value of 3.51 euros a share and represent 0.01% of the issued share capital.

9 Significant agreements to which KBC Group NV is a party and which take effect, alter or terminate upon a change of control of KBC Group NV following a public takeover bid

None.

10 Agreements between KBC and its directors or employees providing for compensation if the directors resign or are made redundant, or if employees are made redundant, without valid reason following a public takeover bid

None.

Shareholder structure on 31 December 2018

Notifications of shareholdings are provided:
- under the Act of 2 May 2007;
- under the Act on public takeover bids;
- on a voluntary basis.

A summary containing the most recent disclosures is provided under 'Our business model' in the 'Report of the Board of Directors' section.

It should be noted that the figures provided below may differ from the current number of shares in possession, as a change in the number held does not always give rise to a new notification.

Shareholder structure based on notifications received under the Act of 2 May 2007 concerning the disclosure of significant participations in issuers whose shares are admitted to trading on a regulated market

Article 10*bis* of the Articles of Association of KBC Group NV stipulates the threshold at which individuals must disclose their shareholdings. KBC publishes these notifications on www.kbc.com. The table provides an overview of the shareholder structure at year-end 2018, based on all the notifications received by 31 December 2018. The 'Company annual accounts and additional information' section also contains an update for February 2019.

Shareholder structure on 31-12-2018 (based on the most recent notifications received pursuant to the Act of 2 May 2007)	Address	Number of KBC shares/voting rights (as a % of the current number of shares/voting rights)*	Notification relating to
KBC Ancora Comm.VA	Muntstraat 1, 3000 Leuven, Belgium	77 516 380 / 18.63%	1 December 2014
Cera CVBA	Muntstraat 1, 3000 Leuven, Belgium	11 127 166 / 2.67%	1 December 2014
MRBB CVBA	Diestsevest 40, 3000 Leuven, Belgium	47 889 864 / 11.51%	1 December 2014
Other core shareholders	C/o Ph. Vlerick, Ronsevaalstraat 2, 8510 Bellegem, Belgium	32 020 498 / 7.69%	1 December 2014
KBC group companies	Havenlaan 2, 1080 Brussels, Belgium	300 / 0.00%	16 October 2012
BlackRock Inc.	55 East 52nd Street, New York, NY 10055, United States	16 474 105 / 3.96% (20 778 528 / 4.99%)	31 October 2018
FMR LLC	1209 Orange Street, Wilmington, New Castle County, Delaware 19801, United States	12 531 817 / 3.01% (12 531 817 / 3.01%)	6 September 2018
Parvus Asset Management Europe Ltd.	7 Clifford Street, London W1S 2FT, United Kingdom	12 341 146 / 2.97% (12 341 146 / 2.97%)	13 February 2015

* The figures between brackets include the 'voting rights that may be acquired if the instrument is exercised' as stated under 'B) Equivalent financial instruments' in the transparency notification.

Disclosures under Article 74 of the Belgian Act on public takeover bids

Within the framework of this law, KBC Group NV received a number of updated disclosures at the end of August 2018. The entities and individuals referred to below act in concert.

A Disclosures by
a legal entities
b individuals holding 3% or more of securities carrying voting rights[1]

Shareholder	Shareholding (quantity)	%[2]	Shareholder	Shareholding (quantity)	%[2]
KBC Ancora Comm.VA	77 516 380	18.63	Cecan NV	466 002	0.11
MRBB CVBA	47 887 696	11.51	Beluval NV	420 558	0.10
Cera CVBA	11 127 166	2.67	Cecan Invest NV	397 563	0.10
Ravago Finance NV	4 380 500	1.05	Robor NV	359 606	0.09
SAK AGEV	4 282 454	1.03	Sereno SA	321 408	0.08
VIM CVBA	4 012 141	0.96	Rodep Comm. VA	304 181	0.07
3D NV	2 461 893	0.59	Bareldam SA	260 544	0.06
Almafin SA	1 623 127	0.39	Efiga Invest SPRL	230 806	0.06
De Berk BVBA	1 138 208	0.27	Gavel Comm. VA	202 900	0.05
Algimo NV	1 040 901	0.25	Ibervest	190 000	0.05
SAK PULA	981 450	0.24	Promark International NV	166 008	0.04
Rainyve SA	950 000	0.23	SAK Iberanfra	120 107	0.03
Alia SA	937 702	0.23	Agrobos NV	50 000	0.01
Stichting Amici Almae Matris	912 731	0.22	Wilig NV	42 500	0.01
Ceco CVA	591 249	0.14	Filax Stichting	38 529	0.01
Niramore International SA	544 131	0.13	Hendrik Van Houtte CVA	36 000	0.01
Van Holsbeeck NV	510 823	0.12	Isarick NV	8 885	0.00

B Disclosures by individuals holding less than 3% of securities carrying voting rights
(the identity of the individuals concerned does not have to be disclosed)

Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]
861 395	0.21	159 100	0.04	89 562	0.02	40 000	0.01
285 000	0.07	107 744	0.03	89 562	0.02	20 836	0.01
182 826	0.04	107 498	0.03	70 500	0.02	3 431	0.00
166 200	0.04	91 000	0.02	46 540	0.01		

1 No such disclosures were received.

2 The calculation (%) of the total outstanding number of shares is based on the total number of shares on 31 December 2018.

Remuneration report for financial year 2018

Procedures for developing the remuneration policy and for determining the remuneration granted to individual directors and members of the EC

General: The remuneration policy for the Board and EC takes account of prevailing legislation, the Code and market data. The many statutory and regulatory provisions imposed on financial institutions create a highly restrictive framework that offers little scope for KBC to pursue its own policy in this regard. It is monitored and regularly checked by the Remuneration Committee – with the assistance of specialist members of staff – to see whether it complies with changes in the law, the Code, and prevailing market practices and trends. The Chairman of the Remuneration Committee informs the Board of the committee's activities and advises it of any changes to the remuneration policy and its practical implementation. The full minutes of the meetings of the Remuneration Committee are provided to the Board for information purposes. The Board may also act on its own initiative, or on a proposal from the EC, and instruct the Remuneration Committee to examine potential changes to the remuneration policy and to advise it accordingly. If required by law, the Board will submit any policy changes to the General Meeting for approval. The RCC assists the Board in drawing up a sound remuneration policy and also checks each year whether that policy is consistent with healthy and effective risk management, and whether or not the incentives in the system promote risks.

Board On the basis of advice obtained from the Remuneration Committee, the Board decides on proposals to change the remuneration package for its members and submits such proposals for approval at the General Meeting.

EC: On the basis of advice obtained from the Remuneration Committee and taking account of the established remuneration policy, the Board determines the remuneration to be granted to members of the EC, and assesses this amount at regular intervals. The amount in question is split into a fixed component and a profit-related/performance-related component.

General framework

The policy for remunerating members of senior management (Board, EC, top management and 'risk takers') is published in the Remuneration Policy. It contains a number of group-wide principles relating primarily to the variable remuneration component. The main principles stipulate that:

- variable remuneration must always comprise a profit-related component (at least 10% of which is based on the results of the KBC group – not applicable to ČSOB employees in the Czech Republic on account of this being explicitly prohibited by the Czech National Bank) and a performance-related component;
- at least 40% of variable remuneration awarded to top management, also known as key identified staff (KIS), may not be paid straightaway but its payment is to be spread over a period of three years; For members of the EC and for senior general managers, this is 50% (or even 60% if the variable remuneration component exceeds 200 000 euros), with its payment being spread over a period of five years;
- half of the total amount of variable remuneration for KIS be awarded in the form of equity-related instruments (phantom stocks or other instrument specified by a local regulator), so that the longer-term effects of the policy on the value of the KBC group can also be reflected in the variable remuneration component;
- no advance payments may be made in relation to the variable component and clawback/holdback provisions are put in place;
- the variable remuneration component may not exceed half of the fixed component;
- variable remuneration be capped at a nominal 750 000 euros;
- the criteria for assessing the performance of the EC member responsible for the risk function may not refer in any way to the results of the KBC group;
- at least one of the criteria used for assessing the performances of top management must always relate to risk;
- at least 10% of variable remuneration awarded to top management must also be subject to the achievement of targets that have been agreed beforehand in relation to the group's sustainability policy.

Risk-adjusted profit (RAP) is used to set results-based variable remuneration. For certain categories of key identified staff for whom the competent control function has taken the view that the RAP is an inadequate risk-adjustment mechanism, this framework will be supplemented by additional performance indicators that are better designed to measure risk.

Clawback provisions

As already explained above, payment of the total annual variable remuneration is not only spread over time, half of it is also awarded in the form of phantom stocks that are subject to a retention period of one year (i.e. they are only converted into cash one year after being awarded). The variable remuneration component, including the deferred part, is only acquired when this can be reconciled with the financial situation of the entire institution and justified by the performances of the KBC group and the EC.

Action can be taken regarding payment of deferred amounts that have still to be acquired (malus arrangement), when:

- There is evidence of misconduct or serious error on the part of the employee (for example, a violation of the code of conduct or other internal rules, particularly in relation to risks).
- Either the net result or the risk-adjusted profit of the KBC group and/or the underlying KBC entity in the year preceding the one in which the amounts are to be acquired, has fallen by at least 50% since the year in which the variable remuneration was awarded. In such a situation, the malus arrangement will be applied to the deferred amounts that have still to be acquired (and that relate to the year they were awarded), unless the Remuneration Committee of KBC Group NV provides well-reasoned advice to the Board not to apply this arrangement. The Remuneration Committee will also provide advice on the percentage that should be applied to the malus arrangement. The Board is responsible for the final decision in this regard.
- Either the net result or the risk-adjusted profit of the KBC group, is negative in the year preceding the one in which the amounts are to be acquired. In that case, all the deferred amounts that have still to be acquired (usually in the year following the one in which the negative result was posted) will not be acquired and will therefore be relinquished.

In this regard, the Board takes a decision on the advice of the Remuneration Committee.

Variable remuneration already acquired will exceptionally be clawed back when there is:

- evidence of fraud;
- (use of) misleading information.

Remuneration awarded to non-executive directors

- The remuneration paid to non-executive directors consists solely of an annual fixed component (non-performance-related and non-results-based) plus the fee received for each meeting attended. Attendance fees constitute the main element of this remuneration package. If meetings coincide with Board meetings of KBC Bank and/or KBC Insurance, the attendance fee will be paid just once to directors sitting on more than one of these Boards. Given his duties, the Deputy Chairman receives a higher fixed component.
- In light of the considerable time he devotes to the ongoing supervision of KBC group affairs, the Chairman of the Board receives a different remuneration package that comprises solely a fixed component, which is set separately by the Remuneration Committee and approved by the Board.
- The directors sitting on the AC or RCC receive an additional fixed emolument for the work they perform in that regard. The rule likewise applies that, if meetings coincide with AC or RCC meetings of KBC Bank and/or KBC Insurance, the emolument will be paid just once to directors sitting on different committees. The chairmen of the AC and RCC receive a higher fixed emolument. Directors sitting on either the Nomination Committee or the Remuneration Committee do not receive additional remuneration for the work they perform in that regard.
- In light of the considerable time required for directors residing outside Belgium to attend Board meetings, additional remuneration (attendance fees) is paid to them for each meeting attended.
- KBC Group NV does not grant loans to directors. Loans or guarantees may, however, be granted by KBC Group NV banking subsidiaries pursuant to Article 72 of the Banking Act of 25 April 2014, meaning that loans may be granted at terms applying to clients and approved by the Board.

Individual remuneration awarded to non-executive directors of KBC Group NV

In accordance with the remuneration system described above, the non-executive directors of KBC Group NV – and, where relevant, of other companies of the KBC group in Belgium or abroad – received the amounts set out in the following table. The members of the EC who also sit on the Board as executive directors did not receive either a fixed remuneration or any attendance fees.

Remuneration per individual director (on a consolidated basis, in EUR)

	Remuneration (for FY 2018)	Remuneration for AC and RCC members (for FY 2018)	Attendance fees (for FY 2018)
Thomas Leysen	500 000	–	–
Alain Bostoen	30 000	–	50 000
Katelijn Callewaert	40 000	–	50 000
Sonja De Becker	40 000	–	45 000
Franky Depickere	65 000	130 000	56 250
Frank Donck	30 000	30 000	50 000
Júlia Király	20 000	30 000	75 000
Walter Nonneman	40 000	–	50 000
Vladimira Papirnik	20 000	30 000	75 000
Theodoros Roussis	30 000	–	50 000
Matthieu Vanhove	40 000	–	50 000
Philippe Vlerick	60 000	–	50 000
Marc Wittemans	40 000	60 000	50 000

Remuneration paid to the President and the other members of the EC

- In accordance with the KBC group's remuneration policy, individual remuneration paid to EC members comprises:
  - a fixed monthly emolument;
  - an annual, performance-related variable emolument (the amount of which depends on the performance of the EC as a whole and on the performance of the institution (assessed on the basis of pre-agreed criteria));
  - an annual, individual variable emolument based on the performance by each member of the EC and on the example they set in respecting the group's values;
  - any emolument for offices performed on behalf of KBC Group NV (exceptional).
- A quantitative risk-adjustment mechanism (called a 'risk gateway') is used to set the variable remuneration. It comprises a number of capital and liquidity parameters that have to be met before the variable remuneration component may be awarded. The parameters are set each year by the Board. If one or more of these parameters are not met, not only will this remuneration component not be awarded, but payment of deferred amounts relating to previous years will be suspended in that year, too.
- For members of the EC, the individual variable component is set on the basis of an assessment of the performance of the member in question. On the basis of the advice obtained from the Remuneration Committee (which takes due account of the assessment performed by the President of the EC), the Board awards each member of the EC a score for each of the five aspects of our corporate culture (PEARL: *Performance, Empowerment, Accountability, Responsiveness and Local Embeddedness*) and the core value of being *Respectful*. The aggregate score for these six aspects ultimately determines the size of the individual variable emolument.
- On the advice of the Remuneration Committee, the Board sets the performance-related variable component on the basis of an assessment of a number of pre-agreed criteria relating to the performances of the EC and the company. These criteria are centred on four broad areas, viz. implementing strategy, realising financial plans, strengthening the risk control environment, and the satisfaction of all stakeholders (staff, clients, the Board and society). The performance of the EC in each of these four areas determines the size of the performance-related component (with each area accounting for 25% of the final outcome).
- As regards implementing strategy – besides achieving any specific targets – the main focus is on what has been achieved in terms of client centricity, sustainability and encouraging responsible conduct, and innovation (preparing for the digital revolution).
- The criteria for assessing whether the financial plans have been achieved comprise a number of financial parameters (return, profit, capital, and cost of credit), but also an assessment of the progress made in further implementing the bank-insurance model and income diversification.
- Strengthening the risk control environment is assessed based on stated liquidity, capital and funding criteria, implementing recommendations made by audit and the regulator, and the degree to which the quality of data has improved.

- Stakeholder satisfaction is assessed on the basis of the results from the client and employee satisfaction surveys and on the progress made in the area of sustainability.
- This assessment of all these criteria is reflected in a percentage between 0% and 100% that is applied to the maximum performance-related variable emolument. The size of the variable emolument, therefore, depends to a very small extent on achieving financial results. Risk management, stakeholder management and sustainability are aspects that are at least equally important in this regard.
- When setting the variable remuneration of the CRO, financial planning achievements are not taken into account, but the relative weighting of risk-related criteria is doubled.
- The remuneration package awarded to members of the EC does not include a long-term bonus.
- Members also benefit from a retirement and survivor's pension scheme, which comprises a supplementary retirement pension or – if the insured dies while still in employment and leaves a spouse – a survivor's pension, and also provides cover in the event of disability.

Provisions concerning individual severance payments for executive directors and members of the EC of KBC Group NV

For members of the EC who have worked six years or less in the KBC group, such payments have been set at 12 months' remuneration, for those who have worked between six and nine years, they are equal to 15 months' remuneration, and for those who have worked more than nine years, they are equal to 18 months' remuneration. In this context, remuneration is taken to be the fixed remuneration component for the current year and the variable component for the last full year preceding termination of office.

Relative importance of the different components of remuneration

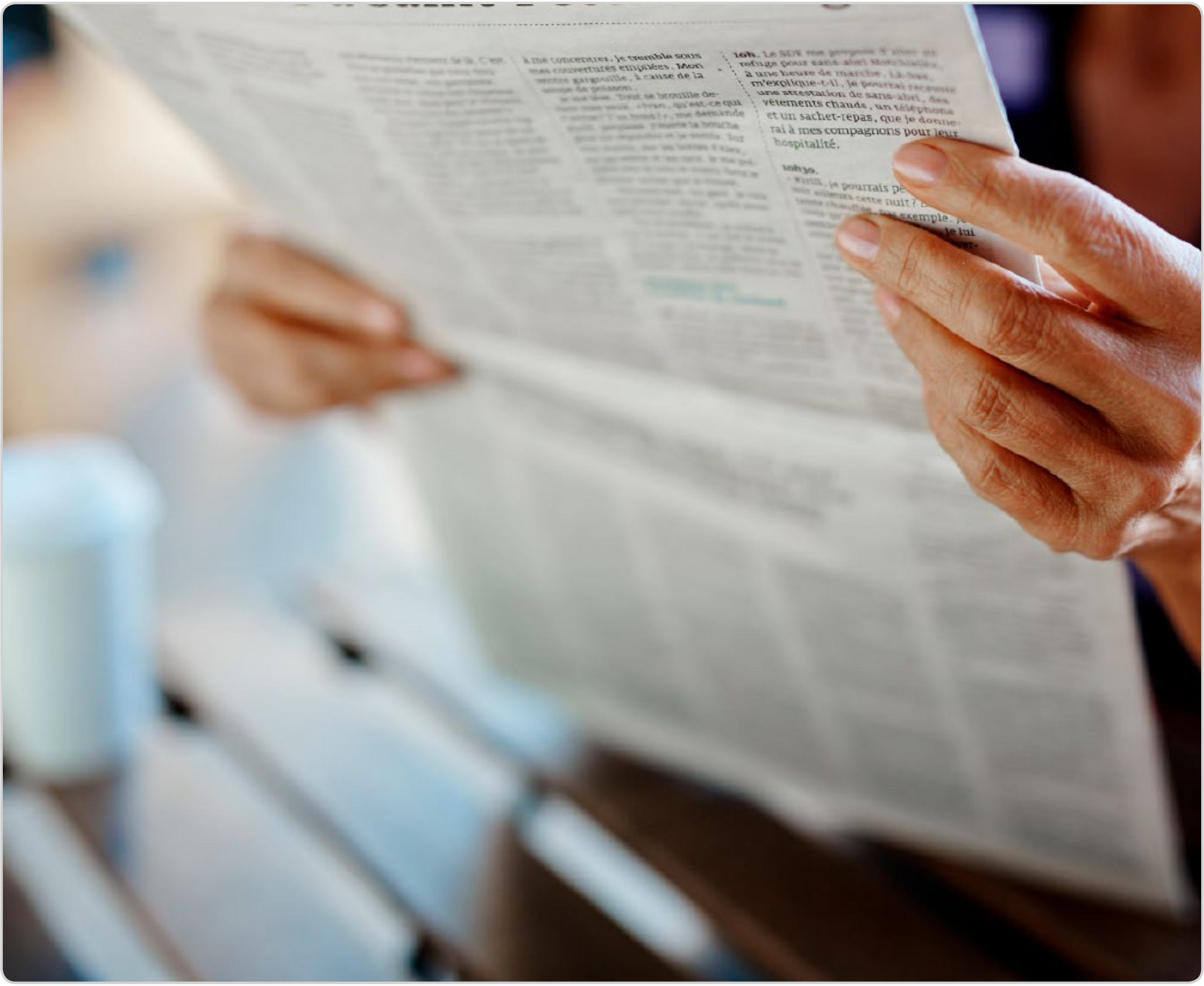
The variable component for 2018 is split into a performance-related variable emolument and an individual variable emolument. The performance-related variable component for the President of the EC is set between 0 and 450 000 euros and the individual variable component between 0 and 160 000 euros. The limits for these components are 275 000 euros and 100 000 euros, respectively, for the other members of the EC. As explained above, the final amount is set by the Board on the advice of the Remuneration Committee, based on an assessment of the individual and collective achievements during the previous financial year.

Characteristics of performance-related bonuses in the form of shares, options, or any other rights to acquire shares

With effect from 1 January 2017, the total amount of annual variable remuneration (i.e. both the performance-related and individual components) for members of the EC is paid over six years, with 40% being paid in the first year and the rest spread equally over the next five years. Payment of these deferred amounts is subject to the clawback provisions outlined above. Furthermore, 50% of the total annual variable remuneration is awarded in the form of equity-related instruments called phantom stocks (though not in the Czech Republic where virtual investment certificates are used), whose value is linked to the price of the KBC Group NV share. These stocks must be retained for one year after being allocated. Like the cash component of variable remuneration, they are also allocated over a six-year period. The average price of the KBC share during the first three months of the year is used to calculate the number of phantom stocks to which each member of the EC is entitled. These stocks are then converted into cash a year later on the basis of the average price of the KBC share during the first three months of that year. They are subject to the allocation and acquisition conditions described under 'Clawback provisions'.

Pension arrangements, disability cover and death cover

The members of the EC have a separate defined contribution plan that is funded entirely by KBC. When drawing up this plan, account was taken of the fact that the career of a member (and especially the President) of the EC is shorter than that of an average employee. In the pension formula, therefore, the first ten years that an individual sits on the EC are the ones in which a significant part of the supplementary pension is built up. The contribution that KBC makes to the pension plan amounts to 32% of the fixed emolument (40% for the CEO) during those first ten years, 7% for the next five years (3% for the CEO) and 3% starting from the sixteenth year of plan membership. A minimum return of 0% (capped at 8.25%) is guaranteed on the contributions. Given the specific structure of this new pension plan, funding of the plan is not spread equally over the entire career. During the first ten years, the size of the payment made into the pension fund is rather large, but declines to a fraction of what it had been previously starting from the eleventh year and even more markedly from the sixteenth year.
The plan applies to all members of the EC who are resident in Belgium. For the members who had joined the EC prior to 1 January 2016, the vested reserves built up (in the previous



pension plan) by 31 December 2015 were transferred to the new plan. The pension plan also includes a death benefit, which equals four times the amount of the fixed emolument (or, if higher, the reserves that have been built at the time of death). Where applicable, there is also an orphan's pension, comprising a one-off benefit of 194 000 euros and an annuity of 6 300 euros per year.
The invalidity benefit provided under the plan amounts to approximately 734 000 euros.

Fixed remuneration for 2018

Figures for the fixed remuneration component are given in the table.

Variable remuneration for 2018

The variable component for the members of the EC is set in the way explained above.
Based on the advice of the Remuneration Committee, the Board decided that the members of the EC should be awarded performance-related variable remuneration for 2018 that equalled 94% (96.5% for the CRO). The relevant figures are given in the table.

In accordance with the remuneration system described above, a performance-related variable emolument of 423 000 euros and an individual variable emolument of 152 000 euros was awarded to Johan Thijs for 2018. A performance-related variable emolument of 258 500 euros was awarded to each of the other members of the EC (265 375 euros for the CRO). The individual variable emolument for each member of the EC is given in the table. Half of the variable remuneration component is paid in cash and the other half is awarded in the form of phantom stocks. As regards the cash component, 40% will be paid in 2019 and the remaining 60% spread equally over the next five years (2020 to 2024, inclusive).

Phantom stocks for 2018: The number of phantom stocks is calculated on the basis of the average price of the KBC share during the first quarter of 2019. Like the other variable components, 40% will be awarded in 2019 and the remaining 60% spread equally over the next five years. Given that phantom stocks are to be retained for one year, they are paid out in cash one year after being awarded, which means that payment is spread over 2020 to 2025, inclusive. The amounts for which phantom stocks were awarded in this way for 2018 are given in the table below:

Amounts awarded in the form of phantom stocks (in EUR)	Total	Vesting in 2019	Vesting in 2020	Vesting in 2021	Vesting in 2022	Vesting in 2023	Vesting in 2024
Johan Thijs	287 500	115 000	34 500	34 500	34 500	34 500	34 500
Daniel Falque	168 415	67 365	20 210	20 210	20 210	20 210	20 210
John Hollows*	170 915	68 365	20 510	20 510	20 510	20 510	20 510
Erik Luts	170 915	68 365	20 510	20 510	20 510	20 510	20 510
Luc Popelier	169 250	67 700	20 310	20 310	20 310	20 310	20 310
Hendrik Scheerlinck	168 415	67 365	20 210	20 210	20 210	20 210	20 210
Christine Van Rijsseghem	175 188	70 073	21 022	21 022	21 022	21 022	21 022

* Virtual investment certificates (VICs) instead of phantom stocks.

Variable remuneration in recent years

A portion of the (deferred) variable remuneration component awarded for 2015, 2016 and 2017 will be paid in 2019. The amounts paid are given in the table.
A portion of the phantom stocks awarded in 2013, 2014, 2015 and 2016 was converted into cash at 74.28 euros per share in April 2018. The amounts paid are given in the table.

Other benefits

Each member of the EC has a company car, the personal use of which is charged in accordance with the prevailing regulations. Other benefits which members of the EC receive include hospitalisation insurance, assistance insurance and accident insurance. The value of these benefits is given in the table. These figures do not include the flat-rate expenses allowance of 335 euros which each member of the EC receives each month.

Remuneration paid to the EC of KBC Group NV (2018)	Johan Thijs, CEO		Daniel Falque		John Hollows		Erik Luts		Luc Popelier		Hendrik Scheerlinck		Christine Van Rijsseghem	
	Awarded	Paid	Awarded	Paid	Awarded	Paid	Awarded	Paid	Awarded	Paid	Awarded	Paid	Awarded	Paid
Employment status	Self-employed		Self-employed		Self-employed		Self-employed		Self-employed		Self-employed		Self-employed	
Base remuneration (fixed)	1 220 000	1 220 000	835 000	835 000	835 000	835 000	835 000	835 000	835 000	835 000	835 000	835 000	835 000	835 000
Individual variable remuneration for the financial year (cash)	76 000	30 400	39 165	15 666	41 665	16 666	41 665	16 666	40 000	16 000	39 165	15 666	42 500	17 000
Individual variable remuneration for the financial year (phantom stocks)	76 000	–	39 165	–	41 665	–	41 665	–	40 000	–	39 165	–	42 500	–
Performance-related variable remuneration for the financial year (cash)	211 500	84 600	129 250	51 700	129 250	51 700	129 250	51 700	129 250	51 700	129 250	51 700	132 687	53 075
Performance-related variable remuneration for the financial year (phantom stocks)	211 500	–	129 250	–	129 250	–	129 250	–	129 250	–	129 250	–	132 687	–
Individual variable remuneration for previous financial years	–	20 902	–	12 377	–	13 076	–	2 777	–	12 739	–	2 663	–	12 979
Performance-related variable remuneration for previous financial years	–	66 167	–	42 085	–	42 085	–	9 453	–	42 085	–	9 453	–	42 085
Phantom stocks for previous financial years	–	236 136	–	153 462	–	191 973	–	0	–	157 102	–	0	–	115 060
Total	1 795 000	1 658 205	1 171 830	1 110 291	1 176 830	1 150 500	1 176 830	915 596	1 173 500	1 114 626	1 171 830	914 482	1 185 374	1 075 199
Defined contribution pension plan (contribution)	488 000	–	267 200	–	256 700	–	267 200	–	267 200	–	267 200	–	267 200	–
Other benefits	15 415	–	13 922	–	9 743	–	9 617	–	16 117	–	12 498	–	15 271	–

Remuneration policy for the next two financial years

It is not the intention at present to make any changes to the remuneration system for non-executive directors or to the system for the CEO and the other members of the EC.

However, the remuneration paid to the CEO and the members of the EC has been index-linked since 1 January 2019. With effect from that year, the fixed component will accordingly amount to 1 250 000 euros for the CEO (and 853 000 euros for the members of the EC), while the maximum performance-related variable component will be 450 000 euros (275 000 euros) and the maximum individual variable component 175 000 euros (108 000 euros).

Non-financial information statement

In keeping with our commitment to integrated reporting, we have incorporated our consolidated non-financial information (as required by Articles 96 § 4 and 119 § 2 of the Companies Code) in various sections of this report.

The non-financial information required by law is provided in those parts of the report dealing with:

- Business model: see the 'Our business model' section.
- Employees: see 'Our employees, capital, network and relationships' in the 'Our business model' section.
- Environment, human rights, other social matters: see 'The client is at the centre of our business culture' and 'Our role in society' in the 'Our strategy' section. Our role in society' also includes other aspects of our approach to sustainability and, therefore, forms an integral part of the 'Non-financial information statement'.
- Combating corruption and bribery: see 'Combating corruption and bribery' and 'Corporate culture and integrity policy' in the 'Corporate governance statement' section.

In this regard, we take as much account as possible of the guidelines issued by the International Integrated Reporting Council and base our consolidated non-financial statement on the Global Reporting Initiative (GRI) Standards. Full implementation of GRI Standards (Core option) and the GRI Content Index are discussed in our Sustainability Report, which is published at www.kbc.com.

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CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statement

(in millions of EUR)	Note	2018 (IFRS 9)	2017 (IAS 39)
Net interest income	3.1	4 543	4 121
Interest income	3.1	6 996	6 337
Interest expense	3.1	-2 453	-2 216
Non-life insurance (before reinsurance)	3.7	760	706
Earned premiums	3.7	1 582	1 491
Technical charges	3.7	-822	-785
Life insurance (before reinsurance)	3.7	-18	-58
Earned premiums	3.7	1 359	1 271
Technical charges	3.7	-1 377	-1 330
Ceded reinsurance result	3.7	-41	-8
Dividend income	3.2	82	63
Net result from financial instruments at fair value through profit or loss	3.3	231	856
of which result on equity instruments (overlay approach)	3.3	51	–
Net realised result from available-for-sale assets	3.4	–	199
Net realised result from debt instruments at fair value through OCI	–	9	–
Net fee and commission income	3.5	1 719	1 707
Fee and commission income	3.5	2 456	2 615
Fee and commission expense	3.5	-737	-908
Other net income	3.6	226	114
TOTAL INCOME		**7 512**	**7 700**
Operating expenses	3.8	-4 234	-4 074
Staff expenses	3.8	-2 343	-2 303
General administrative expenses	3.8	-1 612	-1 505
Depreciation and amortisation of fixed assets	3.8	-280	-266
Impairment	3.10	17	30
on loans and receivables	3.10	–	87
on financial assets at amortised cost and at fair value through OCI	3.10	62	–
on available-for-sale assets	3.10	–	-12
on goodwill	3.10	0	0
other	3.10	-45	-45
Share in results of associated companies and joint ventures	3.11	16	11
RESULT BEFORE TAX		**3 310**	**3 667**
Income tax expense	3.12	-740	-1 093
Net post-tax result from discontinued operations	–	0	0
RESULT AFTER TAX		**2 570**	**2 575**
attributable to minority interests	–	0	0
of which relating to discontinued operations	–	*0*	*0*
attributable to equity holders of the parent	–	**2 570**	**2 575**
of which relating to discontinued operations	–	*0*	*0*
Earnings per share (in EUR)			
Ordinary	3.13	5.98	6.03
Diluted	3.13	5.98	6.03

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

- We are preparing the financial statements for 2018 and subsequent years in accordance with IFRS 9 (see Note 1.1 for more details) and have elected to make use of transition relief for disclosing comparative information.
- We have dealt with the main items in the income statement in the ‘Report of the Board of Directors’ under the ‘Our financial report’ and ‘Our business units’ sections. The statutory auditor has not audited these sections.
- The results for United Bulgarian Bank and Interlease, which were acquired in mid-2017, have been incorporated into the group's results as of the second half of 2017 (contribution to net profit for that period: 27 million euros). For more information on this matter, see Note 6.6 in this report.
- 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 – i.e. until 1 January 2022 (subject to EU endorsement) – the overlay approach allows for increased volatility reported in the income statement as a result of applying IFRS 9 to be removed from the income statement to OCI. This increased volatility, which was reclassified out of 'Net result from financial instruments at FVPL' to 'Revaluation reserve (FVPL equity instruments) – overlay approach', relates to -228 million euros in unrealised changes in fair value. That is the difference between (i) the result under IFRS 9 (without applying the overlay), i.e. -177 million euros in realised and unrealised changes in fair value recognised in 'Net result from financial instruments at FVPL' and (ii) the result under IAS 39, i.e. 51 million euros, comprising a net realised result of 110 million euros and an impairment of 58 million euros. More details are provided in Note 1.2.
- The breakdown of interest income and interest expense on financial instruments calculated using the effective interest rate method and on other financial instruments (not calculated using the effective interest rate method) is provided in Note 3.1.

Consolidated statement of comprehensive income

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
RESULT AFTER TAX	**2 570**	**2 575**
attributable to minority interests	0	0
attributable to equity holders of the parent	2 570	2 575
OCI TO BE RECYCLED TO PROFIT OR LOSS	**-425**	**4**
Net change in revaluation reserve for equity instruments	–	-31
Fair value adjustments before tax	–	108
Deferred tax on fair value changes	–	5
Transfer from reserve to net result	–	-145
Impairment	–	11
Net gains/losses on disposal	–	-155
Deferred taxes on income	–	0
Net change in revaluation reserve for bonds	–	38
Fair value adjustments before tax	–	-56
Deferred tax on fair value changes	–	158
Transfer from reserve to net result	–	-64
Impairment	–	0
Net gains/losses on disposal	–	-36
Amortisation and impairment of revaluation reserve for available-for-sale financial assets following reclassification to 'loans and receivables' and 'held-to-maturity assets'	–	-50
Deferred taxes on income	–	22
Net change in revaluation reserve (FVOCI debt instruments)	-246	–
Fair value adjustments before tax	-312	–
Deferred tax on fair value changes	74	–
Transfer from reserve to net result	-8	–
Impairment	-3	–
Net gains/losses on disposal	-7	–
Deferred taxes on income	2	–
Net change in revaluation reserve (FVPL equity instruments) – overlay approach	-228	–
Fair value adjustments before tax	-176	–
Deferred tax on fair value changes	0	–
Transfer from reserve to net result	-51	–
Impairment	58	–
Net gains/losses on disposal	-110	–
Deferred taxes on income	0	–
Net change in hedging reserve (cashflow hedges)	76	8
Fair value adjustments before tax	46	220
Deferred tax on fair value changes	-9	-245
Transfer from reserve to net result	39	33
Gross amount	60	51
Deferred taxes on income	-21	-18
Net change in translation differences	-60	-99
Gross amount	-60	-99
Deferred taxes on income	0	0
Hedge of net investments in foreign operations	41	92
Fair value adjustments before tax	45	174
Deferred tax on fair value changes	-13	-89
Transfer from reserve to net result	10	8
Gross amount	14	12
Deferred taxes on income	-4	-4
Net change in respect of associated companies and joint ventures	-7	-3
Gross amount	-8	-5
Deferred taxes on income	1	2
Other movements	-2	-2
OCI NOT TO BE RECYCLED TO PROFIT OR LOSS	**-66**	**80**
Net change in revaluation reserve (FVOCI equity instruments)	-6	–
Fair value adjustments before tax	-17	–
Deferred tax on fair value changes	-1	–
Transfer from revaluation reserves to retained earnings upon realisation	12	–
Gross amount	12	–
Deferred taxes on income	0	–
Net change in defined benefit plans	**-67**	**86**

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Remeasurements	-89	118
Deferred tax on remeasurements	22	-32
Net change in own credit risk	7	-6
Fair value adjustments before tax	9	-8
Deferred tax on fair value changes	-2	3
Transfer from revaluation reserves to retained earnings upon realisation	0	0
Gross amount	0	0
Deferred taxes on income	0	0
Net change in respect of associated companies and joint ventures	**0**	**0**
Remeasurements	0	0
Deferred tax on remeasurements	0	0
TOTAL COMPREHENSIVE INCOME	**2 079**	**2 658**
attributable to minority interests	0	0
attributable to equity holders of the parent	2 079	2 658

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

Consolidated balance sheet

In millions of EUR	Note	31-12-2018 (IFRS 9)	31-12-2017 (IAS 39)
ASSETS			
Cash, cash balances with central banks and other demand deposits with credit institutions	–	18 691	29 727
Financial assets	4.0	256 916	254 753
Held for trading	4.0	–	7 431
Designated at fair value through profit or loss	4.0	–	14 484
Available for sale	4.0	–	34 156
Loans and receivables	4.0	–	167 458
Held to maturity	4.0	–	30 979
Amortised cost	4.0	216 792	–
Fair value through OCI	4.0	18 279	–
Fair value through profit or loss	4.0	21 663	–
of which held for trading	4.0	6 426	–
Hedging derivatives	4.0	183	245
Reinsurers' share in technical provisions, insurance	5.6	120	131
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	64	-78
Tax assets	5.2	1 549	1 625
Current tax assets	5.2	92	82
Deferred tax assets	5.2	1 457	1 543
Non-current assets held for sale and disposal groups	5.11	14	21
Investments in associated companies and joint ventures	5.3	215	240
Property and equipment and investment property	5.4	3 299	3 207
Goodwill and other intangible assets	5.5	1 330	1 205
Other assets	5.1	1 610	1 512
TOTAL ASSETS		**283 808**	**292 342**
LIABILITIES AND EQUITY			
Financial liabilities	4.0	242 626	251 260
Amortised cost	4.0	220 671	227 944
Fair value through profit or loss	4.0	20 844	22 032
of which held for trading	4.0	5 834	6 998
Hedging derivatives	4.0	1 111	1 284
Technical provisions, before reinsurance	5.6	18 324	18 641
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	-79	-86
Tax liabilities	5.2	380	582
Current tax liabilities	5.2	133	148
Deferred tax liabilities	5.2	247	434
Liabilities associated with disposal groups	5.11	0	0
Provisions for risks and charges	5.7	235	399
Other liabilities	5.8	2 689	2 743
TOTAL LIABILITIES		**264 175**	**273 540**
Total equity	**5.10**	**19 633**	**18 803**
Parent shareholders' equity	5.10	17 233	17 403
Additional tier-1 instruments included in equity	5.10	2 400	1 400
Minority interests	–	0	0
TOTAL LIABILITIES AND EQUITY		**283 808**	**292 342**

- For information on the sale of a portfolio of loans in Ireland, see Note 3.10.
- We are preparing the financial statements for 2018 and subsequent years in accordance with IFRS 9 (see Note 1.1 for more details) and have elected to make use of transition relief for disclosing comparative information. The opening balance sheet positions under IFRS 9 at 1 January 2018 for a selection of items are given below.

Opening balance sheet position under IFRS 9 at 01-01-2018 for selected items (in millions of EUR)	**01-01-2018 (IFRS 9)**
Financial assets	253 817
Amortised cost	210 865
Fair value through OCI	19 516
Fair value through profit or loss	23 191
of which held for trading	7 148
Hedging derivatives	245
Financial liabilities	251 260
Amortised cost	227 944
Fair value through profit or loss	22 032
of which held for trading	6 998
Hedging derivatives	1 284
Parent shareholders' equity	16 657

Consolidated statement of changes in equity

(in millions of EUR)	Issued and paid up share capital	Share premium	Treasury shares	Retained earnings	Revaluation reserve (AFS assets)	Revaluation reserve (FVOCI debt instruments)	Revaluation reserve (FVPL equity instruments) – overlay approach	Revaluation reserve (FVOCI equity instruments	Hedging reserve (cashflow hedges)	Translation differences	Hedge of net investments in foreign operations	Remeasurement of defined benefit plans	Own credit risk through OCI	Total revaluation reserves	Parent shareholders' equity	Additional tier-1 instruments included in equity	Minority interests	Total equity
2018 (IFRS 9)																		
Balance at the end of the previous period	1 456	5 467	-5	10 101	1 751	0	0	0	-1 339	-11	45	-52	-10	383	17 403	1 400	0	18 803
Impact of the first-time adoption of IFRS 9	0	0	0	-247	-1 751	837	387	29	0	0	0	0	0	-499	-746	0	0	-746
Balance at the beginning of the period after impact of IFRS 9	1 456	5 467	-5	9 854	0	837	387	29	-1 339	-11	45	-52	-10	-116	16 657	1 400	0	18 057
Net result for the period	0	0	0	2 570	–	0	0	0	0	0	0	0	0	0	2 570	0	0	2 570
Other comprehensive income for the period	0	0	0	-2	–	-251	-228	-6	76	-61	41	-67	7	-489	-491	0	0	-491
Subtotal	0	0	0	2 568	–	-251	-228	-6	76	-61	41	-67	7	-489	2 079	0	0	2 079
Dividends	0	0	0	-1 253	–	0	0	0	0	0	0	0	0	0	-1 253	0	0	-1 253
Coupon on additional tier-1 instruments	0	0	0	-70	–	0	0	0	0	0	0	0	0	0	-70	0	0	-70
Capital increase	1	15	0	0	–	0	0	0	0	0	0	0	0	0	16	0	0	16
Transfer from revaluation reserves to retained earnings upon realisation	0	0	0	-12	–	0	0	0	0	0	0	0	0	0	-12	0	0	-12
Issue of tier-1 instruments included in equity	0	0	0	-5	–	0	0	0	0	0	0	0	0	0	-5	1 000	0	995
Purchase/sale of treasury shares	0	0	-179	0	–	0	0	0	0	0	0	0	0	0	-179	0	0	-179
Cancellation of treasury shares	0	0	181	-181	–	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in minority interests	0	0	0	0	–	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in scope	0	0	0	0	–	0	0	0	0	0	0	0	0	0	0	0	0	0
Total change	1	15	2	1 047	–	-251	-228	-6	76	-61	41	-67	7	-489	576	1 000	0	1 576
Balance at the end of the period	1 457	5 482	-3	10 901	–	586	159	22	-1 263	-73	86	-119	-3	-605	17 233	2 400	0	19 633
of which relating to application of the equity method	–	–	–	–	–	5	0	1	0	14	0	0	0	20	20	–	0	20
2017 (IAS 39)																		
Balance at the end of the previous period	1 455	5 453	0	8 751	1 756	–	–	–	-1 347	78	-47	-138	-4	298	15 957	1 400	0	17 357
Net result for the period	0	0	0	2 575	0	–	–	–	0	0	–	0	0	0	2 575	0	0	2 575
Other comprehensive income for the period	0	0	0	-2	-5	–	–	–	8	-90	92	86	-6	86	84	0	0	84
Subtotal	0	0	0	2 573	-5	–	–	–	8	-90	92	86	-6	86	2 658	0	0	2 658
Dividends	0	0	0	-1 171	0	–	–	–	0	0	–	0	0	0	-1 171	0	0	-1 171
Coupon on additional tier-1 instruments	0	0	0	-52	0	–	–	–	0	0	–	0	0	0	-52	0	0	-52
Capital increase	1	15	0	0	0	–	–	–	0	0	–	0	0	0	15	0	0	15
Purchase/sale of treasury shares	0	0	-5	0	0	–	–	–	0	0	–	0	0	0	-5	0	0	-5
Change in minority interests	0	0	0	0	0	–	–	–	0	0	0	0	0	0	0	0	0	0
Change in scope	0	0	0	0	0	–	–	–	0	0	0	0	0	0	0	0	0	0
Total change	1	15	-5	1 350	-5	–	–	–	8	-90	92	86	-6	86	1 446	0	0	1 446
Balance at the end of the period	1 456	5 467	-5	10 101	1 751	–	–	–	-1 339	-11	45	-52	-10	383	17 403	1 400	0	18 803
of which revaluation reserve for equity instruments	–	–	–	–	460	–	–	–	–	–	–	–	–	–	–	–	–	–
of which revaluation reserve for bonds	–	–	–	–	1 292	–	–	–	–	–	–	–	–	–	–	–	–	–
of which relating to application of the equity method	–	–	–	–	14	–	–	–	0	16	0	0	0	30	30	–	–	30

- We are preparing the financial statements for 2018 and subsequent years in accordance with IFRS 9 (see Note 1.1 for more details) and have elected to make use of transition relief for disclosing comparative information. More information on the impact of IFRS 9 can be found in Note 1.4.
- For information on the shareholder structure, see Note 3 in the ‘Company annual accounts and additional information’ section and the ‘Corporate governance statement’ in the ‘Report of the Board of Directors’ section.
- For information on capital increases, additional tier-1 instruments, treasury share buybacks and the number of shares, see Note 5.10 and Note 6.8.
- The 'Dividends' item in 2018 includes the final dividend of 2 euros per share for 2017 (paid in May 2018) and an interim dividend of 1 euro per share as an advance on the final dividend for 2018 (the final dividend will be paid in 2019). In 2017, this item (1 171 million euros) included the final dividend of 1.80 euros per share for 2016 (paid in May 2017) and an interim dividend of 1 euro per share as an advance on the final dividend for 2017 (paid in 2018). Please note that, subject to the approval of the General Meeting of Shareholders, the total dividend for 2018 will amount to 3.50 euros per share (with 1 euro per share having already been paid as an interim dividend), before withholding tax.
- 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 251 million euros in 2018, owing to the effect of an increase in long-term rates (including in Italy and, to a lesser extent, also in Belgium) and unwinding operations. Unwinding also accounted for the net change in the hedging reserve (cashflow hedges) of +76 million euros. The net change in defined benefit plans (-67 million euros) related mainly to the negative returns on plan assets (weak stock markets in the last quarter). The net change in translation differences (-61 million euros) was caused primarily by the weakening of the Czech koruna and Hungarian forint, but that effect was largely offset by the hedge of net investments in foreign operations (+41 million euros). The net impact of these two items was mainly attributable to the asymmetrical treatment of deferred taxes (no tax on the net change in translation differences, whereas deferred tax is calculated on the hedge).
- Revaluation reserves in 2017: the net change in the revaluation reserve for equity instruments amounted to -31 million euros and was mainly attributable to a transfer to the net result (gains on sales), partly offset by positive changes in fair value. In 2017, the announced reduction in the tax rate in Belgium (see Note 3.12), along with the offsetting effect of the increase in long-term interest rates, had primarily the following impact: net change in the revaluation reserve for bonds: +26 million euros; net change in hedging reserve (cashflow hedges): +8 million euros; and net change in defined benefit plans: +86 million euros (also positively impacted by the actual return on plan assets, which was higher than the expected return).

Consolidated cashflow statement

(in millions of EUR)	Reference[1]	2018 (IFRS 9)	2017 (IAS 39)
OPERATING ACTIVITIES			
Result before tax	See consolidated income statement	3 310	3 667
Adjustments for:	–		
Result before tax from discontinued operations	See consolidated income statement	0	0
Depreciation, impairment and amortisation of property and equipment, intangible fixed assets, investment property and securities	3.10, 4.2, 5.4, 5.5	414	340
Profit/Loss on the disposal of investments	–	19	-16
Change in impairment on loans and advances	3.10	-59	-87
Change in technical provisions (before reinsurance)	5.6	-30	-149
Change in the reinsurers’ share in the technical provisions	5.6	10	-18
Change in other provisions	5.7	-58	121
Other unrealised gains/losses	–	158	-621
Income from associated companies and joint ventures	3.11	-16	-11
Cashflows from operating profit before tax and before changes in operating assets and liabilities	–	3 748	3 227
Changes in operating assets (excluding cash and cash equivalents)	–	-5 141	694
Financial assets held for trading	4.1	–	2 751
Financial assets initially recognised at fair value through profit or loss	4.1	–	-299
Available-for-sale assets	4.1	–	2 927
Loans and receivables	4.1	–	-4 854
Financial assets at amortised cost (excluding debt securities)	4.1	-7 363	–
Financial assets at fair value through OCI	4.1	911	–
Financial assets at fair value through profit or loss	4.1	1 350	–
of which financial assets held for trading	4.1	720	–
Hedging derivatives	4.1	63	165
Operating assets associated with disposal groups, and other assets	–	-101	4
Changes in operating liabilities (excluding cash and cash equivalents)	–	-6 015	9 464
Financial liabilities at amortised cost	4.1	-3 586	13 342
Financial liabilities at fair value through profit or loss	4.1	-1 871	-2 888
of which financial liabilities held for trading	4.1	-1 132	-1 345
Hedging derivatives	4.1	-127	-200
Technical provisions, before reinsurance	5.6	-288	-867

Consolidated cashflow statement (continuation)

(in millions of EUR)	Reference[1]	2018 (IFRS 9)	2017 (IAS 39)
Operating liabilities associated with disposal groups, and other liabilities	–	-143	78
Income taxes paid	3.12	-554	-523
Net cash from or used in operating activities		-7 962	12 863
INVESTING ACTIVITIES			
Purchase of held-to-maturity securities	4.1	–	-2 096
Purchase of debt securities at amortised cost	4.1	-2 609	–
Proceeds from the repayment of held-to-maturity securities	4.1	–	4 685
Proceeds from the repayment of debt securities at amortised cost	4.1	5 438	–
Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held)	6.6	-19	185
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed of (including decreases in percentage interest held)	–	0	7
Purchase of shares in associated companies and joint ventures	–	-10	0
Proceeds from the disposal of shares in associated companies and joint ventures	–	2	0
Dividends received from associated companies and joint ventures	–	23	26
Purchase of investment property	5.4	-74	-37
Proceeds from the sale of investment property	5.4	29	19
Purchase of intangible fixed assets (excluding goodwill)	5.5	-260	-206
Proceeds from the sale of intangible fixed assets (excluding goodwill)	5.5	8	6
Purchase of property and equipment	5.4	-668	-793
Proceeds from the sale of property and equipment	5.4	237	152
Net cash from or used in investing activities		2 098	1 947
FINANCING ACTIVITIES			
Purchase or sale of treasury shares	See consolidated statement of changes in equity	-179	-5
Issue or repayment of promissory notes and other debt securities	4.1	1 389	-657
Proceeds from or repayment of subordinated liabilities	4.1	-928	120
Principal payments under finance lease obligations	–	0	0
Proceeds from the issuance of share capital	See consolidated statement of changes in equity	16	15
Issue of additional tier-1 instruments	See consolidated statement of changes in equity	995	0
Proceeds from the issuance of preference shares	See consolidated statement of changes in equity	0	0
Dividends paid	See consolidated statement of changes in equity	-1 253	-1 171
Coupon on additional tier-1 instruments	See consolidated statement of changes in equity	-70	-52
Net cash from or used in financing activities		-30	-1 750
CHANGE IN CASH AND CASH EQUIVALENTS			
Net increase or decrease in cash and cash equivalents	–	-5 894	13 060
Cash and cash equivalents at the beginning of the period	–	40 413	26 747
Effects of exchange rate changes on opening cash and cash equivalents	–	-165	606
Cash and cash equivalents at the end of the period	–	34 354	40 413
ADDITIONAL INFORMATION			
Interest paid[2]	3.1	-2 453	-2 216
Interest received[2]	3.1	6 996	6 337
Dividends received (including equity method)	3.2, 5.3	105	89
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash and cash balances with central banks and other demand deposits with credit institutions	See consolidated balance sheet	18 691	29 727
Term loans to banks at not more than three months (excluding reverse repos)	4.1	674	643
Reverse repos of up to three months with credit institutions and investment firms	4.1	20 955	19 475
Deposits from banks repayable on demand	4.1	-5 966	-9 431
Cash and cash equivalents belonging to disposal groups	–	0	0
Total	–	34 354	40 413
of which not available	–	0	0

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

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

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

- KBC uses the indirect method to report on cashflows from operating activities.
- Cash and cash equivalents fell in 2018, due largely to a decline in cash balances with central banks. This was caused by a decrease in net cashflows from operating activities on account of lower repo activity.
- Issue or repayment of promissory notes and other debt securities: KBC IFIMA, KBC Group NV, ČSOB (Czech Republic) and KBC Bank NV accounted for the lion's share of the figure for 2018, which related primarily to 2.3 billion euros' worth of these instruments being issued and 1 billion euros being redeemed by these companies. KBC IFIMA, KBC Group NV, ČSOB Bank (Czech Republic) and KBC Bank NV likewise accounted for the bulk of the figure for 2017, which related primarily to 2.6 billion euros' worth of these instruments being issued and 3 billion euros being redeemed by these companies.
- Proceeds from or repayment of subordinated liabilities: KBC IFIMA, KBC Group NV and KBC Bank NV accounted for the lion's share of the figure for 2018, which related primarily to these instruments being redeemed. KBC IFIMA, KBC Group NV and KBC Bank NV likewise accounted for the bulk of the figure for 2017, which related primarily to 0.5 billion euros' worth of these instruments being issued and 0.3 billion euros being redeemed.
- In January 2018, KBC called the 1-billion-US-dollar contingent capital note (CoCo) that had been issued in January 2013. The capital value of the CoCo had already been deducted from tier-2 capital at year-end 2017. The impact of calling the CoCo was largely offset by the successful issue of a 500-million-euro tier-2 benchmark in September 2017.
- There were no material acquisitions or divestments of group companies or activities in 2018. In 2017, we acquired a 99.9% stake in United Bulgarian Bank (UBB) and a 100% stake in Interlease (see Note 6.6). With the acquisition being paid for entirely in cash, its impact on cashflows from investing activities was -0.6 billion euros (or +0.2 billion euros after deducting the cash and cash equivalents acquired).
- For information on the issue of additional tier-1 instruments, see Note 5.10.

1.0 Notes on the accounting policies

Note 1.1: Statement of compliance

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

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

- IFRS 9 (Financial Instruments) on the classification and measurement of financial instruments became effective on 1 January 2018, replacing IAS 39 (Financial Instruments: Recognition and Measurement). KBC also applies IFRS 9 to its insurance entities and, therefore, does not make use of the possibility offered by the IAS Board to temporarily defer implementation of IFRS 9 for these entities.
  Classification and measurement: classification and measurement of financial assets under IFRS 9 depends on the specific business model in place and the assets' contractual cashflow characteristics. For equity instruments not held for trading in our insurance business lines, KBC applies the overlay approach to eligible equity instruments (i.e. they are treated consistently, just as they were under IAS 39). This approach has been provided by the IASB to cover the transition period between the implementation of IFRS 9 and IFRS 17, thus ensuring there is a level playing field with other insurers and bank-insurers.
  Impairment of financial instruments: financial instruments that are subject to impairment will be classified into three stages, namely 'Stage 1' (where 12-month expected credit losses are required to be measured); 'Stage 2' (where lifetime expected credit losses are required to be measured); and 'Stage 3': Non-performing or impaired (likewise with lifetime expected credit losses). KBC has established policies and processes to assess whether credit risk has increased significantly at the end of each reporting period and, therefore, whether 'staging' is required (i.e. moving from one stage to another). For the loan portfolio, a multi-tier approach has been adopted to staging, based on internal credit ratings, forbearance measures, collective assessment and days past due as a backstop. A similar multi-tier approach is used for the investment portfolio, except that KBC uses the low-credit-risk exemption, meaning that all investment grade bonds in scope are considered to be in 'Stage 1', unless any of the other triggers indicate otherwise. For 'Stage 1' and 'Stage 2' – under IAS 39 – KBC recorded incurred-but-not-reported (IBNR) impairment losses, which are influenced by emergence periods. Under IFRS 9, impairment of financial assets is calculated on a 12-month expected credit loss (ECL) basis for 'Stage 1' and on a lifetime ECL basis for 'Stage 2'. Forward looking information is incorporated into the staging criteria and measurement of ECL. Different macroeconomic factors are taken into consideration and KBC applies three scenarios to evaluate a range of possible outcomes. The macroeconomic variables include GDP growth, the unemployment rate, policy interest rates, the exchange rate, government bond yields, house prices and inflation.
  Hedge accounting: KBC uses the option to continue with hedge accounting under IAS 39 and awaits further developments at the IASB regarding macro hedging.
  As a result of the application of IFRS 9, the income statement, balance sheet, statement of comprehensive income and statement of changes in equity have all changed significantly, as have the accompanying notes. KBC has opted to make use of transition relief for disclosing comparative information. The accounting policies in Note 1.2 have been updated and now include information on IFRS 9. For the accounting policies applying to the comparative figures, see KBC's financial statements for the year ending 31 December 2017. Transition disclosures are included in Note 1.4 and additional explanations provided in the notes, where relevant.
  For financial liabilities, the aspects of IFRS 9 relating to the presentation of gains and losses on own credit risk for financial

instruments designated at fair value through profit or loss were early adopted with effect from 1 January 2017.
Change in the presentation of accrued interest from foreign exchange derivatives: this type of interest was moved from 'Net result from financial instruments at fair value through profit or loss' to 'Net interest income'. This new presentation is related to IFRS 9 following a decision taken by the International Financial Reporting Interpretation Committee (IFRIC) on 20 November 2017. The new presentation prevents a distortion of the figures, due to the fact that the accrued interest on the underlying transaction is also recognised under 'Net interest income'. Its impact came to 305 million euros in 2017.

KBC does not make use of any transitional arrangements with regard to the impact of IFRS 9 on capital, as it wants to provide full transparency. Consequently, own funds, capital and the leverage ratio reflect the full impact of IFRS 9.

The fact that KBC uses transition relief for disclosing comparative figures for 2017 and, therefore, does not or is unable to provide comparative figures for a number of items, means that the structure of several tables is also impacted. Although we try where possible to present the figures for 2017 and 2018 in the same table, we have not been able to do so for a number of tables (primarily in Note 4.0) and have had to provide two separate tables instead. For 2018, a new table structure has been provided to reflect the IFRS 9 requirements, whereas the structure of the table for 2017 is the same as the one published in the annual report for 2017.

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

The following change in presentation and accounting policies was also applied in 2018:

- A change in presentation was made to 'Network income', which was moved from 'Net result from financial instruments at fair value through profit or loss' to 'Net fee and commission income'. 'Network income' is the revenue from margins earned on foreign exchange transactions (related to payments, loans, deposits and investments) carried out by the network (branches and online) for clients. The new presentation gives a more reliable view, as 'Network income' reflects the revenue from margins that can be considered as part of the investment and payments business, which is fee-based. The financial statements have not been restated retroactively according to IAS 8, as the total impact on them is considered to be non-material (a one-off impact of 99 million euros, before tax).

The following IFRS standards were issued but not yet effective in 2018. KBC will apply these standards when they become mandatory.

- In January 2016, the IASB issued IFRS 16 (Leases), which will become effective on 1 January 2019. The new standard does not significantly change the accounting treatment of leases for lessors and, therefore, its impact is expected to be limited for KBC (given that it is mainly a lessor and not a lessee). We expect the impact of the first-time application of IFRS 16 on the common equity ratio to be restricted to about -6 basis points.
- IFRS 17: in May 2017, the IASB issued IFRS 17 (Insurance Contracts), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 (Insurance Contracts) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts. IFRS 17 will become effective for reporting periods beginning on or after 1 January 2022 (subject to EU endorsement), with comparative figures being required. KBC launched a group-wide project in 2018 to implement IFRS 17. The project is structured around sub-projects dealing with data delivery, local reporting, the impact on the business model and strategic consequences, guidance and support, consolidated reporting and the IFRS 17 calculation engine. It is being jointly run by the insurance business side and the Finance function, and involves all the departments and entities at group and local level that are affected (including actuaries, finance specialists, IT staff and process managers). In 2017, the group conducted a high-level impact study of IFRS 17 and the implementation phase began at the start of 2018. The focus over the past year has been on arriving at a clear

interpretation of the standard for KBC. Where necessary, this interpretation will be gradually adjusted when new information becomes available from external sources (the IASB or the market) or in-house (further detailed analyses). During the past year, considerable effort has also been put into choosing an IFRS 17 calculation engine, setting up data flows to fuel that engine and examining the impact of IFRS 17 on the accounting process. These activities are progressing according to plan and the aim is to complete them by the end of 2020.

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

Note 1.2: Summary of significant accounting policies

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

General/Basic principle

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

Financial assets

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

Financial assets – recognition and derecognition

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

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

Classification of equity instruments and debt instruments

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

Classification and measurement – debt instruments

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

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

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

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated to be measured at FVO:
- the asset is held within a business model whose objective is achieved by both collecting contractual cashflows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cashflows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at AC only if it meets both of the following conditions and is not designated to be measured at FVO:
- the asset is held within a business model whose objective is to hold assets in order to collect contractual cashflows; and
- the contractual terms of the financial asset give rise on specified dates to cashflows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

Assessment whether contractual cashflows are solely payments of principal and interest (SPPI)
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as profit margin. In assessing whether contractual cashflows are solely payments of principal and interest, KBC considers the contractual terms of the instrument, which entails assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cashflows such that the instrument would not meet this condition. In making the assessment, KBC considers:
- contingent events that could change the amount and timing of cashflows;
- leverage features;
- prepayment and extension terms;
- terms that limit KBC's claim to cashflows from specified assets (e.g., non-recourse asset arrangements); and
- features that modify consideration of the time value of money (e.g., periodic resets of interest rates).

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

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

KBC can classify equity instruments connected with the insurance business in the 'FVPL – overlay' category until the effective date of IFRS 17 (1 January 2022). Each equity instrument that KBC's insurance business classifies as 'FVPL – overlay' must meet both of the following criteria:
- it is measured at fair value through profit or loss under IFRS 9, but would not have been measured at fair value through profit or loss in its entirety under IAS 39; and
- it is not held in respect of an activity that is unconnected with insurance contracts.

More information on this approach is provided under 'Overlay approach' further below. In the banking business, there is a rebuttable presumption that all equity instruments are to be regarded as FVOCI if held for neither trading nor a contingent consideration in a business combination to which IFRS 3 applies. The election to include equity instruments in the FVOCI category is irrevocable on initial recognition and can be done on an investment-by-investment basis, which is interpreted by KBC as a share-by-share basis. Equity instruments categorised as FVOCI are subsequently measured at fair value, with all value changes recognised in other comprehensive income and without any recycling into the income statement, even when the investment is disposed of. The only exception applies to dividend income, which is recognised in the income statement under 'Dividend income'.

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

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

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

Financial assets – impairment

Definition of default
KBC defines defaulted financial assets in the same way as the definition for internal risk management purposes and in line with the guidance and standards of financial industry regulators. A financial asset is considered in default if any of the following conditions is fulfilled:
- there is a significant deterioration in creditworthiness;
- the asset is flagged as non-accrual;
- the asset is flagged as a forborne asset in line with the internal policies for forbearance;
- KBC has filed for the borrower's bankruptcy;
- the counterparty has filed for bankruptcy or sought similar protection measures;
- the credit facility granted to the client has been terminated.

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

Expected credit loss model (ECL model) – general

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

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

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

No ECLs are calculated for share investments.

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

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

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

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

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

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

Significant increase in credit risk since initial recognition

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

Multi-tier approach (MTA) – bond portfolio

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

- Low-credit exception: 12-month ECL is always recognised for bonds if they have a low credit risk on the reporting date (i.e. 'Stage 1'). KBC uses this exception for investment grade bonds.
- Internal rating: [only applicable if the first tier criterion is not met] this is a relative assessment that compares the probability of default (PD) upon initial recognition to that on the reporting date. KBC does the assessment at facility level for each reporting period.
- Management assessment: lastly, management review and assess the significant increase in credit risk for financial assets at an individual and portfolio level.

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

Loan portfolio

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

- Internal rating: this rating is used as the main criterion for assessing an increase in credit risk. It is a relative assessment that compares the PD upon initial recognition to that on the reporting date. KBC does the assessment at facility level for each reporting period.

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

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

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

ECL is calculated to reflect:
- an unbiased, probability-weighted amount;
- the time value of money; and
- information about past events, current conditions and forecast economic conditions.

Lifetime ECL represents the sum of ECL over the lifetime of the financial asset discounted at the original effective interest rate.
The 12-month ECL represents the portion of lifetime ECL resulting from a default in the 12-month period after the reporting date.

KBC uses specific IFRS 9 models for PD, EAD and LGD in order to calculate ECL. As much as possible and to promote efficiency, KBC uses modelling techniques similar to those developed for prudential purposes (i.e. Basel models). That said, KBC ensures that the Basel models are adapted so they comply with IFRS 9. For example:
- KBC removes the conservatism that is required by the regulator for Basel models;
- KBC adjusts how macroeconomic parameters affect the outcome to ensure that the IFRS 9 models reflect a ‘point-in-time’ estimate rather than one that is ‘through the cycle’ (as required by the regulator).
- KBC applies forward-looking macroeconomic information in the models.

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

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

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

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

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

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

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

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

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

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

Financial liabilities

Financial instruments or their component parts are classified on initial recognition as liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of financial liabilities and equity instruments. A financial instrument is classified as a liability if:
- KBC has a contractual obligation to deliver cash or another financial asset to the holder or to exchange another financial instrument with the holder under conditions that are potentially unfavourable to KBC; or
- KBC has a contractual obligation to settle the financial instrument in a variable number of its own shares.

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

Financial liabilities – recognition and derecognition

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

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

Financial liabilities – classification and measurement

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

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

Offsetting

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

Fair value

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

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

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

Hedge accounting

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

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

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

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

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

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

Insurance contracts

General

The accounting policies for IFRS 4 (Insurance Contracts) apply to insurance contracts (including reinsurance contracts) that KBC issues and reinsurance contracts that it holds. They also apply to financial instruments with a discretionary participation feature held by KBC.
A reinsurance contract is a type of insurance contract, given that all reinsurance contracts that transfer insurance risk are themselves insurance contracts.
Some contracts that are accounted for as insurance contracts under local GAAP will no longer be considered insurance contracts under IFRS. Contracts that do not expose KBC to any insurance risk (e.g., pure investment without additional (insurance) benefits/cover) are treated as financial instruments, which can exist with or without a discretionary participation feature.
Financial instruments without a discretionary participation feature and the deposit component of unit-linked insurance contracts will be recognised in accordance with deposit accounting principles.
Deposit accounting applies to the deposit component of unit-linked insurance contracts (the insurance component is treated as an insurance contract according to IFRS 4).

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

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

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

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

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

When IFRS 4 was adopted, KBC decided to follow its then local GAAP practices and did not introduce any of the following:
- measurement of insurance liabilities on an undiscounted basis;
- non-uniform accounting policies for the insurance contracts of subsidiaries. If these accounting policies are not uniform, an insurer may change them if the change does not make them more divergent and provided the other requirements of IFRS 4 (Insurance Contracts) are met.

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

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

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

Technical provisions – insurance contracts

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

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

Provision for unearned premiums (non-life)

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

Provision for unexpired risk (non-life)

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

Life insurance provisions

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

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

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

Valuation according to the retrospective method is applied to the provisions for modern non-unit-linked universal life insurance and to the

provision for non-statutory benefits for employees in respect of new supplementary premium payments.
The provision is calculated separately for every insurance contract.

Provision for claims outstanding
For claims reported, the provision is measured separately in each case, taking into account the known facts in the claims file, on the basis of the amounts still due to the injured parties or beneficiaries, plus external costs of settling claims. Where benefits have to be paid in the form of an annuity, the amounts to be set aside for that purpose are calculated using recognised actuarial methods.
For 'claims incurred but not reported' at balance sheet date, an IBNR (Incurred But Not Reported) provision is set aside. In the primary business, this IBNR provision is based on a lump sum per class of insurance depending upon past experience and the trend in the insured portfolio. For extraordinary events, additional amounts are added to the IBNR provision.
For 'claims incurred but not enough reserved' at balance sheet date, an IBNER (Incurred But Not Enough Reserved) provision is set aside if the adequacy procedures demonstrate that the other claims provisions are insufficient to meet future liabilities. This provision contains amounts for claims which have already been reported but which, for technical reasons, could not yet be recorded in the claims file.
A provision for the internal cost of settling claims is calculated at a percentage that is based on past experience.
Additional provisions are also constituted as required by law, such as supplementary workmen's compensation provisions in Belgium.

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

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

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

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

Employee benefits

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

Post-employment benefits
KBC offers its employees' pension schemes in the form of defined contribution or defined benefit plans. Under the defined contribution plans, KBC's statutory or constructive obligation is limited to the amount that it agrees to contribute to the fund. The amount of the post-employment benefit to be received by the employee is determined by the amount of the contributions paid by KBC and the employee him or herself into the post-employment benefit plan, as well as by the investment returns arising from those contributions. The actuarial risk is borne by the employee.
Conversely, under the defined benefit plans, KBC's obligation is to provide the agreed benefits to current and former employees and, in substance, the actuarial risk and investment risk fall on KBC. This means that if, from an actuarial or investment viewpoint, things turn out worse than expected, KBC's obligation may be increased.
In Belgium, defined contribution plans have a legally guaranteed minimum return and the actual return can be lower than the legally required return. In addition, these plans have defined benefit plan features and KBC treats them as defined benefit plans.
Liabilities under the defined benefit plans and the Belgian defined contribution plans (or pension liabilities) are included under 'Other liabilities' and relate to the obligations for retirement and survivor's pensions, early retirement benefits and similar pensions and annuities.
The pension obligations for employees under the defined benefit plans are calculated using the projected-unit-credit method, with each period of service granting additional entitlement to pension benefits.

Actuarial valuations are performed every reporting period. The defined benefit liabilities are discounted using rates equivalent to the yields on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have a maturity similar to the related pension liabilities.
Changes in the net defined benefit liability/asset, apart from cash movements, are grouped 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.
Payment services, where KBC charges clients for certain current-account transactions, domestic or foreign payments, payment services provided through ATMs, etc., are usually settled when the actual transaction is carried out, enabling the relevant fee to be recognised directly at that time.

Government grants

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

Levies

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

Income tax

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

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

Current tax assets/liabilities

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

Deferred tax assets/liabilities

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

unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. KBC calculates deferred tax assets for carry forward unused tax losses. When estimating the period over which tax losses can be set off against future taxable profits, KBC uses projections for a period of eight to ten years.
Deferred tax assets/liabilities that relate to business combinations are recorded directly in goodwill.
Deferred tax assets/liabilities are not discounted.

Property and equipment

Property and equipment are recognised initially at cost (including directly allocable acquisition costs). KBC subsequently measures property and equipment at the initial cost less accumulated depreciation and impairment. The rates of depreciation are determined on the basis of the estimated useful life of the assets and are applied according to the straight-line method from the moment the assets are available for use. Property and equipment are derecognised upon disposal or when the relevant asset is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses upon derecognition are recognised in the income statement in the period in which derecognition occurs.
Property and equipment are subject to impairment testing when there is an indication that the asset might have been impaired.
Depreciation charges, impairment losses and gains or losses on disposal are recognised under 'Operating expenses' in the income statement, with the exception of assets that are leased under operating leases (KBC as a lessor), for which the costs are recognised in 'Net other income'. Where a disposal falls within the definition of a discontinued operation, the net results are reported in a single line in the income statement (see 'Discontinued operations' below).

Investment property

Investment property is defined as a property built, purchased or acquired by KBC under a finance lease and is held to earn rentals or for the purpose of capital appreciation rather than being used by KBC for the provision of services or for administrative purposes.
Investment property is initially recognised at cost (including directly attributable costs). KBC subsequently measures it at the initial cost less accumulated depreciation and impairment.
The depreciation charge is recognised under 'Net other income' in the income statement.

Intangible assets

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

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

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

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

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

- System software (initial purchased software forming an integral part with hardware) is amortised at the same rate as hardware.
- Standard software and customised software developed by a third party or developed in-house are amortised over five years according to the straight-line method from the time the software is available for use.
- Core systems (typically including deposit account processing, loan and credit processing, interfaces to the general ledger and reporting tools) are amortised over eight years according to the straight-line method.

Impairment of non-financial assets

When KBC prepares financial statements, it ensures that the carrying value of the non-financial asset does not exceed the amount that could

be obtained from either using or selling it ('recoverable amount').
Property and equipment, investment property and software are subject to the impairment review only when there is objective evidence of impairment. Goodwill and intangible assets with an indefinite useful life are subject to impairment reviews at least annually and also reviewed for impairment indicators every quarter.
Indications that an impairment loss is required may stem from either an internal source (e.g., the condition of the asset) or an external source (e.g., new technology or a significant decline in the asset's market value).
When an impairment indicator is present, KBC reviews the asset's recoverable amount and the asset is impaired if its recoverable amount is lower than its carrying value at the reporting date. The recoverable amount is defined as the higher of the value in use and the fair value less cost to sell.

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

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

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

Provisions, contingent liabilities and contingent assets

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

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

The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at balance sheet date.

When the effect of time is material, the amount recognised as a provision is the net present value of the best estimate.

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

Consolidated financial statements / interim financial statements

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

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

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

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

Business combinations and goodwill

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

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

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

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

Effects of changes in foreign exchange rates

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

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

Related-party transactions

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

- KBC subsidiaries, KBC associates and joint ventures, KBC Ancora, Cera and MRBB;
- KBC key management staff (i.e. the Board of Directors and the Executive Committee of KBC Group NV).

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

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

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

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

Discontinued operations

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

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

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

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

Events after the reporting period

Events after the reporting date are defined as favourable or unfavourable events that occur between the reporting date and the date on which the financial statements are authorised for issue. There are two types of event after the reporting date:
- those which provide evidence of conditions that existed on the reporting date (adjusting events);
- those that are indicative of conditions that arose after the reporting date (non-adjusting events).

The impact of adjusting events has already been reflected in the financial position and financial performance for the current year. The impact and consequences of non-adjusting events are disclosed in the notes to the financial statements.

Exchange rates used*

	Exchange rate at 31-12-2018		Exchange rate average in 2018	
	1 EUR = … … currency	Change from 31-12-2017 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … … currency	Change relative to average in 2017 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
BGN	1.9558	0%	1.9558	0%
CZK	25.724	-1%	25.671	3%
GBP	0.89453	-1%	0.88565	-1%
HUF	320.98	-3%	319.53	-3%
USD	1.1450	5%	1.1816	-4%

* Rounded figures.

Note 1.3: Critical estimates and significant judgements

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

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

Note 1.4: Transition disclosures for IFRS 9

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

The total impact of transitioning from IAS 39 to IFRS 9 on 1 January 2018, including the impact on financial assets and provisions, was to reduce equity by -949 million euros (before tax) or -746 million euros (after tax). This can be broken down as follows:
- impact due to classification and measurement: 661 million euros (before tax) due mainly to a decline in the OCI reserves;
- increase in impairment and provisions of 288 million euros (before tax).

Transition disclosures for financial assets

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

Classification and measurement

- Virtually all the loans and advances to credit institutions, loans and advances to customers and debt securities classified in 'Loans and receivables' under IAS 39 have been moved to 'Amortised cost'. The (net negative) frozen available-for-sale (AFS) reserves for historical reclassifications of bonds from 'Available for sale' to 'Loans and receivables' were reversed for some of these instruments, which increased the OCI reserves by +23 million euros (before tax).
- Debt securities previously classified as 'Held to maturity' have been reclassified mainly to 'Amortised cost'. The (net positive) frozen AFS reserves for historical reclassifications of bonds from 'Available for sale' to 'Held to maturity' were reversed for those instruments, which reduced the OCI reserves by -187 million euros (before tax).
- Debt securities worth 15 060 million euros that had previously been classified as 'Available for sale' have been reclassified to 'Amortised cost'. The AFS reserves relating to those debt securities were reversed, which reduced the OCI reserves by -610 million euros (before tax). Under IFRS 9,
  19 239 million euros' worth of debt securities have been classified as FVOCI, 17 407 million euros of which had been categorised as 'Available for sale' under IAS 39. The impact of fair value accounting on assets previously classified as 'Held to maturity' increased the OCI reserves by +143 million euros (before tax).
- Equity instruments (other than participating interests) previously classified as 'Available for sale' have either been reclassified to FVOCI if they are owned by one of the banking entities, or to 'FVPL - Overlay' if owned by one of the insurance entities. Due to the reversal of impairment, 39 million euros (before tax) has been reclassified from retained earnings to the OCI reserves. 78 million euros in impairment remains in retained earnings when the overlay approach is applied.
- Of the debt instruments measured at FVPL under IAS 39, 24 million euros has been reclassified to MFVPL because they failed the SPPI test, while 39 million euros remains in the FVO category due to accounting mismatches. None of these reclassifications had an impact on equity.
- Loans previously classified as 'Held for trading' have been reported at FVOCI since 1 January 2018. This reclassification of 284 million euros only resulted in a shift among the equity components: 18 million euros has been reclassified out of retained earnings into OCI reserves.
- Investment contracts (not included in the table) amounting to 14 421 million euros, which had previously been measured at FVPL under IAS 39, have been reclassified as MFVPL in accordance with their ‘managed on a FV basis’ business model (no impact on equity).

Impairment

- Implementation of the ECL model resulted in impairment on debt instruments measured at AC and FVOCI increasing by 282 million euros (before tax) as from 1 January 2018, causing retained earnings to fall by the same amount. As impairment on FVOCI debt instruments does not reduce the instruments’ carrying value, 8 million euros has been moved into the OCI reserves. The increase in impairment came about primarily because of 'Stage 2' lifetime ECL and is situated in 'Loans and advances' (261 million euros in the form of mortgage loans, term loans and current accounts).
  See table below.

Transition disclosures for financial liabilities

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

Transition disclosures for provisions

IFRS 9 requires the provisions for off-balance-sheet commitments to reflect ECL. As a result, provisioning for commitments and financial guarantees went up by approximately 4%, causing retained earnings to fall by 6 million euros (before tax).

Provisions (in millions of EUR)	Before adoption of IFRS 9				Impact of IFRS 9 on retained earnings (01-01-2018)	
	Loan commitments	Financial guarantees	Other commitments	Total	Before tax	After tax
Provisions: total carrying value before adoption of IFRS 9 (IFRS 7, 42(a))	113	19	1	133		
Remeasurement	6	-1	0	6	-6	-5
Reversal of specific impairment	-93	-18	0	-111		
Reversal of IBNR provision	-20	-2	0	-22		
Transfer to lifetime ECL	107	17	0	124		
Transfer to 12-month ECL	12	2	0	14		
IFRS 9 measurement on 01-01-2018	119	18	1	138		

Financial assets (in millions of EUR)	Classification before IFRS 9									Impact of IFRS 9 (01-01-2018)			
	Debt instruments[3]					Equity instruments			Total	Retained earnings		OCI reserve	
	Loans and receivables	Held to maturity	Available for sale	Designated at fair value	Held for trading	Available for sale	Designated at fair value	Held for trading		Before tax	After tax	Before tax	After tax
FINANCIAL ASSETS, 31-12-2017 (TOTAL CARRYING VALUE BEFORE ADOPTION OF IFRS 9)	**167 458**	**30 979**	**32 498**	**63**	**1 159**	**1 658**	**0**	**508**	**234 322**	**-288**	**-235**	**-644**	**-496**
AC									210 865	-266	-222	-774	-594
Amount before adoption of IFRS 9	167 289	29 560	15 060	0	0	–	–	–	211 910				
Remeasurement	-237	-190	-617	0	0	–	–	–	-1 045				
Due to reclassification: reversal of revaluation reserve (IAS 39)	23	-187	-610	–	–	–	–	–	-774			-774	-594
Due to reclassification: portfolio of FV hedges (transfers to non-financial assets)	–	–	-4	–	–	–	–	–	-4				
Impairment impact	-261	-3	-2	0	0	–	–	–	-266	-266	-222		
Reserved interest	688	0	0	0	0	–	–	–	688				
Reversal of impairment	3 840	4	8	–	–	–	–	–	3 853				
Reversal of IBNR provision	215	1	0	–	–	–	–	–	216				
Transfer to ECL – Stage 3	-4 549	-4	-8	0	0	–	–	–	-4 561				
Transfer to ECL – Stage 2	-357	-1	0	0	0	–	–	–	-358				
Transfer to ECL – Stage 1	-98	-4	-2	0	0	–	–	–	-104				
IFRS 9 measurement on 01-01-2018	167 052	29 370	14 443	0	0	–	–	–	210 865				
FVOCI									19 516	14	17	125	91
Amount before adoption of IFRS 9	0	1 410	17 407	0	284	277	0	0	19 378				
Remeasurement	0	138	0	0	0	0	–	–	138				
Due to reclassification: reversal of revaluation reserve (IAS 39)	0	-5	-908	–	–	-69	–	–	-982			-982	-763
Due to reclassification: impact of revaluation reserve (IAS 39) on OCI reserve (IFRS 9)	–	–	908	–	–	69	–	–	977			977	760
Due to reclassification: other than reversal of revaluation reserve	0	143	8	0	0	-39	–	–	111	-18	-16	129	95
Impairment impact	0	0	-8	0	0	39	–	–	32	32	33		
Reversal of impairment	0	0	0	–	–	39	–	–	39				
Reversal of IBNR provision	0	0	0	–	–	–	–	–	0				
Transfer to ECL – Stage 3	0	0	0	0	0	–	–	–	0				
Transfer to ECL – Stage 2	0	0	-4	0	0	–	–	–	-4				
Transfer to ECL – Stage 1	0	0	-4	0	0	–	–	–	-4				
IFRS 9 measurement on 01-01-2018	0	1 548	17 407	0	284	277	0	0	19 516				
HFT									1 383	0	0	0	0
Amount before adoption of IFRS 9	0	0	0	0	875	0	0	508	1 383				
Remeasurement	0	0	0	–	–	0	–	–	0				
IFRS 9 measurement on 01-01-2018	0	0	0	0	875	0	0	508	1 383				

FVO									39	0	0	0	0
Amount before adoption of IFRS 9	0	0	0	39	0	–	–	–	39				
Remeasurement	0	0	0	–	–	–	–	–	0				
IFRS 9 measurement on 01-01-2018	0	0	0	39	0	–	–	–	39				
FVPL – Overlay[1]									1 371	0	0	0	0
Amount before adoption of IFRS 9	0	0	0	–	–	1 371	–	–	1 371				
Remeasurement	0	0	0	–	–	0	–	–	0				
Due to reclassification: reversal of revaluation reserve (IAS 39)	0	0	0	–	–	-390	–	–	-390			-390	-387
Due to reclassification: impact of revaluation reserve (IAS 39) on OCI (IFRS 9)	0	0	0	–	–	390	–	–	390			390	387
Due to reclassification: other than reversal of revaluation reserve	0	0	0	–	–	-78	–	–	-78	-78	-78	0	0
Impairment impact	0	0	0	–	–	78	–	–	78	78	78		
IFRS 9 measurement on 01-01-2018	0	0	0	–	–	1 371	–	–	1 371				
MFVPL (excluding HFT)[2]									213	-35	-29	6	7
Amount before adoption of IFRS 9	169	9	31	24	0	10	0	0	242				
Remeasurement	-28	-2	0	–	–	0	0	–	-30				
Due to reclassification: reversal of revaluation reserve (IAS 39)	12	0	1	–	–	-6	–	–	6			6	7
due to reclassification: impact of revaluation reserve (IAS 39) on retained earnings (IFRS 9)	-12	0	-1	–	–	6	–	–	-6	-6	-7		
Due to reclassification: other than reversal of revaluation reserve	-31	-2	0	–	–	0	–	–	-33	-33	-25		
Impairment impact	3	0	0	–	–	0	–	–	3	3	3		
IFRS 9 measurement on 01-01-2018	141	7	31	24	0	10	0	0	213				
FINANCIAL ASSETS, 01-01-2018 (TOTAL CARRYING VALUE UNDER IFRS 9)	**167 193**	**30 926**	**31 881**	**63**	**1 159**	**1 658**	**0**	**508**	**233 386**				
Impact on retained earnings – excluding equity method, 01-01-2018 (IFRS 9)									-235	-288	-235		
Impact on OCI reserve – excluding equity method, 01-01-2018 (IFRS 9)									-496			-644	-496
Impact on retained earnings – equity method, 01-01-2018 (IFRS 9)									-4	-5	-4		
Impact on OCI reserve – equity method, 01-01-2018 (IFRS 9)									-3			-3	-3
Impact on retained earnings – other, 01-01-2018 (IFRS 9)									-3	-3	-3		
Total impact on retained earnings and OCI reserve, 01-01-2018 (IFRS 9)									-740	-296	-241	-647	-499
of which Phase-1 impact										-14	-7	-647	-499
of which Phase-2 impact										-282	-235	–	–

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

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

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

2.0 Notes on segment reporting

Note 2.1: Segment reporting based on the management structure

Detailed information on the group's management structure and the results per segment can be found in the 'Our business units' section (which has not been audited by the statutory auditor). In line with IFRS 8, KBC has identified the Executive Committee and Board of Directors as 'chief operating decision-makers', responsible for allocating the resources and assessing the performance of the different parts of the company. The operating segments are based on the internal financial reporting to these policy bodies and on the location of the company's activities, resulting in geographical segmentation.

The three operating segments are (essentially):
- the Belgium Business Unit (all activities in Belgium);
- the Czech Republic Business Unit (all activities in the Czech Republic);
- the International Markets Business Unit (activities in Ireland, Hungary, Slovakia and Bulgaria, reported together in accordance with IFRS 8.16).

For reporting purposes, there is also a Group Centre (comprising the results of the holding company, items that have not been allocated to the other business units, and the results of companies to be divested).

Segment reporting
- The policy bodies analyse the performance of the segments based on a number of criteria, with the 'Result after tax' being the most important results indicator. The segment data is based entirely on IFRS data (with no adjustments).
- In principle, we assign a group company in its entirety to one specific segment/business unit. Exceptions are only made for those items that cannot clearly be allocated to a specific segment, such as charges attached to the subordination of loans (such items are recognised under Group Centre).
- We allocate the funding cost of participating interests to the Group Centre. Any funding cost in respect of leveraging at KBC Group NV level is also recognised under Group Centre.
- Transactions among the different segments are reported at arm's length.
- We recognise 'Net interest income' in the segment information without dividing it up into 'Interest income' and 'Interest expense'. This is permitted under IFRS because the bulk of the business units' income is in the form of interest, and management assesses and co-ordinates those business units primarily on the basis of net interest income.
- We do not provide any information on income from sales to external clients per group of products or services, since the information is prepared at consolidated level chiefly for each business unit, and not per client group or product group.
- Information on the impact of United Bulgarian Bank and Interlease (Bulgaria), which were acquired in mid-2017, is provided in Note 6.6.

Note 2.2: Results by segment

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	Of which: Hungary	Slovakia	Bulgaria	Ireland	Group Centre	KBC group
INCOME STATEMENT FOR 2018 (IFRS 9)									
Net interest income	2 576	1 043	896	*243*	*211*	*151*	*291*	29	4 543
Non-life insurance (before reinsurance)	527	103	117	*42*	*25*	*50*	*0*	12	760
Earned premiums	1 070	248	254	*109*	*41*	*104*	*0*	10	1 582
Technical charges	-543	-145	-137	*-67*	*-16*	*-54*	*0*	2	-822
Life insurance (before reinsurance)	-110	58	34	*10*	*13*	*12*	*0*	-1	-18
Earned premiums	998	260	101	*17*	*53*	*32*	*0*	0	1 359
Technical charges	-1 108	-202	-67	*-6*	*-40*	*-20*	*0*	0	-1 377
Ceded reinsurance result	-26	-8	-11	*-3*	*-2*	*-6*	*0*	4	-41
Dividend income	74	1	0	*0*	*0*	*0*	*0*	7	82
Net result from financial instruments at fair value through profit or loss	101	72	74	*60*	*6*	*13*	*-5*	-17	231
Net realised result from debt instruments at fair value through OCI	0	0	0	*-1*	*0*	*1*	*0*	9	9
Net fee and commission income	1 182	257	284	*197*	*59*	*29*	*-1*	-3	1 719
Other net income	225	14	17	*15*	*4*	*-1*	*-1*	-30	226
TOTAL INCOME	4 549	1 540	1 412	*565*	*316*	*248*	*284*	11	7 512
Operating expenses[a]	-2 484	-729	-909	*-345*	*-205*	*-143*	*-216*	-112	-4 234
Impairment	-93	-42	118	*9*	*-4*	*1*	*111*	35	17
on financial assets at amortised cost and at fair value through OCI	-91	-8	127	*9*	*-4*	*10*	*112*	35	62
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
other	-2	-34	-9	*-1*	*0*	*-9*	*0*	0	-45
Share in results of associated companies and joint ventures	-8	19	5	*0*	*0*	*1*	*0*	0	16
RESULT BEFORE TAX	1 963	788	626	*228*	*107*	*107*	*180*	-67	3 310
Income tax expense	-513	-134	-93	*-32*	*-25*	*-11*	*-24*	0	-740
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	1 450	654	533	*196*	*82*	*96*	*155*	-67	2 570
attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	0	0
attributable to equity holders of the parent	**1 450**	**654**	**533**	***196***	***82***	***96***	***155***	**-67**	**2 570**
a Of which non-cash expenses	-59	-62	-68	*-30*	*-14*	*-7*	*-17*	-90	-278
Depreciation and amortisation of fixed assets	-52	-59	-70	*-30*	*-14*	*-9*	*-17*	-98	-280
Other	-7	-3	2	*0*	*0*	*2*	*0*	8	1
Acquisitions of non-current assets*	497	127	201	*50*	*48*	*75*	*28*	176	1 001

* Non-current assets held for sale and disposal groups, investment property, property and equipment, investments in associated companies, and goodwill and other intangible assets.

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	Of which: Hungary	Slovakia	Bulgaria	Ireland	Group Centre	KBC group
INCOME STATEMENT FOR 2017 (IAS 39)									
Net interest income	2 394	888	837	*244*	*211*	*104*	*278*	1	4 121
Non-life insurance (before reinsurance)	526	86	83	*35*	*25*	*23*	*0*	11	706
Earned premiums	1 043	216	224	*100*	*36*	*88*	*0*	8	1 491
Technical charges	-516	-130	-141	*-64*	*-12*	*-65*	*0*	3	-785
Life insurance (before reinsurance)	-132	48	25	*7*	*12*	*5*	*0*	1	-58
Earned premiums	927	260	85	*16*	*49*	*20*	*0*	0	1 271
Technical charges	-1 059	-212	-60	*-9*	*-36*	*-15*	*0*	1	-1 330
Ceded reinsurance result	-15	-4	9	*-1*	*-2*	*12*	*0*	1	-8
Dividend income	52	0	1	*0*	*0*	*0*	*0*	10	63
Net result from financial instruments at fair value through profit or loss	539	222	95	*62*	*15*	*13*	*5*	-1	856
Net realised result from available-for-sale assets	123	17	3	*2*	*0*	*1*	*0*	56	199
Net fee and commission income	1 290	192	232	*161*	*51*	*18*	*-1*	-6	1 707
Other net income	174	40	-112	*3*	*8*	*-4*	*-116*	11	114
TOTAL INCOME	4 953	1 490	1 173	*514*	*320*	*172*	*167*	84	7 700
Operating expenses[a]	-2 452	-646	-837	*-346*	*-204*	*-96*	*-188*	-140	-4 074
Impairment	-116	-24	190	*8*	*-13*	*-20*	*215*	-20	30
on loans and receivables	-87	-5	197	*11*	*-11*	*-17*	*215*	-18	87
on available-for-sale assets	-11	-1	-1	*0*	*0*	*-1*	*0*	0	-12
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
other	-18	-18	-7	*-3*	*-1*	*-2*	*0*	-2	-45
Share in results of associated companies and joint ventures	-13	21	4	*0*	*0*	*0*	*0*	0	11
RESULT BEFORE TAX	2 372	842	529	*176*	*103*	*56*	*193*	-75	3 667
Income tax expense	-797	-140	-85	*-29*	*-24*	*-6*	*-26*	-71	-1 093
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	1 575	702	444	*146*	*79*	*50*	*167*	-146	2 575
attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	0	0
attributable to equity holders of the parent	**1 575**	**702**	**444**	***146***	***79***	***50***	***167***	**-146**	**2 575**
a Of which non-cash expenses	-58	-54	-68	*-29*	*-14*	*-10*	*-15*	-91	-271
Depreciation and amortisation of fixed assets	-57	-54	-65	*-29*	*-15*	*-7*	*-15*	-90	-266
Other	-1	1	-3	*0*	*0*	*-4*	*0*	-1	-5
Acquisitions of non-current assets*	488	213	219	*48*	*114*	*27*	*30*	116	1 036

* Non-current assets held for sale and disposal groups, investment property, property and equipment, investments in associated companies, and goodwill and other intangible assets.

Note 2.3: Balance-sheet information by segment

The table below presents some of the main on-balance-sheet products by segment.

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	Of which: Hungary	Slovakia	Bulgaria	Ireland	Group Centre	KBC group
BALANCE SHEET AT 31-12-2018 (IFRS 9)									
Deposits from customers and debt securities (excluding repos)	131 442	32 394	22 897	*7 503*	*6 348*	*4 116*	*4 930*	7 558	194 291
Demand deposits	46 908	20 825	12 160	*5 746*	*3 456*	*2 217*	*742*	0	79 893
Savings accounts	47 789	7 536	4 743	*944*	*1 293*	*810*	*1 696*	0	60 067
Time deposits	10 048	1 355	5 440	*633*	*1 226*	*1 089*	*2 492*	0	16 844
Debt securities	24 584	2 177	328	*179*	*149*	*0*	*0*	7 558	34 648
Other	2 113	502	224	*0*	*224*	*0*	*0*	0	2 839
Loans and advances to customers (excluding reverse repos)	99 650	23 387	24 015	*4 373*	*7 107*	*2 806*	*9 729*	0	147 052
Term loans	51 766	8 304	5 675	*1 969*	*2 314*	*1 039*	*353*	0	65 744
Mortgage loans	35 049	11 317	14 471	*1 260*	*3 248*	*642*	*9 320*	0	60 837
Other	12 835	3 766	3 870	*1 144*	*1 545*	*1 125*	*55*	0	20 471
BALANCE SHEET AT 31-12-2017 (IAS 39)									
Deposits from customers and debt securities (excluding repos)	132 881	30 246	22 663	*7 302*	*6 066*	*3 903*	*5 392*	7 918	193 708
Demand deposits	42 757	19 582	11 267	*5 484*	*3 058*	*1 920*	*805*	0	73 606
Savings accounts	44 416	7 668	4 609	*942*	*1 227*	*837*	*1 603*	0	56 692
Time deposits	12 493	712	6 192	*844*	*1 379*	*1 105*	*2 864*	0	19 397
Debt securities	31 186	1 792	331	*31*	*178*	*0*	*121*	7 918	41 227
Other	2 028	492	264	*0*	*223*	*41*	*0*	0	2 784
Loans and advances to customers (excluding reverse repos)	94 495	22 303	24 201	*4 217*	*6 574*	*2 716*	*10 694*	0	140 999
Term loans	48 325	8 104	5 411	*1 936*	*2 158*	*568*	*749*	0	61 839
Mortgage loans	34 468	10 653	15 503	*1 556*	*2 943*	*1 100*	*9 905*	0	60 625
Other	11 701	3 546	3 287	*726*	*1 473*	*1 049*	*40*	0	18 535

3.0 Notes to the income statement

Note 3.1: Net interest income

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	**4 543**	**4 121**
Interest income	**6 996**	**6 337**
Interest income on financial instruments calculated using the effective interest rate method		
Loans and receivables	–	3 819
Held-to-maturity investments	–	853
Financial assets at AC	5 229	–
Available-for-sale assets	–	650
Financial assets at fair value through OCI	425	–
Hedging derivatives	379	274
Other assets not at fair value	73	165
Interest income on other financial instruments		
Financial assets MFVPL other than held for trading	8	1
Financial assets held for trading	883	570
Of which economic hedges	856	544
Other financial assets at fair value through profit or loss	0	5
Interest expense	**-2 453**	**-2 216**
Interest expense on financial instruments calculated using the effective interest rate method		
Financial liabilities at amortised cost	-1 166	-955
Hedging derivatives	-584	-479
Other	-126	-102
Interest expense on other financial instruments		
Financial liabilities held for trading	-543	-643
Of which economic hedges	-516	-620
Other financial liabilities at fair value through profit or loss	-29	-29
Net interest expense relating to defined benefit plans	-6	-8

- Information on the change in presentation of accrued interest from foreign exchange derivatives is provided in Note 1.1.

Note 3.2: Dividend income

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	**82**	**63**
Equity instruments MFVPL other than held for trading	52	–
Equity instruments held for trading	17	11
Equity instruments initially recognised at FVPL	–	0
Equity instruments at FVOCI	13	–
Available-for-sale equity instruments	–	53

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

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	**231**	**856**
Financial instruments MFVPL other than held for trading and overlay	-589	–
Trading instruments (including interest and fair value changes in trading derivatives)	183	336
Financial instruments to which the overlay approach is applied	51	–
Gains or losses on sale	110	–
Impairment	-58	–
Other financial instruments at FVPL	635	10
Foreign exchange trading	46	589
Fair value adjustments in hedge accounting	-96	-79
Hedge accounting broken down by type of hedge		
Fair value micro hedges	-14	-5
Changes in the fair value of the hedged items	-128	-49
Changes in the fair value of the hedging derivatives	114	44
Cashflow hedges	-2	1
Changes in the fair value of the hedging derivatives, ineffective portion	-2	1
Hedges of net investments in foreign operations, ineffective portion	0	0
Portfolio hedge of interest rate risk	-14	8
Changes in the fair value of the hedged items	144	-102
Changes in the fair value of the hedging derivatives	-158	110
Discontinuation of hedge accounting for fair value hedges	-15	-17
Discontinuation of hedge accounting in the event of cashflow hedges	-51	-65

- 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).
- Day 1 profit: when the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or from the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case (i.e. the variables do not include only data from observable markets), day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. The impact of this is negligible for KBC.
- Financial instruments to which the overlay approach is applied: see the comments under the consolidated income statement.
- Foreign exchange trading results comprise total exchange differences, excluding those recognised on financial instruments at fair value through profit or loss.
- Under IFRS 9, investment contracts (insurance) are reclassified to 'Financial instruments mandatorily measured at fair value through profit or loss' in accordance with their 'managed on a FV basis' business model, whereas liabilities under investment contracts continue to be recognised under 'Financial instruments at fair value through profit or loss'. This resulted in amounts being offset against each other in 'Financial instruments MFVPL other than held for trading and overlay' and 'Financial instruments at fair value through profit or loss' in the above table (-589 million euros and +589 million euros, respectively).
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, we use the dollar offset method on a quarterly basis, with changes in the fair value of the hedged item offsetting changes in the fair value of the hedging instrument within a range of 80%–125%.
  - For cashflow hedges, we compare the designated hedging instrument with a perfect hedge of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the perfect hedge). The effectiveness of both tests must fall within a range of 80%–125%.

- We use the rules set out in the European version of IAS 39 (carve-out) to assess the effectiveness of fair value hedges for a portfolio of interest rate risk. IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, we make sure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.

- Most significant fluctuations between 2017 and 2018: the result from financial instruments measured at fair value through profit or loss in 2018 was down 626 million euros on its level in 2017, due in part to a change in presentation (of accrued interest from foreign exchange derivatives (305 million euros in 2017) and network income (99 million euros in 2017)), partly offset by recognition of the results arising from application of the overlay approach to the equity instruments connected with the insurance activities (70 million euros in 2017). Disregarding these items, the result from financial instruments at fair value through profit or loss in 2018 was 291 million euros lower than in 2017, owing primarily to the lower value of derivatives used for asset/liability management purposes, the lower level of income generated by the dealing rooms in the Czech Republic and Belgium, and negative market value adjustments in 2018 as opposed to positive ones in 2017.

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

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	**–**	**199**
Fixed-income securities	–	29
Equity instruments	–	170

Note 3.5: Net fee and commission income

(in millions of EUR)	2018	2017
Total	**1 719**	**1 707**
Fee and commission income	2 456	2 615
Fee and commission expense	-737	-908
Breakdown by type		
Asset management services	1 110	1 232
Fee and commission income	1 168	1 289
Fee and commission expense	-58	-57
Banking services	883	764
Fee and commission income	1 226	1 267
Fee and commission expense	-343	-502
Distribution	-274	-290
Fee and commission income	62	59
Fee and commission expense	-336	-349

- The lion’s share of the fees and commissions related to lending is recognised under ‘Net interest income’ (effective interest rate calculations).
- As from 2018, the financial information has been prepared in accordance with IFRS 9, without affecting net fee and commission income. The impact of implementing IFRS 15 is negligible.
- Information on the change in presentation of ‘Network income’ can be found in Note 1.1.

Note 3.6: Other net income

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	**226**	**114**
of which gains or losses on		
Sale of loans and receivables	–	3
Sale of held-to-maturity investments	–	3
Sale of financial assets measured at amortised cost	15	–
Repurchase of financial liabilities measured at amortised cost	0	0
Other, including:	212	109
Income from (mainly operational) leasing activities, KBC Lease Group	69	73
Income from VAB Group	57	64
Settlement of legal cases	18	14
Provisioning for tracker mortgage review	0	-116

- Provisioning for the tracker mortgage review concerns KBC Bank Ireland, which – like all major lenders in Ireland at the time – had offered tracker mortgages (i.e. between 2003 and 2008). In December 2015, the Central Bank of Ireland (CBI) requested the Irish banking industry, including KBC Bank Ireland, to undertake a broad and wide-ranging examination of tracker-mortgage related issues. The purpose of the tracker mortgage review was to identify cases where clients' contractual rights under the terms of their mortgage agreements had not been fully honoured and/or lenders had not fully complied with the various requirements and standards regarding disclosure and transparency for the client. In situations where client detriment was identified from this examination, KBC Bank Ireland had to provide appropriate redress and compensation in line with the CBI 'Principles for Redress'. The bank recognised a provision of 4 million euros in 2016 and 116 million euros in 2017 in respect of redress and compensation for clients identified as being impacted. In 2018, most of the clients concerned duly received redress and compensation payments.
- Settlement of legal cases relates primarily to cases in the Group Centre (-38 million euros and 5 million euros, respectively, in the second and third quarters of 2018), Belgium (18 million euros and 33 million euros, respectively, in the first and fourth quarters of 2018) and the Czech Republic (14 million euros in the first quarter of 2017).

Note 3.7: Insurance results

- As a bank-insurer, KBC presents its financial information on an integrated basis (i.e. banking and insurance activities combined). More information on the banking and insurance businesses is provided separately in the respective annual reports of KBC Bank and KBC Insurance. This note provides information on the insurance results alone.
- The figures include intragroup transactions between bank and insurance entities (the results for insurance contracts concluded between the group's bank and insurance entities, interest that insurance companies receive on their deposits with bank entities, commissions that insurance entities pay to bank branches for sales of insurance, etc.) in order to give a more accurate view of the profitability of the insurance business. A reconciliation of the earned premiums stated in the consolidated income statement and in Note 3.7.1 is presented in the table below the overview.
- Additional information on the insurance business is provided separately in Note 3.7, Note 5.6 and Note 6.5 (KBC Insurance section), in the 'How do we manage our risks?' section ('Credit risk exposure in the insurance activities', 'Interest rate risk', 'Equity risk' and 'Real estate risk', 'Technical insurance risk') and in the 'How do we manage our capital?' section ('Solvency of KBC Bank and KBC Insurance separately').

Note 3.7.1: Overview

(in millions of EUR)	Life	Non-life	Non-technical account	Total
2018 (IFRS 9)				
Earned premiums, insurance (before reinsurance)	1 361	1 601	0	2 962
Technical charges, insurance (before reinsurance)	-1 377	-824	0	-2 201
Net fee and commission income	-29	-311	0	-339
Ceded reinsurance result	-2	-39	0	-41
General administrative expenses	-150	-251	-3	-404
Internal claims settlement expenses	-9	-59	0	-67
Indirect acquisition costs	-31	-70	0	-100
Administrative expenses	-111	-123	0	-234
Investment management fees	0	0	-3	-3
Technical result	-196	176	-3	-23
Net interest income	–	–	507	507
Net dividend income	–	–	53	53
Net result from financial instruments at fair value through profit or loss	–	–	64	64
Net realised result from debt instruments at fair value through OCI	–	–	1	1
Other net income	–	–	1	1
Impairment	–	–	-2	-2
Allocation to the technical accounts	506	79	-585	0
Technical-financial result	310	255	36	601
Share in results of associated companies and joint ventures	–	–	4	4
RESULT BEFORE TAX	**310**	**255**	**40**	**605**
Income tax expense	–	–	–	-146
RESULT AFTER TAX	**–**	**–**	**–**	**459**
attributable to minority interests	–	–	–	0
attributable to equity holders of the parent	**–**	**–**	**–**	**459**
2017 (IAS 39)				
Earned premiums, insurance (before reinsurance)	1 273	1 510	–	2 784
Technical charges, insurance (before reinsurance)	-1 331	-785	–	-2 116
Net fee and commission income	-20	-292	–	-312
Ceded reinsurance result	1	-9	–	-8
General administrative expenses	-140	-247	-3	-389
Internal claims settlement expenses	-8	-56	–	-65
Indirect acquisition costs	-31	-73	–	-103
Administrative expenses	-100	-118	–	-218
Investment management fees	0	0	-3	-3
Technical result	-216	178	-3	-41
Net interest income	–	–	564	564
Net dividend income	–	–	39	39
Net result from financial instruments at fair value through profit or loss	–	–	-2	-2
Net realised result from available-for-sale assets	–	–	84	84
Other net income	–	–	-10	-10
Impairment	–	–	-12	-12
Allocation to the technical accounts	537	87	-624	0
Technical-financial result	320	265	35	621
Share in results of associated companies and joint ventures	–	–	4	4
RESULT BEFORE TAX	**320**	**265**	**39**	**624**
Income tax expense	–	–	–	-187
RESULT AFTER TAX	**–**	**–**	**–**	**438**
attributable to minority interests	–	–	–	0
attributable to equity holders of the parent	**–**	**–**	**–**	**438**

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

Reconciliation of the earned premiums stated in the consolidated income statement and in Note 3.7.1 (in millions of EUR)	2018	2017
Non-life insurance (before reinsurance) – Earned premiums		
In the consolidated income statement	1 582	1 491
Addition of premiums from intragroup transactions between bank and insurer	19	20
In Note 3.7.1	1 601	1 510
Life insurance (before reinsurance) – Earned premiums		
In the consolidated income statement	1 359	1 271
Addition of premiums from intragroup transactions between bank and insurer	2	2
In Note 3.7.1	1 361	1 273

Note 3.7.2: Life insurance

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

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

Note 3.7.3: Non-life insurance

(in millions of EUR)	Earned premiums (before reinsurance)	Claims incurred (before reinsurance)	Operating expenses (before reinsurance)	Ceded reinsurance	Total
2018					
Total	**1 601**	**-824**	**-562**	**-39**	**176**
Accepted reinsurance	40	-8	-15	-11	6
Primary business	1 561	-816	-547	-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	-187	-178	-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	-10	-8	0	0
Legal assistance (class 17)	55	-22	-21	0	12
Assistance (class 18)	30	-12	-15	0	4
2017					
Total	**1 510**	**-785**	**-539**	**-9**	**178**
Accepted reinsurance	39	-5	-16	-23	-4
Primary business	1 472	-781	-523	14	182
Accident & health (classes 1 & 2, excl. industrial accidents)	112	-54	-40	0	19
Industrial accidents (class 1)	73	-39	-18	0	16
Motor, third-party liability (class 10)	407	-268	-128	1	11
Motor, other classes (classes 3 & 7)	229	-135	-82	0	14
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	4	-2	-2	0	0
Fire and other damage to property (classes 8 & 9)	449	-166	-174	6	116
General third-party liability (class 13)	98	-81	-40	6	-17
Credit and suretyship (classes 14 & 15)	0	0	0	0	0
Miscellaneous pecuniary losses (class 16)	16	-7	-7	1	3
Legal assistance (class 17)	53	-16	-19	0	18
Assistance (class 18)	29	-12	-15	0	2

Note 3.8: Operating expenses

(in millions of EUR)	2018	2017
Total	**-4 234**	**-4 074**
Staff expenses	-2 343	-2 303
General administrative expenses	-1 612	-1 505
of which bank taxes	-462	-439
Depreciation and amortisation of fixed assets	-280	-266

- 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 (totalling 439 million euros in 2017 and 462 million euros in 2018). The latter figure comprises 269 million euros in the Belgium Business Unit, 30 million euros in the Czech Republic Business Unit, 20 million euros in Slovakia, 14 million euros in Bulgaria, 110 million euros in Hungary and 19 million euros in Ireland.
- Share-based payments are included under staff expenses.
- Information on the main equity-settled share-based payments: since 2000, KBC has launched a number of stock option plans for its employees. There were no outstanding options at year-end 2018 (changes in 2018 related to the remaining options that had expired (-63 730 options)).
- Information on the capital increase reserved for KBC group employees can be found in the 'Company annual accounts and additional information' section. In 2018, this resulted in the recognition of a limited employee benefit (3 million euros) as the issue price was lower than the market price. Information regarding the (highest, lowest, average) price of the KBC share can be found in the 'Report of the Board of Directors' section.

Note 3.9: Personnel

(number)	2018	2017
Total average number of persons employed (in full-time equivalents)	**38 064**	**37 130**
By legal entity		
KBC Bank	29 937	29 079
KBC Insurance	4 202	4 167
KBC Group NV (holding company)	3 925	3 884
By employee classification		
Blue-collar staff	355	374
White-collar staff	37 434	36 488
Senior management	275	268

- The figures in the table are annual averages, which – in terms of scope – may differ from year-end figures that are provided elsewhere.
- Due to the fact that United Bulgarian Bank and Interlease were only acquired in mid-2017, just half of their figures have been included for 2017 (1 156 FTEs). Complete figures for these entities have been included for 2018.

Note 3.10: Impairment (income statement)

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	**17**	**30**
Impairment on financial assets at AC and at FVOCI*	**62**	**–**
Of which impairment on financial assets at AC (IFRS 9) and on loans and receivables (IAS 39)	**59**	**87**
By product		
Loans and advances	43	146
Debt securities	1	–
Off-balance-sheet commitments and financial guarantees	15	-59
By type		
Stage 1 (12-month ECL)	-21	–
Stage 2 (lifetime ECL)	37	–
Stage 3 (lifetime ECL)	56	–
Purchased or originated credit impaired assets	-13	–
Specific impairment, on-balance-sheet lending	–	86
Provisions for off-balance-sheet commitments and financial guarantees	–	-59
Portfolio-based impairment	–	60
Of which impairment on financial assets at FVOCI (IFRS 9) and on available-for-sale assets (IAS 39)	**3**	**-12**
Equity instruments	–	-12
Debt securities	3	0
Stage 1 (12-month ECL)	2	–
Stage 2 (lifetime ECL)	1	–
Stage 3 (lifetime ECL)	0	–
Impairment on goodwill	**0**	**0**
Impairment on other	**-45**	**-45**
Intangible fixed assets (other than goodwill)	0	-13
Property and equipment (including investment property)	-45	-28
Held-to-maturity assets (IAS 39)	–	-1
Associated companies and joint ventures	0	0
Other	0	-4

* Modification gains or losses are also recognised under impairment, but were limited in 2018.

- Impairment on financial assets at AC and at FVOCI is also referred to as 'Impairment on loans'. In 2018, it comprised net provisioning of 91 million euros for the Belgium Business Unit (87 million euros a year earlier), net provisioning of 8 million euros for the Czech Republic Business Unit (5 million euros a year earlier), a net reversal of 35 million euros for the Group Centre (net provisioning of 18 million euros a year earlier) and a net reversal of 127 million euros for the International Markets Business Unit (197 million euros a year earlier). The 2018 figure for the International Markets Business Unit breaks down into a net reversal of 112 million euros in 2018 in Ireland (net reversal of 215 million euros in 2017), a net reversal of 9 million euros in Hungary (net reversal of 11 million euros in 2017), net provisioning of 4 million euros in Slovakia (net provisioning of 11 million euros in 2017) and a net reversal of 10 million euros in Bulgaria (net provisioning of 17 million euros in 2017).
- In Ireland, the loan portfolio – which contains a relatively large proportion of home loans and mortgages – has suffered in recent years as a consequence of the property crisis. The Irish loan portfolio stood at about 11 billion euros at the end of the year, 96% of which relates to mortgage loans. The group was able to recognise a net

impairment reversal of 112 million euros for its Irish portfolio in 2018 (the net reversal came to 215 million euros in 2017). The net reversal in 2018 was accounted for in part by the rise in Irish house prices. At the beginning of August 2018, KBC Bank Ireland also reached agreement with Goldman Sachs to sell part (originally worth 1.9 billion euros) of its legacy portfolio, comprising non-performing corporate loans, non-performing Irish buy-to-let home loans, and performing and non-performing UK buy-to-let home loans. The deal significantly reduced KBC Bank Ireland's impaired loans ratio (by roughly 10 percentage points) to around 23% in the last quarter. The deal was closed on 30 November 2018.

- For information on total impairment recognised in the balance sheet, see Note 4.2.
- KBC 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 – performed by calculating the difference between the outcome of the probability-weighted scenario (which is recognised) and the base scenario – gives a scenario-weighted ECL at year-end 2018 that is 0% to 0.3% 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 range rises to 0.2%–2.6%.

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

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	16	11
Of which:		
ČMSS	19	21
Joyn International NV	-6	-5
Bancontact Payconiq Company NV	0	-2
Payconiq International SA	-7	-6
NLB Vita	4	4

- The share in results of associated companies and joint ventures is accounted for primarily by ČMSS, a joint venture of ČSOB in the Czech Republic. More details are provided in Note 5.3.
- Impairment on (goodwill on) associated companies and joint ventures is included in 'Impairment' (see Note 3.10). The share in results of associated companies and joint ventures does not therefore take this impairment into account.

Note 3.12: Income tax expense

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	**-740**	**-1 093**
By type		
Current taxes on income	-554	-523
Deferred taxes on income	-186	-570
Tax components		
Result before tax	3 310	3 667
Income tax at the Belgian statutory rate	29.58%	33.99%
Income tax calculated	-979	-1 247
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	226	303
tax-free income	101	205
adjustments related to prior years	10	0
adjustments to deferred taxes due to change in tax rate	-22	-243
unused tax losses and unused tax credits to reduce current tax expense	16	23
unused tax losses and unused tax credits to reduce deferred tax expense	0	16
reversal of previously recognised deferred tax assets due to tax losses	0	0
other (mainly non-deductible expenses)	-92	-148

- For information on tax assets and tax liabilities, see Note 5.2.
- 'Income tax expense' in 2017 was positively impacted by deferred tax assets, 66 million euros of which at KBC Bank following the liquidation of IIB Finance Ireland (under Belgian tax law, the loss in paid-up capital that KBC Bank sustained as a result of the liquidation of IIB Finance Ireland is tax deductible for the parent company on the date of liquidation, rather than at the time the losses were incurred).
- Adjustments to deferred taxes due to change in the tax rate in 2017 concerned the reform of the Belgian corporation tax regime, which will affect KBC mainly because of the planned gradual decrease in the tax rate from 33.99% to 29.58% (from financial year 2018) and to 25% (from financial year 2020). This already had a slight, positive one-off impact (of roughly +0.1%) on our common equity ratio at the end of 2017 (thanks in part to higher revaluation reserves for available-for-sale assets (after tax) and lower risk-weighted assets resulting from the lower level of outstanding deferred tax assets) and a one-off negative impact on the income statement at year-end 2017 (-243 million euros due to a reduction in the amount of deferred tax assets). In addition, the increase in tax exemption for eligible dividends received (from 95% to 100%) had a positive impact of 32

million euros. Both these factors had an aggregate negative impact of 211 million euros for 2017. In segment reporting (Note 2.2), the portion related to the legacy business was charged to the Group Centre (126 million euros) and the rest to the Belgium Business Unit.

- The reform of the Belgian corporation tax regime has been having a recurring positive impact on the income statement since 2018, because of the lower tax rate applying to the Belgian group companies and certain dividends received being 100% tax-exempt. However, the impact has been partly mitigated by other measures, including the reform of the notional interest deduction scheme. Its impact in 2018 was almost +100 million euros.
- Country-by-country reporting (according to the Royal Decree of 27 November 2014 amending the royal decrees concerning the financial statements and consolidated financial statements of credit institutions, investment firms and management companies of undertakings for collective investment) is provided at the consolidated level of KBC Bank and is dealt with in Note 3.11 of the KBC Bank Annual Report (available at www.kbc.com).

Note 3.13: Earnings per share

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Result after tax, attributable to equity holders of the parent	2 570	2 575
Coupon on AT1 instruments	-76	-52
Net result used to determine basic earnings per share	2 494	2 523
Weighted average number of ordinary shares outstanding (millions of units)	417	418
Basic earnings per share (EUR)	5.98	6.03

- Diluted earnings per share are currently almost the same as basic earnings per share.

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

These notes should be read in conjunction with Note 1.1.

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

(in millions of EUR)	Measured at amortised cost (AC)	Measured at fair value through other comprehensive income (FVOCI)	Mandatorily measured at fair value through profit or loss (other than held for trading) (MFVPL excl. HFT)	Held for trading (HFT)	Available for sale	Loans and receivables	Held to maturity	Designated at fair value[1] (FVO)	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2018 (IFRS 9)										
Loans and advances to credit institutions and investment firms (excl. reverse repos)[a]	5 069	0	0	0	–	–	–	0	0	5 070
Loans and advances to customers (excl. reverse repos)	146 954	0	85	0	–	–	–	13	0	147 052
Trade receivables	4 197	0	0	0	–	–	–	0	0	4 197
Consumer credit	4 520	0	0	0	–	–	–	0	0	4 520
Mortgage loans	60 766	0	71	0	–	–	–	0	0	60 837
Term loans	65 717	0	14	0	–	–	–	13	0	65 744
Finance lease	5 618	0	0	0	–	–	–	0	0	5 618
Current account advances	5 527	0	0	0	–	–	–	0	0	5 527
Other	609	0	0	0	–	–	–	0	0	609
Reverse repos[2]	21 133	0	0	0	–	–	–	0	0	21 134
with credit institutions and investment firms	20 976	0	0	0	–	–	–	0	0	20 977
with customers	157	0	0	0	–	–	–	0	0	157
Equity instruments	0	258	1 249	763	–	–	–	0	0	2 271
Investment contracts (insurance)	0	0	13 837	0	–	–	–	0	0	13 837
Debt securities issued by	41 649	18 020	54	714	–	–	–	0	0	60 437
Public bodies	35 710	12 025	0	557	–	–	–	0	0	48 292
Credit institutions and investment firms	3 032	2 579	0	76	–	–	–	0	0	5 687
Corporates	2 907	3 417	54	81	–	–	–	0	0	6 458
Derivatives	0	0	0	4 942	–	–	–	0	183	5 124
Other[3]	1 986	0	0	6	–	–	–	0	0	1 992
Total	216 792	18 279	15 224	6 426	–	–	–	13	183	256 916
a of which loans and advances to banks repayable on demand and term loans to banks at not more than three months										*674*
FINANCIAL ASSETS, 31-12-2017 (IAS 39)										
Loans and advances to credit institutions and investment firms (excl. reverse repos)[a]	–	–	–	1	0	4 877	0	0	0	4 878
Loans and advances to customers (excluding reverse repos)	–	–	–	0	0	140 960	0	38	0	140 999
Trade receivables	–	–	–	0	0	3 986	0	0	0	3 986
Consumer credit	–	–	–	0	0	3 857	0	0	0	3 857
Mortgage loans	–	–	–	0	0	60 601	0	23	0	60 625
Term loans	–	–	–	0	0	61 824	0	15	0	61 839
Finance lease	–	–	–	0	0	5 308	0	0	0	5 308
Current account advances	–	–	–	0	0	4 728	0	0	0	4 728
Other	–	–	–	0	0	656	0	0	0	656
Reverse repos[2]	–	–	–	2	0	20 074	0	0	0	20 076
with credit institutions and investment firms	–	–	–	2	0	19 570	0	0	0	19 572
with customers	–	–	–	0	0	504	0	0	0	504
Equity instruments	–	–	–	508	1 658	0	0	0	0	2 165
Investment contracts (insurance)	–	–	–	0	0	0	0	14 421	0	14 421
Debt securities issued by	–	–	–	1 156	32 498	921	30 979	24	0	65 578
Public bodies	–	–	–	955	22 307	52	29 096	0	0	52 410
Credit institutions and investment firms	–	–	–	121	4 468	125	1 177	0	0	5 891
Corporates	–	–	–	80	5 723	744	706	24	0	7 277
Derivatives	–	–	–	5 765	0	0	0	0	245	6 010
Other[3]	–	–	–	0	0	626	0	0	0	626
Total	–	–	–	7 431	34 156	167 458	30 979	14 484	245	254 753
a of which loans and advances to banks repayable on demand and term loans to banks at not more than three months										*643*

(in millions of EUR)	Measured at amortised cost (AC)	Held for trading (HFT)	Designated at fair value (FVO)	Hedging derivatives	Total
FINANCIAL LIABILITIES, 31-12-2018 (IFRS 9)					
Deposits from credit institutions and investment firms (excl. repos)[a]	23 684	0	0	–	23 684
Deposits from customers and debt securities (excl. repos)	192 004	226	2 061	–	194 291
Demand deposits	79 893	0	0	–	79 893
Time deposits	16 499	49	296	–	16 844
Savings accounts	60 067	0	0	–	60 067
Special deposits	2 629	0	0	–	2 629
Other deposits	211	0	0	–	211
Certificates of deposit	15 575	0	8	–	15 583
Savings certificates	1 700	0	0	–	1 700
Convertible bonds	0	0	0	–	0
Non-convertible bonds	13 029	176	1 572	–	14 777
Convertible subordinated liabilities	0	0	0	–	0
Non-convertible subordinated liabilities	2 402	0	186	–	2 588
Repos[4]	1 001	0	0	–	1 001
with credit institutions and investment firms	932	0	0	–	932
with customers	69	0	0	–	69
Liabilities under investment contracts	0	–	12 949	–	12 949
Derivatives	–	4 673	0	1 111	5 784
Short positions	–	935	0	–	935
In equity instruments	–	16	0	–	16
In debt securities	–	919	0	–	919
Other[5]	3 982	0	0	–	3 983
Total	220 671	5 834	15 010	1 111	242 626
a of which deposits from banks repayable on demand					*5 966*
FINANCIAL LIABILITIES, 31-12-2017 (IAS 39)					
Deposits from credit institutions and investment firms (excl. repos)[a]	27 746	3	12	–	27 761
Deposits from customers and debt securities (excl. repos)	192 019	219	1 470	–	193 708
Demand deposits	73 606	0	0	–	73 606
Time deposits	18 983	11	403	–	19 397
Savings accounts	56 692	0	0	–	56 692
Special deposits	2 235	0	0	–	2 235
Other deposits	549	0	0	–	549
Certificates of deposit	22 579	0	14	–	22 593
Savings certificates	1 721	0	0	–	1 721
Convertible bonds	0	0	0	–	0
Non-convertible bonds	12 323	208	866	–	13 397
Convertible subordinated liabilities	0	0	0	–	0
Non-convertible subordinated liabilities	3 330	0	186	–	3 516
Repos[4]	5 835	0	0	–	5 836
with credit institutions and investment firms	5 575	0	0	–	5 575
with customers	260	0	0	–	260
Liabilities under investment contracts	0	–	13 552	–	13 552
Derivatives	–	5 868	0	1 284	7 152
Short positions	–	905	0	–	905
In equity instruments	–	13	0	–	13
In debt securities	–	892	0	–	892
Other[5]	2 344	3	0	–	2 347
Total	227 944	6 998	15 034	1 284	251 260
a of which deposits from banks repayable on demand					*9 431*

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 The amount of the repos is virtually identical to the amount of the underlying assets (that have been lent out), with the assets being partly reflected on the balance sheet and partly obtained through reverse repo transactions.
5 Financial liabilities not included under deposits from customers as they are not directly related to commercial deposit acquisition.

- In order to obtain a more transparent view of the different products, a slight change has been made to the presentation of the figures in Note 4.1. As of 2018, repos and reverse repos are no longer recognised in loans and advances to credit institutions and customers (or in deposits from credit institutions and customers), but instead are presented separately. The reference figures have been restated accordingly.
- 'Non-convertible bonds' comprise mainly KBC Bank issues and, to a lesser extent, KBC Group and KBC IFIMA issues. They are usually recognised under 'Measured at amortised cost'. However, if they contain closely related embedded derivatives, they are recorded under 'Designated at fair value' (see accounting policies). This item also includes a green bond issued on 20 June 2018 (for 500 million euros and a term of five years), which has been recognised at amortised cost.
- 'Non-convertible subordinated liabilities' in 2017 included the contingent capital note (CoCo) issued in January 2013 for an amount of 1 billion US dollars. Pursuant to IAS 32, this note was classified as a liability because it has a fixed term and obligatory interest payments. KBC called this CoCo in January 2018.
- The equity instruments for which the overlay approach has been applied are all the equity instruments reported as 'Mandatorily measured at fair value through profit or loss other than held for trading'.
- More information on major new debt issues or redemptions is provided under the 'Consolidated cashflow statement'.
- 'Deposits from credit institutions and investment firms' include funding of 6.5 billion euros obtained from the ECB's TLTRO II programme. KBC's management has reasonable assurance that KBC will comply with the conditions attached and hence the interest has accordingly been recognised.
- We have changed the definition of mortgage loans for reasons of consistency. The figures for 2018 do not include loans taken out by corporate clients for purchasing property (reclassified into 'Term loans'). As the amount involved was limited (0.5 billion euros at year-end 2017), we have not restated the reference figures for 2017.
- Information on the sale of part of KBC Bank Ireland's legacy portfolio is provided in Note 3.10.
- Transferred financial assets that continue to be recognised in their entirety: KBC regularly lends and/or sells securities with the commitment to buy them back at a later date (repo transactions). Securities lent or sold with such a commitment are transferred to the counterparty, and, in exchange, KBC receives cash or other financial assets. However, KBC retains the main risks and income relating to these securities, and, therefore, continues to recognise them on its balance sheet. In addition, a financial liability is recognised equalling the cash collateral received.
- 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 3 412 million euros (debt instruments classified as 'Held for trading' (113 million euros) and 'Measured at amortised cost' (3 298 million euros); and an associated financial liability with a carrying value of 1 001 million euros (48 million euros classified as 'Held for trading' and 953 million euros as 'Measured at amortised cost'). At year-end 2017, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 7 975 million euros (debt instruments classified as 'Held for trading' (178 million euros), 'Available for sale' (421 million euros), and 'Held to maturity' (7 376 million euros)); and an associated financial liability with a carrying value of 5 312 million euros (178 million euros classified as 'Held for trading', 422 million euros as 'Available for sale', and 4 712 million euros as 'Held to maturity'). It should be noted that, at year-ends 2018 and 2017, KBC had fewer transferred securities on its balance sheet than outstanding repo transactions, since securities obtained in reverse repo transactions are often used for repo transactions. These securities are not presented on the balance sheet and, therefore, do not qualify for disclosure as stated in this paragraph.

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

Note 4.2.1: Impaired financial assets

31-12-2018 (IFRS 9)

(in millions of EUR)	Carrying value before impairment	Impairment	Carrying value after impairment
Financial assets at amortised cost			
Loans and advances	176 680	-3 523	173 157
Stage 1 (12-month ECL)	153 081	-113	152 969
Stage 2 (lifetime ECL)	16 983	-305	16 678
Stage 3 (lifetime ECL)	6 461	-3 062	3 399
Purchased or originated credit impaired assets (POCI)	154	-42	112
Debt securities	41 660	-11	41 649
Stage 1 (12-month ECL)	41 409	-5	41 405
Stage 2 (lifetime ECL)	244	-1	243
Stage 3 (lifetime ECL)	7	-6	2
Purchased or originated credit impaired assets (POCI)	0	0	0
Financial assets at fair value through OCI			
Debt securities	18 026	-6	18 020
Stage 1 (12-month ECL)	17 585	-4	17 581
Stage 2 (lifetime ECL)	441	-2	439
Stage 3 (lifetime ECL)	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0

31-12-2017 (IAS 39)

(in millions of EUR)	Held for trading	Available for sale	Loans and receivables	Held to maturity	Designated at fair value	Hedging derivatives
Unimpaired assets	7 431	33 865	162 673	30 979	14 484	245
Impaired assets	–	407	8 843	6	–	–
Impairment	–	-117	-4 058	-6	–	–
Total	7 431	34 156	167 458	30 979	14 484	245

- Sale of portfolio in Ireland: at the end of November 2018, KBC Bank Ireland sold part of its legacy corporate and buy-to-let mortgage loan portfolio to entities established and financed by Goldman Sachs. The sale, originally worth approximately 1.9 billion euros, comprised non-performing corporate loans, non-performing Irish buy-to-let mortgage loans and performing and non-performing UK buy-to-let mortgage loans. This deal has accelerated the run-down of the non-performing portfolio and reduced the impaired loans ratio for KBC Bank Ireland by 10 percentage points.
- In 2018, 'Stage 2' and 'Stage 3' financial assets with a net carrying value of 375 million euros were subject to modifications that did not result in derecognition. The gross carrying value of 'Stage 1' financial assets subject to modifications that did not result in derecognition came to 746 million euros in 2018. Modification gains or losses are recognised under impairment, but were limited in 2018.
- In 2018, financial assets at amortised cost with a gross carrying value of 245 million euros were written off, but were still subject to enforcement activities.

Note 4.2.2: Impairment details

31-12-2018 (IFRS 9)

(in millions of EUR)	Stage 1 Subject to 12-month ECL	Stage 2 Subject to life-time ECL	Stage 3 Subject to lifetime ECL	Subject to lifetime ECL (purchased or originated credit impaired)	Total
LOANS AND ADVANCES AT AMORTISED COST					
Impairment on 01-01-2018 (IFRS 9)	97	357	4 495	58	5 006
Movements with an impact on results[1]	26	-42	44	-13	15
Transfer of financial assets					
Stage 1 (12-month ECL)	-9	63	58	0	112
Stage 2 (lifetime ECL)	4	-89	49	0	-36
Stage 3 'non-performing' (lifetime ECL)	1	17	-76	-4	-62
New financial assets[2]	66	83	159	5	313
Changes in risk parameters during the reporting period	-27	-99	124	3	1
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets	-9	-14	-278	-18	-319
Other	0	-1	7	0	6
Movements without an impact on results	-10	-10	-1 476	-2	-1 499
Derecognised financial assets (incl. disposals, write-offs and repayments)	-9	-7	-1 454	-22	-1 492
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	-1	-3	-23	20	-7
Impairment on 31-12-2018	113	305	3 062	42	3 523
DEBT SECURITIES AT AMORTISED COST					
Impairment on 01-01-2018 (IFRS 9)	6	1	9	0	16
Movements with an impact on results[1]	-1	0	0	0	-1
Transfer of financial assets					
Stage 1 (12-month ECL)	-1	1	0	0	0
Stage 2 (lifetime ECL)	0	0	0	0	0
Stage 3 'non-performing' (lifetime ECL)	0	0	0	0	0
New financial assets[2]	0	0	0	0	0
Changes in risk parameters during the reporting period	0	-1	0	0	-1
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets	0	0	0	0	0
Other	0	0	0	0	0
Movements without an impact on results	0	0	-4	0	-4
Derecognised financial assets (incl. disposals, write-offs and repayments)	0	0	-2	0	-2
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	-1	0	-1
Impairment on 31-12-2018	5	1	6	0	11
DEBT SECURITIES AT FAIR VALUE THROUGH OCI					
Impairment on 01-01-2018 (IFRS 9)	6	2	0	0	9
Movements with an impact on results[1]	-2	0	0	0	-3
Transfer of financial assets					
Stage 1 (12-month ECL)	-2	2	0	0	0
Stage 2 (lifetime ECL)	0	-1	0	0	-1
Stage 3 'non-performing' (lifetime ECL)	0	0	0	0	0
New financial assets[2]	0	0	0	0	0
Changes in risk parameters during the reporting period	-1	-1	0	0	-2
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets	0	0	0	0	0
Other	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0
Derecognised financial assets (incl. disposals, write-offs and repayments)	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31-12-2018	4	2	0	0	6

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.

31-12-2017 (IAS 39)

Impairment (in millions of EUR)	Available-for-sale fixed-income assets	Available-for-sale equity instruments	Held-to-maturity fixed-income assets	Individually impaired loans and receivables	Portfolio impaired loans and receivables
Opening balance	0	155	6	4 829	265
Movements with an impact on results					
Impairment recognised	0	12	1	512	80
Impairment reversed	0	0	0	-599	-139
Movements without an impact on results					
Write-offs	0	-1	0	-1 237	0
Changes in the scope of consolidation	8	4	0	476	6
Transfers to/from non-current assets held for sale and disposal groups	0	0	0	0	0
Other	0	-61	-1	-139	3
Closing balance	8	109	6	3 843	215

- 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.
- Additional information on impairment relating to the loan portfolio is provided under ‘Credit risk’ in the ‘How do we manage our risks?’ section.

Note 4.3: Maximum credit exposure and offsetting

(in millions of EUR)	Maximum credit exposure (A)	Collateral and other credit enhancements received (B)	Net (A-B)
31-12-2018 (IFRS 9)			
Subject to impairment	268 449	95 932	172 517
of which Stage 3 'non-performing' (AC and FVOCI)	*3 733*	*2 476*	*1 256*
Debt securities	59 669	59	59 610
Loans and advances (excl. reverse repos)	152 024	70 384	81 640
Reverse repos	21 133	21 082	52
Other financial assets	1 986	0	1 986
Off-balance-sheet liabilities	33 637	4 407	29 230
Not subject to impairment	5 996	1 320	4 677
Debt securities	768	0	768
Loans and advances (excl. reverse repos)	98	53	45
of which designated upon initial recognition at fair value through profit or loss (FVO)	13	13	0
Reverse repos	0	0	0
Derivatives	5 124	1 266	3 858
Other financial assets	6	0	6
Off-balance-sheet liabilities	0	0	0
Total	274 445	97 251	177 194
31-12-2017 (IAS 39)			
Debt securities	65 578	70	65 508
Loans and advances (incl. reverse repos)	165 953	90 068	75 885
of which designated at fair value	38	11	27
Derivatives	6 010	1 831	4 180
Other	34 506	4 427	30 078
Total	272 047	96 396	175 651

- 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 accounts for the largest share of the financial assets. Based on internal management reports, the composition and quality of the loan portfolio is set out in detail (under ‘Credit risk’) in the ‘How do we manage our risks?' section. 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, 31-12-2018 (IFRS 9)							
Derivatives	8 440	3 316	5 124	2 912	737	273	1 202
Derivatives (excluding central clearing houses)	5 113	0	5 113	2 912	737	273	1 191
Derivatives with central clearing houses*	3 327	3 316	11	0	0	0	11
Reverse repos, securities borrowing and similar arrangements	30 785	9 651	21 134	0	0	21 131	3
Reverse repos	30 785	9 651	21 134	0	0	21 131	3
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	39 225	12 967	26 258	2 912	737	21 404	1 205
FINANCIAL ASSETS, 31-12-2017 (IAS 39)							
Derivatives	9 384	3 374	6 010	3 343	1 251	389	1 027
Derivatives (excluding central clearing houses)	6 000	0	6 000	3 343	1 251	389	1 017
Derivatives with central clearing houses*	3 384	3 374	10	0	0	0	10
Reverse repos, securities borrowing and similar arrangements	31 361	11 285	20 076	0	0	20 073	3
Reverse repos	31 361	11 285	20 076	0	0	20 073	3
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	40 745	14 659	26 086	3 343	1 251	20 462	1 030
FINANCIAL LIABILITIES, 31-12-2018 (IFRS 9)							
Derivatives	9 100	3 316	5 784	2 912	1 581	330	961
Derivatives (excluding central clearing houses)	5 770	0	5 770	2 912	1 581	330	947
Derivatives with central clearing houses*	3 330	3 316	14	0	0	0	14
Repos, securities lending and similar arrangements	10 653	9 651	1 001	0	0	943	58
Repos	10 653	9 651	1 001	0	0	943	58
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	19 753	12 967	6 785	2 912	1 581	1 273	1 019
FINANCIAL LIABILITIES, 31-12-2017 (IAS 39)							
Derivatives	10 525	3 374	7 152	3 343	1 661	891	1 257
Derivatives (excluding central clearing houses)	7 141	0	7 141	3 343	1 661	891	1 247
Derivatives with central clearing houses*	3 384	3 374	10	0	0	0	10
Repos, securities lending and similar arrangements	17 120	11 285	5 836	151	0	5 684	1
Repos	17 120	11 285	5 836	151	0	5 684	1
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	27 646	14 659	12 987	3 493	1 661	6 575	1 258

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

- The criteria for offsetting are met if KBC currently has a legally enforceable right to set off the recognised financial assets and financial liabilities and intends either to settle the transactions on a net basis, or to realise the financial asset and settle the financial liability simultaneously. Financial assets and financial liabilities that are set off relate to financial instruments that were traded on (central) clearing houses.
- The amounts presented in the 'Financial instruments' column under the 'Amounts not set off in the balance sheet' heading are for financial instruments entered into under an enforceable master netting agreement or similar arrangement that does not meet the criteria defined in IAS 32. The amounts stated refer to situations in which offsetting can only be applied if one of the counterparties defaults, becomes insolvent or goes bankrupt. The same principle applies for financial instruments given or received as collateral. The value given in the table for non-cash collateral received (the 'Securities collateral' column under the 'Amounts not set off in the balance sheet' heading) corresponds with the market value. This is the value that is used if one of the counterparties defaults, becomes insolvent or goes bankrupt.

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

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

Fair value of financial assets and liabilities that are not measured at fair value in the balance sheet (in millions of EUR)	Financial assets measured at amortised cost		Loans and receivables		Financial assets held to maturity		Financial liabilities measured at amortised cost	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS, 31-12-2018 (IFRS 9)								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	26 046	26 223	–	–	–	–	–	–
Loans and advances to customers (incl. reverse repos)	147 111	146 186	–	–	–	–	–	–
Debt securities	41 649	44 301	–	–	–	–	–	–
Other	1 986	1 986	–	–	–	–	–	–
Total	216 792	218 696	–	–	–	–	–	–
Level 1	–	39 041	–	–	–	–	–	–
Level 2	–	44 474	–	–	–	–	–	–
Level 3	–	135 180	–	–	–	–	–	–
FINANCIAL ASSETS, 31-12-2017 (IAS 39)								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	–	–	24 448	24 596	–	–	–	–
Loans and advances to customers (incl. reverse repos)	–	–	141 464	141 180	–	–	–	–
Debt securities	–	–	921	928	30 979	34 517	–	–
Other	–	–	626	626	–	–	–	–
Total	–	–	167 458	167 330	30 979	34 517	–	–
Level 1	–	–	–	72	–	31 926	–	–
Level 2	–	–	–	37 510	–	2 033	–	–
Level 3	–	–	–	129 748	–	558	–	–
FINANCIAL LIABILITIES, 31-12-2018 (IFRS 9)								
Deposits from credit institutions and investment firms (incl. repos)	–	–	–	–	–	–	24 616	24 230
Deposits from customers and debt securities (incl. repos)	–	–	–	–	–	–	192 073	191 824
Liabilities under investment contracts	–	–	–	–	–	–	0	0
Other	–	–	–	–	–	–	3 982	3 988
Total	–	–	–	–	–	–	220 671	220 042
Level 1	–	–	–	–	–	–	–	0
Level 2	–	–	–	–	–	–	–	98 222
Level 3	–	–	–	–	–	–	–	121 820
FINANCIAL LIABILITIES, 31-12-2017 (IAS 39)								
Deposits from credit institutions and investment firms (incl. repos)	–	–	–	–	–	–	33 321	33 246
Deposits from customers and debt securities incl. repos)	–	–	–	–	–	–	192 279	192 771
Liabilities under investment contracts	–	–	–	–	–	–	0	0
Other	–	–	–	–	–	–	2 344	2 340
Total	–	–	–	–	–	–	227 944	228 358
Level 1	–	–	–	–	–	–	–	6
Level 2	–	–	–	–	–	–	–	118 800
Level 3	–	–	–	–	–	–	–	109 551

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

(in millions of EUR)			31-12-2018 (IFRS 9)				31-12-2017 (IAS 39)	
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)								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	–	–	–	–
Loans and advances to customers (incl. reverse repos)	0	0	85	85	–	–	–	–
Equity instruments	1 210	0	39	1 249	–	–	–	–
Investment contracts (insurance)	13 417	420	0	13 837	–	–	–	–
Debt securities	18	3	32	54	–	–	–	–
of which sovereign bonds	*0*	*0*	*0*	*0*	–	–	–	–
Held for trading								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	1	0	1	0	3	0	3
Loans and advances to customers (incl. reverse repos)	0	0	0	0	0	0	0	0
Equity instruments	564	200	0	763	502	5	0	508
Debt securities	455	182	77	714	620	407	129	1 156
of which sovereign bonds	*398*	*127*	*33*	*557*	*572*	*354*	*28*	*955*
Derivatives	0	4 023	918	4 942	0	3 988	1 777	5 765
Other	0	6	0	6	0	0	0	0
Designated upon initial recognition at fair value through profit or loss (FVO)								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	0	0	0	0
Loans and advances to customers (incl. reverse repos)	0	13	0	13	0	38	0	38
Equity instruments	–	–	–	–	0	0	0	0
Investment contracts (insurance)	–	–	–	–	13 935	486	0	14 421
Debt securities	0	0	0	0	14	0	10	24
of which sovereign bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
At fair value through OCI								
Equity instruments	11	12	236	259	–	–	–	–
Debt securities	13 761	4 054	205	18 020	–	–	–	–
of which sovereign bonds	*10 082*	*1 865*	*77*	*12 025*	–	–	–	–
Available for sale								
Equity instruments	–	–	–	–	1 336	24	297	1 658
Debt securities	–	–	–	–	25 037	6 788	673	32 498
of which sovereign bonds	–	–	–	–	*18 790*	*3 090*	*428*	*22 307*
Hedging derivatives								
Derivatives	0	183	0	183	0	245	0	245
Total								
Total financial assets at fair value	29 436	9 096	1 593	40 125	41 445	11 984	2 887	56 316
FINANCIAL LIABILITIES AT FAIR VALUE								
Held for trading								
Deposits from credit institutions and investment firms (incl. repos)	0	0	0	0	0	3	0	3
Deposits from customers and debt securities (incl. repos)	0	49	176	226	0	219	0	219
Derivatives	0	3 304	1 369	4 673	4	3 646	2 218	5 868
Short positions	831	104	0	935	905	0	0	905
Other	0	0	0	0	0	3	0	3
Designated at fair value								
Deposits from credit institutions and investment firms (incl. repos)	0	0	0	0	0	12	0	12
Deposits from customers and debt securities (incl. repos)	0	838	1 223	2 061	0	885	585	1 470
Liabilities under investment contracts	12 931	17	0	12 949	13 544	7	0	13 552
Other	0	0	0	0	0	0	0	0
Hedging derivatives								
Derivatives	0	1 111	0	1 111	0	1 284	0	1 284
Total								
Total financial liabilities at fair value	13 763	5 424	2 768	21 955	14 453	6 060	2 803	23 316

- 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.

	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 stock options, European & American FX options, forward starting options, digital FX options, FX strips of simple options, European swaptions, constant maturity swaps (CMS), European cancellable IRS, compound options, commodity options	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, inflation options, Bermudan cancellable IRS, CMS spread options, CMS interest rate caps/floors, (callable) range accruals, outperformance options, auto-callable options, lookback options	Option pricing model based on unobservable inputs (e.g., correlation)
	Illiquid credit-linked instruments	Collateralised debt obligations (notes)	Valuation model based on correlation of probability of default of underlying assets
	Private equity investments	Private equity and non-quoted participations	Based on the valuation guidelines of the European Private Equity & Venture Capital Association (EVCA)
	Illiquid bonds/asset backed securities	Illiquid (mortgage) bonds/asset backed securities that are indicatively priced by a single pricing provider in an inactive market	BVAL, third-party pricing (e.g., lead manager), where prices cannot be corroborated due to a lack of available/reliable alternative market data
	Debt instruments	KBC own issues (KBC IFIMA)	Discounted cashflow analysis and valuation of related derivatives based on unobservable inputs (indicative pricing by third parties for derivatives)

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

- In 2018, KBC transferred 740 million euros' worth of financial assets and liabilities out of level 1 and into level 2. It also reclassified approximately 628 million euros' worth of financial assets and liabilities from level 2 to level 1. Most of these reclassifications were carried out due to a change in the liquidity of government bonds and corporate bonds.
- In 2017, KBC reclassified 2 983 million euros' worth of debt instruments from level 1 to level 2, and approximately 176 million euros' worth of bonds from level 2 to level 1. Most of these reclassifications were attributable to a change in the valuation method, driven by the implementation in the third quarter of 2017 of an automated process that uses BVAL to price debt instruments. Provided by Bloomberg, BVAL is a fully transparent service that sets prices on the basis of various sources. Its use impacts fair value hierarchy levelling.

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

- The first time application of IFRS 9 resulted in a 46-million-euro increase in level-3 financial assets and liabilities measured at fair value. The main changes were as follows:
  - 99 million euros' worth of debt instruments was transferred out of the 'available for sale' category and into the 'at amortised cost' category, with the remainder being classified as 'at fair value through OCI'.
  - 35 million euros' worth of unlisted equity instruments was reclassified from 'available for sale' to 'mandatorily measured at fair value through profit or loss (other than held for trading) - (overlay)', with the remainder being classified as 'at fair value through OCI'.
  - 145 million euros' worth of debt instruments and loans and advances was moved from 'loans and receivables' to 'mandatorily measured at fair value through profit or loss (other than held for trading)', because they failed the SPPI test.

- In 2018, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - Financial assets held for trading:
    - The fair value of derivatives declined by 859 million euros, due primarily to instruments that had reached maturity and changes in fair value, partly offset by new transactions. The fair value of debt instruments fell by 52 million euros, owing primarily to sales.
  - Financial assets at fair value through OCI (fair-value decline of 371 million euros):
    - The fair value of debt instruments measured at fair value through OCI fell by 369 million euros, primarily on account of a net transfer out of level 3 (329 million euros), most of which was attributable to a change in the liquidity of bonds. The decline was reinforced by instruments that had reached maturity, sales and changes in fair value (-63 million euros), but was partly offset by purchases (+29 million euros).
    - The fair value of equity instruments measured at fair value through OCI fell by 26 million euros.
  - Financial liabilities held for trading (fair-value decline of 673 million euros, the net impact of a fall in the fair value of derivatives and an increase in issued debt instruments):
    - The fair value of derivatives declined by 849 million euros, due primarily to instruments that had reached maturity and changes in fair value, partly offset by new positions.
    - The fair value of issued debt instruments rose by 176 million euros, due mainly to reclassifications into level 3.
  - Financial liabilities measured at fair value through profit or loss:
    - The fair value of issued debt instruments increased by 638 million euros, primarily on account of new issues and reclassifications into level 3, largely offset by instruments that had reached maturity.

- In 2017, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - Financial assets held for trading:
    - The fair value of debt instruments fell by 80 million euros, owing primarily to the discontinuation of CDO transactions and sales (105 million euros), instruments that had reached maturity and changes in fair value (11 million euros), offset in part by acquisitions of investment certificates (40 million euros).
    - The fair value of derivatives declined by 79 million euros, due mainly to instruments that had reached maturity (375 million euros), partially offset by new transactions (230 million euros) and positive changes in fair value (70 million euros).
  - Financial assets measured at fair value through profit or loss:
    - The carrying value of debt instruments fell by 180 million euros, owing primarily to the discontinuation of CDO transactions (162 million euros), transfers out of level 3 (14 million euros) due to changes in liquidity, and changes in fair value.
    - The rest of the decline was attributable to a combination of acquisitions and exchange rate movements.
  - Available for sale:
    - The carrying value of bonds fell by 554 million euros, primarily on account of a net transfer out of level 3 arising from implementation of the BVAL pricing model (318 million euros), disposals (107 million euros) and bonds that had reached maturity (153 million euros), but was partly offset by acquisitions.
    - The carrying value of unlisted equity instruments dropped by 40 million euros, owing in the main to disposals and changes in the scope of consolidation (78 million euros), transfers out of level 3 due to changes in liquidity (49 million euros), partly offset by acquisitions (76 million euros) and positive changes in fair value (9 million euros).
  - Financial liabilities held for trading:
    - The total fair value of derivatives declined by 16 million euros, due primarily to instruments that had reached maturity and changes in fair value (304 million euros), largely offset by new transactions (288 million euros).
  - Financial liabilities measured at fair value through profit or loss:
    - The carrying value of debt instruments increased by 28 million euros, due mainly to the issue of debt instruments (263 million euros) and changes in fair value (8 million euros), offset in part by own issues of debt instruments reaching maturity and discontinued CDO transactions (243 million euros).
- Some level 3 assets are associated or economically hedged with identical level 3 liabilities, which means that KBC's exposure to unobservable inputs is lower than would appear from the gross figures. Most of the level 3 instruments are valued using third-party pricing sources, with KBC not developing any unobservable inputs itself. Consequently, KBC does not disclose specific quantitative information or sensitivity analyses regarding (changes in) unobservable inputs.

Note 4.8: Derivatives

Note 4.8.1 Trading derivatives

(in millions of EUR)				31-12-2018				31-12-2017
	Carrying value		Notional amount*		Carrying value		Notional amount*	
	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
Total	4 942	4 673	363 587	361 349	5 765	5 868	354 599	351 816
Interest rate contracts	2 833	2 701	180 540	178 417	3 082	2 901	193 723	189 791
of which interest rate swaps and futures	2 289	2 537	156 934	165 170	2 468	2 697	167 168	175 947
of which options	544	165	23 605	13 247	614	203	26 554	13 844
Foreign exchange contracts	1 365	1 166	156 415	157 137	1 385	1 552	132 681	133 643
of which currency and interest rate swaps, forward foreign exchange transactions and futures	1 305	1 116	151 427	151 425	1 298	1 477	126 675	126 971
of which options	60	50	4 988	5 712	87	75	6 005	6 672
Equity contracts	724	785	26 296	25 462	1 285	1 403	27 838	28 029
of which equity swaps	675	668	24 011	23 828	1 204	1 242	25 917	25 880
of which options	49	118	2 285	1 634	81	161	1 921	2 149
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	20	20	336	333	13	13	357	353

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

Note 4.8.2 Hedging derivatives

31-12-2018

(in millions of EUR)	Hedging instrument					Hedged item				Impact on equity	
	Notional amount[1]		Carrying value		Change in fair value of hedging instruments used as basis for recognising hedge ineffective-ness for the period[2]	Type	Carrying value		Change in fair value of hedged items used as basis for recognising hedge ineffective-ness for the period[2]	Ineffective portion recognised in profit or loss	Effective portion recognised in OCI
Hedging strategy	Purchased	Sold	Assets	Liabilities			Total (including fair value changes)	Of which accumulated fair value adjustments			
Fair value micro hedge											
Interest rate swaps	23 298	23 298	19	365	114	Debt securities held at AC	4 871	166	-25		
Currency and interest rate swaps	0	0	0	0	0	Loans and advances at AC	642	287	-40		
						Debt securities held at FVOCI	3 410	77	-4		
						Debt securities issued at AC	14 569	202	-59		
						Deposits at AC	1 891	6	1		
Total	23 298	23 298	19	365	114	Total	25 382	737	-128	-14	–
Portfolio hedge of interest rate risk											
Interest rate swaps	29 753	29 753	72	54	-151	Debt securities held at AC	186	6	15		
Currency and interest rate options	2 417	0	0	19	-8	Loans and advances at AC	24 621	12	137		
						Debt securities held at FVOCI	183	3	-4		
						Debt securities issued at AC	0	0	0		
						Deposits at AC	8 760	-72	-4		
Total	32 170	29 753	72	74	-158	Total	33 751	-51	144	-14	–
Cashflow hedge (micro hedge and portfolio hedge)											
Interest rate swaps	22 539	22 539	68	661	76						
Currency and interest rate swaps	72	68	5	3	12						
Total	22 611	22 607	72	663	88	Total			-90	-2	-1 445
Hedge of net investments in foreign operations											
Total	4 936	4 972	20	417[3]	61	Total			-61	0	8

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 Hedging instruments in the form of foreign currency deposits.

31-12-2017

	Fair value hedge				Cashflow hedge[2]				Portfolio hedge of interest rate risk			
	Carrying value		Notional amount[1]		Carrying value		Notional amount[1]		Carrying value		Notional amount	
(in millions of EUR)	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
Total	17	430	24 191	24 191	115	750	26 052	26 223	113	104	25 430	23 439
Interest rate contracts	17	428	24 165	24 165	103	671	21 650	21 650	113	104	25 430	23 439
of which interest rate swaps and futures	17	428	24 165	24 165	103	671	21 650	21 650	113	91	23 439	23 439
of which options	0	0	0	0	0	0	0	0	0	13	1 991	0
Foreign exchange contracts	0	2	26	26	12	79	4 401	4 573	0	0	0	0
of which currency and interest rate swaps and futures	0	2	26	26	12	79	4 401	4 573	0	0	0	0
of which options	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	0	0	0	0	0	0	0	0	0	0	0	0
of which equity swaps	0	0	0	0	0	0	0	0	0	0	0	0
of which options	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	0	0	0	0	0	0	0	0	0	0	0	0
of which credit default swaps	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	0	0	0	0	0	0	0	0	0	0	0	0

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

2 Including hedges of net investments in foreign operations.

- The Treasury departments of the various entities manage the interest rate risk. 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.
- The balances remaining in the cashflow hedge reserve from any hedging relationships for which hedge accounting is no longer applied came to -236 million euros. The accumulated amount of fair value hedge adjustments remaining on the balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses amounted to -77 million euros. These adjustments are amortised to profit or loss.
- Also see the paragraph on hedge accounting in the 'How do we manage our risks?' section.

Estimated cashflows from cashflow hedging derivatives per time bucket (in millions of EUR)	Inflow	Outflow
Not more than three months	15	-15
More than three but not more than six months	24	-49
More than six months but not more than one year	84	-122
More than one but not more than two years	136	-314
More than two but not more than five years	330	-898
More than five years	963	-1 869

5.0 Notes on other balance sheet items

Note 5.1: Other assets

(in millions of EUR)	31-12-2018	31-12-2017
Total	**1 610**	**1 512**
Debtors arising out of direct insurance operations	356	347
Debtors arising out of reinsurance operations	27	12
Deposits with ceding companies	9	174
Income receivable (other than interest income from financial assets)	44	46
Other	1 174	934

Note 5.2: Tax assets and tax liabilities

(in millions of EUR)	31-12-2018	31-12-2017
CURRENT TAXES		
Current tax assets	92	82
Current tax liabilities	133	148
DEFERRED TAXES	1 211	1 109
Deferred tax assets by type of temporary difference	**1 732**	**1 921**
Employee benefits	176	149
Losses carried forward	604	776
Tangible and intangible fixed assets	37	46
Provisions for risks and charges	8	18
Impairment for losses on loans and advances	183	168
Financial instruments at fair value through profit or loss and fair value hedges	115	97
Fair value changes, available-for-sale assets, financial instruments at FVOCI, cashflow hedges and hedges of net investments in foreign operations	516	572
Technical provisions	7	6
Other	85	88
Deferred tax liabilities by type of temporary difference	521	812
Employee benefits	19	18
Losses carried forward	0	0
Tangible and intangible fixed assets	45	78
Provisions for risks and charges	8	7
Impairment for losses on loans and advances	3	2
Financial instruments at fair value through profit or loss and fair value hedges	103	104
Fair value changes, available-for-sale assets, financial instruments at FVOCI, cashflow hedges and hedges of net investments in foreign operations	220	445
Technical provisions	86	90
Other	38	69
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	1 457	1 543
Deferred tax liabilities	247	434
Unused tax losses and unused tax credits	173	216

- 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 tax losses and tax credits can be carried forward for 20 years or more.
- The net change in deferred taxes (+102 million euros in 2018) breaks down as follows:
  - a decrease in deferred tax assets: -189 million euros;
  - a decrease in deferred tax liabilities: -291 million euros.
- The change in deferred tax assets was accounted for chiefly by:
  - the decrease in deferred tax assets via the income statement: -248 million euros (due primarily to losses carried forward (-164 million euros), impairment (-21 million euros), provisions for risks and charges (-9 million euros), the decrease related to fixed assets (-9 million euros), remeasurement of defined benefit plans (-2 million euros) and other items (-43 million euros));
  - the hedge of net investments in foreign operations: -13 million euros;
  - the increase in deferred tax assets resulting from the impact of the first time adoption of IFRS 9 on impairment and due to reclassification mainly to 'financial instruments at fair value through profit or loss': +45 million euros and +10 million euros, respectively;
  - the increase owing primarily to remeasurement of defined benefit plans and changes in the revaluation reserve for financial instruments measured at fair value through OCI: +24 million euros;
  - other items: -7 million euros.
- The change in deferred tax liabilities was accounted for chiefly by:
  - the decrease in deferred tax liabilities resulting from the impact of the first time adoption of IFRS 9 on financial instruments due to their reclassification from the 'available for sale' category to the 'at

amortised cost' category (-148 million euros);
- the decrease in deferred tax liabilities on account of changes in the revaluation reserve for financial instruments measured at fair value through OCI: -77 million euros;
- the decrease in deferred tax liabilities via the income statement: -62 million euros (owing primarily to the decline relating to property and equipment and intangible fixed assets (-33 million euros), the decline in financial instruments at fair value through profit or loss (-4 million euros) and other items (-25 million euros));
- other items: -5 million euros.

- The deferred tax assets presented in the balance sheet are attributable primarily to KBC Bank.

Note 5.3: Investments in associated companies and joint ventures

(in millions of EUR)	31-12-2018	31-12-2017
Total	215	240
Overview of investments, including goodwill		
ČMSS	163	176
Other	53	64
Goodwill on associated companies and joint ventures		
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	215	240
Listed	0	0
Fair value of investments in listed associated companies and joint ventures	0	0

- Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies. Joint ventures are companies over which KBC exercises joint control.
- Investments in associated companies and joint ventures' is accounted for primarily by ČMSS, a joint venture of ČSOB in the Czech Republic. The following is a summary of financial data for ČMSS (based on an ownership interest of 55% at year-ends 2018 and 2017 (in brackets), in millions of euros):
  - Total assets: 3 164 (3 209)
  - Cash and cash equivalents: 34 (482)
  - Financial assets: 3 084 (2 693)
  - Non-financial assets: 47 (35)
  - Financial liabilities: 2 959 (2 991)
  - Non-financial liabilities: 43 (42)
  - Total equity: 163 (176)
  - Total income: 55 (57)
  - Interest income: 91 (93)
  - Interest expense: -47 (-48)
  - Operating expenses: -28 (-28)
  - Impairment: -4 (-4)
  - Income tax expense: -4 (-4)
  - Result after tax: 19 (21)
  - Other comprehensive income: -7 (0)
  - Total comprehensive income: 13 (21)
- Goodwill paid on associated companies and joint ventures is included in the nominal value of 'Investments in associated companies and joint ventures' shown on the balance sheet. An impairment test is performed and, if required, the necessary impairment losses on goodwill recognised (see table).

Note 5.4: Property and equipment and investment property

(in millions of EUR)	31-12-2018	31-12-2017
Property and equipment	2 737	2 721
Investment property	561	485
Rental income	60	41
Direct operating expenses from investments generating rental income	14	9
Direct operating expenses from investments not generating rental income	3	2

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2018					
Opening balance	1 224	99	1 399	2 721	485
Acquisitions	119	53	496	668	74
Disposals	-14	-1	-249	-264	-28
Depreciation	-72	-51	-26	-149	-32
Other movements	-12	13	-239	-238	62
Closing balance	1 245	113	1 380	2 737	561
of which accumulated depreciation and impairment	1 321	458	722	2 502	314
Fair value 31-12-2018	–	–	–	–	809
2017					
Opening balance	1 149	101	1 200	2 450	426
Acquisitions	207	47	539	793	37
Disposals	-40	-2	-242	-284	-15
Depreciation	-72	-51	-31	-153	-17
Other movements	-21	3	-68	-86	54
Closing balance	1 224	99	1 399	2 721	485
of which accumulated depreciation and impairment	1 258	448	704	2 410	259
Fair value 31-12-2017	–	–	–	–	677

- 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 was a small amount (around 0.2 billion euros) recognised for commitments for the acquisition of property and 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
2018					
Opening balance	719	232	237	16	1 205
Acquisitions	8	123	128	9	268
Disposals	0	-1	-4	-3	- 8
Amortisation	0	-64	-64	-3	-131
Other movements	-8	-1	-4	8	-4
Closing balance	719	289	295	27	1 330
of which accumulated amortisation and impairment	242	665	718	35	1 660
2017					
Opening balance	597	203	189	10	999
Acquisitions	110	95	98	13	315
Disposals	0	0	-1	-5	-7
Amortisation	0	-65	-45	-2	-112
Other movements	13	-1	-3	1	9
Closing balance	719	232	237	16	1 205
of which accumulated amortisation and impairment	242	607	726	47	1 622

- 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)			Discount rates throughout the specific period of cashflow projections	
	31-12-2018	31-12-2017	31-12-2018	31-12-2017
K&H Bank	215	222	13.6%–12.0%	14.0%–11.0%
ČSOB (Czech Republic)	243	245	11.4%–10.0%	10.7%–9.8%
United Bulgarian Bank	110	109	11.1%–10.2%	–
DZI Insurance	75	74	9.1%–8.3%	9.2%–8.1%
Rest	76	70	–	–
Total	719	719	–	–

- The period to which the cashflow budgets and projections relate is 14 years in most cases. This longer period is used to take account of the expected convergence of the Central and Eastern European economies with their Western European counterparts. This significant assumption is used in the model to reflect the dynamism of the economies in Central and Eastern Europe.
- The growth rate used to extrapolate the cashflow projections after 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 2018 (between 1.2% and 1.8% in 2017).
- No sensitivity analysis was carried out for entities where the recoverable amount exceeded the carrying value to such a large extent that no reasonably possible change in the key assumptions would result in the recoverable amount being less than or equal to the carrying value. The table gives an indication for K&H Bank and United Bulgarian Bank of the change in key assumptions that would lead to their recoverable amount equalling their carrying value.

Change in key assumptions[1]	Increase in discount rate[2]	Decrease in terminal growth rate[3]	Increase in targeted solvency ratio[4]	Decrease in annual net profit	Increase in annual impairment charges
K&H Bank	2.2%	–	3.8%	15.7%	119.9%
United Bulgarian Bank	2.4%	–	4.4%	16.2%	100.5%

1 Needless to say account should be taken of the fact that a change in these assumptions could affect other assumptions used to calculate the recoverable amount.
2 Based on a parallel shift and absolute increase in the discount rate curve. Discount rates are in the 14.1%–15.7% bracket for K&H Bank and the 12.6%–13.4% bracket for United Bulgarian Bank.
3 Not relevant as it would mean that the terminal growth rate will be negative.
4 Absolute increase in the tier-1 capital ratio.

Note 5.6: Technical provisions, insurance

(in millions of EUR)	31-12-2018	31-12-2017
Technical provisions (before reinsurance) (i.e. gross figures)	**18 324**	**18 641**
Insurance contracts	11 018	10 852
Provision for unearned premiums and unexpired risk	700	644
Life insurance provision	7 207	7 118
Provision for claims outstanding	2 647	2 632
Provision for profit sharing and rebates	25	20
Other technical provisions	441	437
Investment contracts with DPF	7 305	7 790
Life insurance provision	7 233	7 713
Provision for claims outstanding	0	0
Provision for profit sharing and rebates	72	76
Reinsurers' share	**120**	**131**
Insurance contracts	120	131
Provision for unearned premiums and unexpired risk	2	2
Life insurance provision	5	4
Provision for claims outstanding	114	126
Provision for profit sharing and rebates	0	0
Other technical provisions	0	0
Investment contracts with DPF	0	0
Life insurance provision	0	0
Provision for claims outstanding	0	0
Provision for profit sharing and rebates	0	0

MOVEMENTS TABLE	**Gross 2018**	**Reinsurance 2018**	**Gross 2017**	**Reinsurance 2017**
INSURANCE CONTRACTS, LIFE				
Opening balance	7 554	6	7 460	3
Deposits excluding fees	715	0	694	0
Provisions paid	-568	0	-571	0
Accretion of interest	170	0	176	0
Cost of profit sharing	3	0	3	0
Exchange differences	-11	0	63	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements	-236	-1	-270	3
Closing balance	7 628	5	7 554	6
INSURANCE CONTRACTS, NON-LIFE				
Opening balance	3 297	125	3 255	107
Changes in the provision for unearned premiums	39	0	32	0
Payments regarding claims of previous financial years	-135	-9	-236	-10
Surplus/shortfall of claims provision in previous financial years	-200	-4	-90	-2
Provision for new claims	306	17	322	26
Exchange differences	- 6	0	14	1
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements	89	-14	1	4
Closing balance	3 390	115	3 297	125
INVESTMENT CONTRACTS WITH DPF, LIFE				
Opening balance	7 790	0	8 942	0
Deposits excluding fees	407	0	361	0
Provisions paid	-677	0	-1 004	0
Accretion of interest	141	0	168	0
Cost of profit sharing	0	0	0	0
Exchange differences	0	0	2	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements*	-355	0	-679	0
Closing balance	7 305	0	7 790	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.
- Assumptions for the technical provisions for claims outstanding are based on past claims experience relating to claim numbers, claim payments and claims handling costs, and adjusted to take account of such factors as anticipated market experience, claims inflation and external factors such as court awards and legislation. The technical provision for claims outstanding is generally not discounted except when long-term obligations and/or annuities (industrial accidents, guaranteed income and hospitalisation insurance) are involved.
- In 2018, there were no major changes in assumptions leading to a significant change in the valuation of insurance assets and liabilities.

Note 5.7: Provisions for risks and charges

Note 5.7.1: Overview

(in millions of EUR)	31-12-2018	31-12-2017
Total provisions for risks and charges	**235**	**399**
Provisions for off-balance-sheet commitments and financial guarantees	129	133
Provisions for other risks and charges	106	266
Provisions for restructuring	6	8
Provisions for taxes and pending legal disputes	50	211
Other	50	47

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

(in millions of EUR)	Subject to 12-month ECL	Subject to lifetime ECL	Subject to lifetime ECL (non-performing)	Total
31-12-2018 (IFRS 9)				
Provisions on 01-01-2018 (IFRS 9)	14	17	108	138
Movements with an impact on results				
Transfer of financial assets				
Stage 1 (12-month ECL)	-1	3	1	3
Stage 2 (lifetime ECL)	0	-2	1	-1
Stage 3 'non-performing' (lifetime ECL)	0	0	-1	-1
New financial assets	4	2	8	14
Changes in risk parameters during the reporting period	-5	0	-20	-24
Changes in the model or methodology	0	0	0	0
Derecognised financial assets	-2	-2	-3	-7
Other	0	0	0	0
Movements without an impact on results				
Derecognised financial assets (incl. disposals, write-offs and repayments)	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Transfers under IFRS 5	0	0	0	0
Other	2	-1	5	6
Provisions on 31-12-2018	12	17	99	129
31-12-2017 (IAS 39)				
Provisions on 01-01-2017 (IAS 39)	–	–	–	76
Movements with an impact on results				
Amounts allocated	–	–	–	93
Amounts used	–	–	–	-4
Unused amounts reversed				-35
Movements without an impact on results				
Changes in the scope of consolidation	–	–	–	0
Transfers under IFRS 5	–	–	–	0
Other	–	–	–	2
Provisions on 31-12-2017	–	–	–	133

- Also see Note 6.1.

Note 5.7.3: Details of provisions for other risks and charges

(in millions of EUR)	Provisions for restructuring	Provisions for taxes and pending legal disputes	Other	Total
2018				
Opening balance	8	211	47	266
Movements with an impact on results				
Amounts allocated	4	42	17	62
Amounts used	0	-149	-10	-159
Unused amounts reversed	-2	-55	-5	-61
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other	-3	1	0	-2
Closing balance	6	50	50	106
2017				
Opening balance	3	105	53	162
Movements with an impact on results				
Amounts allocated	6	125	8	140
Amounts used	-2	-16	-8	-27
Unused amounts reversed	0	-2	-3	-5
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	-1	-3	-4
Closing balance	8	211	47	266

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- Other provisions included those set aside for miscellaneous risks.
- Information relating to the main legal disputes pending: claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. 'probable outflow', 'possible outflow' or 'remotely probable outflow'). Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies'). No provisions are constituted for 'possible outflow' cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 50 million euros). All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
- Possible outflow:
  - On 6 October 2011, Irving H. Picard, trustee for the substantively consolidated SIPA (Securities Investor Protection Corporation Act) liquidation of Bernard L. Madoff Investments Securities LLC and Bernard L. Madoff, sued KBC Investments Ltd before the bankruptcy court in New York to recover approximately 110 million US dollars' worth of transfers made to KBC entities. The basis for this claim was the subsequent transfers that KBC received from Harley International, a Madoff feeder fund established under the laws of the Cayman Islands. This claim is one of a whole set made by the trustee against several banks, hedge funds, feeder funds and investors. In addition to the issues addressed by the district court, briefings were held on the applicability of the Bankruptcy Code's 'safe harbor' and 'good defenses' rules to subsequent transferees (as is the case for KBC). KBC, together with numerous other defendants, filed motions for dismissal. District court Judge Jed Rakoff has made several intermediate rulings in this matter, the most important of which are the rulings on extraterritoriality and good faith defences. On 27 April 2014, Judge Rakoff issued an opinion and order regarding the 'good faith' standard and pleading burden to be applied in the Picard/SIPA proceeding based on sections 548(b) and 559(b) of the Bankruptcy Code. As such, the burden of proof that KBC should have been aware of the fraud perpetrated by Madoff in this matter is for Picard/SIPA. On 7 July 2014, Judge Rakoff ruled that Picard/SIPA's reliance on section 550(a) does not allow for the recovery of subsequent transfers received abroad by a foreign transferee from a foreign transferor (as is the case for KBC Investments Ltd). Therefore, the trustee's recovery claims have been dismissed to the extent that they seek to recover purely foreign transfers. In June 2015, the trustee filed a petition against KBC to overturn the ruling that the claim fails on extraterritoriality grounds. In this petition, the trustee also amended the original claim including the sum sought. The amount has now been increased to 196 million US dollars. On 21 November 2016, the bankruptcy court handed down an intermediate ruling dismissing the claims of the trustee in respect of those foreign transfers under the rules of international comity. A final ruling dismissing the above claims was issued on 3 March 2017. The trustee appealed and the case was subsequently heard at the Court of Appeals for the Second Circuit on 16 November 2018. No date has been set for the judgment. Should the bankruptcy court's ruling not be upheld, KBC Investments Ltd can continue its defence based on various other grounds cited by Judge Rakoff in his previous rulings.

Note 5.8: Other liabilities

(in millions of EUR)	31-12-2018	31-12-2017
Total	**2 689**	**2 743**
Breakdown by type		
Retirement benefit obligations or other employee benefits	630	625
Deposits from reinsurers	79	70
Accrued charges (other than from interest expenses on financial liabilities)	321	304
Other	1 659	1 743

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

Note 5.9: Retirement benefit obligations

(in millions of EUR)	31-12-2018	31-12-2017
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	2 861	2 851
Current service cost	126	126
Interest cost	38	40
Plan amendments	0	0
Actuarial gain or loss resulting from changes in demographic assumptions	1	-3
Actuarial gain or loss resulting from changes in financial assumptions	-36	-1
Experience adjustments	27	-39
Past-service cost	0	2
Benefits paid	-84	-109
Exchange differences	2	-8
Curtailments	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	1	6
Other	10	-3
Defined benefit obligations at the end of the period	2 945	2 861
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	2 433	2 336
Actual return on plan assets	-73	112
Expected return on plan assets	*32*	*33*
Employer contributions	73	78
Plan participant contributions	21	21
Benefits paid	-84	-109
Exchange differences	1	-5
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	2 369	2 433
of which financial instruments issued by the group	27	30
of which property occupied by KBC	8	8
Funded status		
Plan assets in excess of defined benefit obligations	-576	-428
Reimbursement rights	0	0
Asset ceiling limit	-21	-37
Unfunded accrued/prepaid pension cost	-598	-466
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	-466	-543
Amounts recognised in the income statement	-111	-116
Amounts recognised in other comprehensive income	-89	118
Employer contributions	73	78
Exchange differences	0	3
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	-6
Other	-5	0
Unfunded accrued/prepaid pension cost at the end of the period	-598	-466
Amounts recognised in the income statement	**111**	**116**
Current service cost	126	126
Past-service cost	0	2
Interest cost	6	7
Plan participant contributions	-21	-21
Curtailments	0	0
Settlements	0	0
Changes in the scope of consolidation	1	0
Changes to the amounts recognised in other comprehensive income	**89**	**-118**
Actuarial gain or loss resulting from changes in demographic assumptions	1	-3
Actuarial gain or loss resulting from changes in financial assumptions	-36	-1
Actuarial result on plan assets	105	-80
Experience adjustments	27	-39
Adjustments to asset ceiling limits	-16	-4
Other	7	9
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	17	14

- 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).
- KBC Bank Ireland participated in a defined benefit plan until 31 August 2012. As of that date, no additional pension rights will be accumulated under that plan for future years of service. Benefits accrued in the plan continue to be linked to future salary increases of the participants (i.e. it will be managed dynamically). The assets of the pension plan have been separated from the assets of the bank. The employees of KBC Finance Ireland and the Dublin branch of KBC Bank are also signed up to this pension plan. The retirement benefits are calculated using a mathematical formula that takes account of age, salary and the length of time the participant was signed up.

Additional information on retirement benefit obligations (in millions of EUR)	2018	2017	2016	2015	2014
Changes in main headings in the main table					
Defined benefit obligations	2 945	2 861	2 851	2 380	2 610
Fair value of plan assets	2 369	2 433	2 336	2 165	2 103
Unfunded accrued/prepaid pension cost	-598	-466	-543	-220	-507
Impact of changes in the assumptions used in the actuarial calculation of plan assets and retirement benefit obligations					
Impact on plan assets	0	0	0	0	0
Impact on retirement benefit obligations	35	4	147	24	-135

Additional information on retirement benefit obligations – DEFINED BENEFIT PLANS	KBC pension fund	KBC Bank Ireland pension plan
Composition (31-12-2018)		
Equity instruments	39%	38%
Bonds	48%	40%
Real estate	10%	3%
Cash	3%	1%
Investment funds	1%	18%
of which illiquid assets	*8%*	*25%*
Composition (31-12-2017)		
Equity instruments	39%	38%
Bonds	47%	40%
Real estate	9%	3%
Cash	5%	1%
Investment funds	0%	18%
of which illiquid assets	*9%*	*17%*
Contributions expected in 2019 (in millions of EUR)	45	3
Regulatory framework	Pension plans are registered in collective labour agreements and incorporated into a set of regulations. Annual reporting of funding levels to supervisory authorities (FSMA/NBB). Any underfunding must be reported immediately to the supervisory authorities.	Regulated by the Irish Pensions Authority. Funding level calculated every year and certified every three years. Any underfunding must be reported immediately to the Irish Pensions Authority.
Risks for KBC	Investment risk and inflation risk.	Investment risk.
ALM policy	The hedging portfolio hedges against interest rate risk and inflation risk using interest rate swaps. The return portfolio aims to generate an extra return.	Investments in leveraged LDI pooled funds.
Plan amendments	An employer-funded defined contribution plan was introduced on 1 January 2014. All employees joining the company from that date are signed up to this new plan, while all those who were already employed on 31 December 2013 remain signed up to the defined benefit plan unless they chose to switch to the new one at the start of 2019, after being given a one-time opportunity to do so in 2018.	Not applicable.
Curtailments and settlements	Not applicable.	Not applicable.

Discounting method	Based on BVAL quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. The curve becomes flat for maturities of 22 years and longer.	The Mercer method starts from a proprietary basket of corporate bonds with AAA, AA and A ratings. A spread is deducted from the bonds with an A rating in order to obtain the equivalent of an AA-rated corporate bond. After conversion to the zero coupon format using extrapolation for long maturities, the equivalent discount rate is determined.
Key actuarial assumptions		
Average discount rate	1.32%	2.35%
Expected rate of salary increase	2.23%	2.75%
Expected inflation rate	1.85%	1.75%
Expected rate of increase in pensions	–	1.75%
Weighted average duration of the obligations	12.69 years	27 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations		
Increase in the retirement benefit obligations on 31-12-2018 consequent on:		
a decrease of 1% in the discount rate	13.72%	30.25%
an increase of 1% in the expected inflation rate	11.82%	29.14%
an increase that is 1% higher than the expected real increase in salary	15.40%	5.43%
the age of retirement being 65 for all active employees	0.90%	–
an increase of one year in life expectancy	–	3.00%
The impact of the following assumptions has not been calculated:	Decreasing mortality rates: pension benefits are paid out in capital, so longevity risk is immaterial. Staff turnover rates: the expected rate is very low.	Not applicable.

Additional information on retirement benefit obligations – DEFINED CONTRIBUTION PLANS	**KBC pension fund**
Contributions expected in 2019 (in millions of EUR)	18
Regulatory framework	Pursuant to the Belgian Supplementary Pensions Act, the employer must guarantee a minimum return of 1.75% on employee and employer contributions.
Risks for KBC	Investment risk.
Valuation	Retirement benefit obligations are measured on the basis of the accrued benefits on the reporting date, making a projection of these benefits (at the rate of interest guaranteed by law) until the expected age of retirement, and discounting the resulting benefits. KBC offers two types of defined contribution plan: one that is financed through employee contributions and one through employer contributions. The value of the employee-funded defined contribution plan takes account of the accrued interest (at the fund return rate), but not of future contributions since the plan is not deemed to be backloaded. The value of the employer-funded defined contribution plan takes account of future contributions in the projection, due to the fact that the plan is deemed to be backloaded.
Discounting method	Based on BVAL quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. The curve becomes flat for maturities of 22 years and longer.
Key actuarial assumptions	
Average discount rate	1.08%
Weighted average duration of the obligations	9.93 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations	
Increase in the retirement benefit obligations on 31-12-2018 consequent on:	
a decrease of 1% in the discount rate	9%
the age of retirement being 65 for all active employees	0.30%

Note 5.10: Parent shareholders' equity and additional tier-1 instruments

Quantities	31-12-2018	31-12-2017
Ordinary shares	416 155 676	418 597 567
of which ordinary shares that entitle the holder to a dividend payment	*416 155 676*	*418 597 567*
of which treasury shares	*50 284*	*64 847*
Additional information		
Par value per share (in EUR)	3.51	3.48
Number of shares issued but not fully paid up	0	0

- Ordinary shares: ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued. The shares are listed solely on Euronext Brussels.
- Capital increases: the number of KBC Group NV shares went up by 258 109 in December 2018 and by 225 485 in December 2017, due to new shares being issued following the capital increases reserved for staff. For more information, see the 'Company annual accounts and additional information' section.
- Treasury shares:
  - On 17 May 2018, KBC Group NV announced the start of a share buyback programme with a view to cancelling the repurchased shares. The shares were repurchased within the terms of the authorisation granted by the Extraordinary General Meeting of 3 May 2018. In a number of transactions between 22 May and 3 July 2018, 2 700 000 own shares were repurchased for a total consideration of approximately 181 million euros. They were cancelled on 8 August and the number of shares were accordingly reduced by the number of shares cancelled.
  - At year-end 2018, KBC group companies held 50 284 KBC shares in portfolio, 50 282 of which were registered with KBC Bank (London branch) to hedge outstanding derivatives on indices/ baskets that include KBC Group shares.
- For information on stock option plans, see Note 3.8.
- For information on the authorisation to increase capital and to repurchase own shares in 2018, see the 'Company annual accounts and additional information' section.
- Additional tier-1 instruments:
  - In March 2014, KBC issued 1.4 billion euros in CRD IV-compliant additional tier-1 securities. These securities qualify as additional tier-1 capital under Basel III (as adopted in the CRR) and, therefore, have had a positive impact on KBC's tier-1 capital. They are perpetual and may be called for redemption after five years or on each subsequent coupon date. They also have a loss absorption mechanism (i.e. a temporary write-down trigger should the common equity tier-1 ratio fall below 5.125%). Since they are classified as shares under IAS 32 (because they have fully discretionary non-cumulative coupons and are perpetual), the annualised coupon of 5.625% – which is paid every quarter – is treated as a dividend. This transaction had no impact on the number of ordinary shares. KBC received the approval of the ECB to call these additional tier-1 instruments on 19 March 2019.
  - In April 2018, KBC issued 1 billion euros in CRD IV-compliant additional tier-1 securities. This seven-year, non-call perpetual instrument has a temporary write-down trigger when the common equity ratio reaches 5.125% and an initial coupon of 4.25% per annum, which is payable every six months. These securities are classified as equity instruments under IAS 32 and the coupon is treated as a dividend.
  - For information on the new additional tier-1 securities issued in February 2019, see Note 6.8.

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

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

6.0 Other notes

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

(in millions of EUR)	31-12-2018 (IFRS 9)			31-12-2017 (IAS 39)		
	Nominal amount	Provision	Net exposure	Nominal amount	Provision	Net exposure
Undrawn portion of credit lines granted						
Stage 1	34 974	9	34 964	–	–	–
Stage 2	1 400	8	1 392	–	–	–
Stage 3	146	18	128	–	–	–
Total	36 520	35	36 484	36 078	113	35 965
of which irrevocable credit lines	23 498	31	23 467	23 625	–	–
Financial guarantees given						
Stage 1	8 497	3	8 495	–	–	–
Stage 2	1 413	9	1 404	–	–	–
Stage 3	230	81	149	–	–	–
Total	10 141	93	10 048	9 972	19	9 953
Other commitments given						
Total	463	0	463	283	1	282
Total						
Off-balance-sheet commitments and financial guarantees	47 124	129	46 995	46 333	133	46 201

- Fair value of financial guarantees: based on the available market value.
- The carrying value of financial assets pledged by KBC as collateral came to 32 573 million euros for liabilities and 1 862 million euros for contingent liabilities (36 621 million euros and 2 007 million euros, respectively, in 2017). At year-end 2018, some 11.1 billion euros' worth of residential mortgage loans and cash collections were entered in the cover asset register for the special estate of the covered bond programme (11 billion euros at year-end 2017).
- KBC Group NV irrevocably and unconditionally guarantees all commitments entered into by the following Irish companies in respect of the financial year ending on 31 December 2018, allowing these companies to be eligible for exemption from certain disclosure requirements, pursuant to Section 357 of the Irish Companies Act 2014: KBC Fund Management Limited. Since this company is included in the scope of consolidation, this is an intragroup transaction and the guarantee is not included in the above table.
- There is an obligation to return collateral received (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will organise the foreclosure itself or take possession of the collateral. Collateral received that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table). More details are provided in Note 4.3.

Collateral received (which may be sold or repledged in the absence of default by the owner) (in millions of EUR)	Fair value of collateral received		Fair value of collateral sold or repledged	
	31-12-2018	31-12-2017	31-12-2018	31-12-2017
Financial assets	24 141	21 241	7 331	8 527
Equity instruments	12	7	0	2
Debt securities	23 875	20 973	7 331	8 526
Loans and advances	254	261	0	0
Cash	0	0	0	0
Other	0	0	0	0
Property and equipment	0	0	0	0
Investment property	0	0	0	0
Other	0	0	0	0

- Collateral acquired through foreclosure came to 0.1 billion euros in 2018 (0.1 billion euros in 2017).

Note 6.2: Leasing

(in millions of EUR)	31-12-2018	31-12-2017
Finance lease receivables		
Gross investment in finance leases, receivable	6 130	5 855
At not more than one year	1 418	1 360
At more than one but not more than five years	3 183	3 171
At more than five years	1 530	1 324
Unearned future finance income on finance leases	479	497
Net investment in finance leases	5 618	5 308
At not more than one year	1 307	1 258
At more than one but not more than five years	2 912	2 894
At more than five years	1 399	1 156
of which unguaranteed residual values accruing to the benefit of the lessor	39	33
Accumulated impairment for uncollectable lease payments receivable	78	88
Contingent rents recognised in the income statement	93	93
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable operating leases	478	463
Contingent rents recognised in the income statement	1	1

- There are no significant cases in which KBC is the lessee in operating or finance leases.
- Pursuant to IFRIC 4, no operating or finance leases contained in other contracts were identified.
- Finance leases: KBC offers finance lease products ranging from equipment and vehicle leasing to real estate leasing. In Belgium, finance leases are typically sold through KBC group's branch network, and that channel is becoming increasingly important in Central Europe, too.
- Operating leases: involve primarily full service car leases, which are sold through the KBC Bank and CBC Banque branch network and through an internal sales team. Full service car leasing activities are being further developed in Central Europe, too.

Transactions with related parties, excluding key management (in millions of EUR)	2018 Subsidiaries	2018 Associated companies	2018 Joint ventures	2018 Other	2018 Total	2017 Subsidiaries	2017 Associated companies	2017 Joint ventures	2017 Other	2017 Total
Assets	227	135	253	100	714	327	138	252	52	769
Loans and advances	93	41	2	80	216	144	44	2	45	234
Equity instruments (including investments in associated companies and joint ventures)	133	93	228	14	469	146	92	250	5	493
Other	1	1	23	5	30	37	2	1	3	43
Liabilities	60	98	168	303	629	70	101	151	318	641
Deposits	60	13	167	300	540	68	11	151	312	542
Other financial liabilities	0	0	0	0	0	0	0	0	0	0
Other	0	85	1	4	89	2	90	0	6	99
Income statement	10	-4	-14	5	-3	11	-7	-8	5	1
Net interest income	0	-1	-9	0	-10	0	-1	-4	0	-5
Interest income	0	0	0	0	1	0	1	0	0	2
Interest expense	0	-1	-9	0	-10	-1	-1	-5	0	-7
Earned premiums, insurance (before reinsurance)	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
Dividend income	3	0	0	7	10	4	0	0	8	12
Net fee and commission income	5	-2	-5	1	-1	9	-1	-4	3	7
Fee and commission income	5	0	0	1	6	9	1	0	3	13
Fee and commission expense	0	-2	-5	0	-7	0	-1	-4	0	-6
Other net income	3	1	0	1	4	-1	-2	0	0	-3
General administrative expenses	-1	-3	0	-3	-7	0	-4	0	-6	-10
Undrawn portion of loan commitments, financial guarantees and other commitments										
Given by the group	0	5	0	154	159	39	7	0	137	183
Received by the group	0	0	0	0	0	0	0	0	0	0

Transactions with key management (members of the Board of Directors and Executive Committee of KBC Group NV) (in millions of EUR)*	2018	2017
Total*	**12**	**11**
Breakdown by type of remuneration		
Short-term employee benefits	10	9
Post-employment benefits	2	2
Defined benefit plans	0	0
Defined contribution plans	2	2
Other long-term employee benefits	0	0
Termination benefits	0	0
Share-based payments	0	0
Stock options (units)		
At the beginning of the period	0	0
Granted	0	0
Exercised	0	0
Composition-related changes	0	0
At the end of the period	0	0
Advances and loans granted to key management and partners	1	2

* 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' heading in the first table includes transactions with unconsolidated subsidiaries (transactions with consolidated subsidiaries have already been eliminated from the consolidated financial statements).
- The 'Other' heading in the first table includes KBC Ancora, Cera and MRBB.
- All related-party transactions occur at arm's length.
- Key management comprises the members of the Board of Directors and Executive Committee of KBC Group NV. More detailed information on remuneration paid to key management staff is provided in the 'Corporate governance statement' section.
- There were no significant impairment charges vis-à-vis related parties.

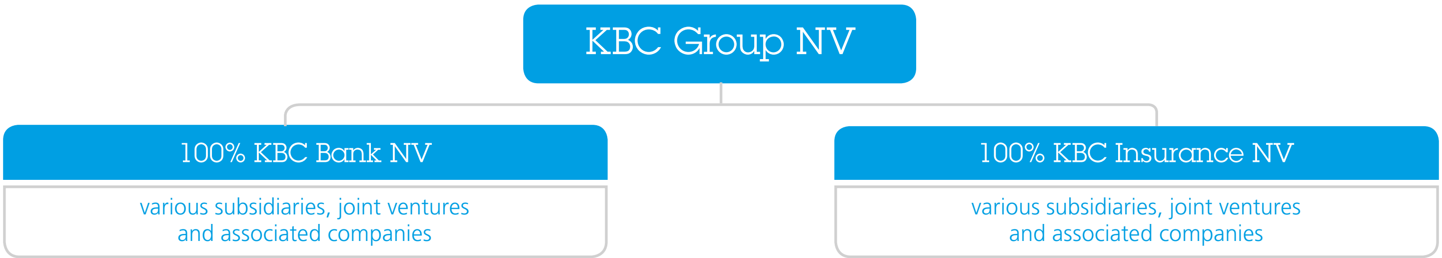
Note 6.4: Statutory auditor's remuneration

Statutory auditor's remuneration (PwC, in EUR)	2018	2017
KBC Group NV and its subsidiaries		
Standard audit services	7 583 948	7 798 214
Other services		
Other certifications	1 073 549	1 993 953
Tax advice	5 000	274 679
Other non-audit assignments	53 378	116 927
KBC Group NV (alone)		
Standard audit services	231 918	229 445
Other services	159 914	615 150

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

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, each of which has several subsidiaries and sub-subsidiaries.

The main group companies are shown in the table. A complete list of group companies (included in or excluded from the scope of consolidation) is provided at www.kbc.com > About us > Our structure.



KBC Group: main companies included in the scope of consolidation at year-end 2018

Company	Registered office	Company number	Share of capital held at group level (in %)	Business unit*	Activity
KBC Bank (group)					
KBC Bank NV	Brussels – BE	0462.920.226	100.00	BEL/GRP	credit institution
CBC BANQUE SA	Namur – BE	0403.211.380	100.00	BEL	credit institution
Československá Obchodná Banka a.s.	Bratislava – SK	–	100.00	IMA	credit institution
Československá Obchodní Banka a.s.	Prague – CZ	–	100.00	CZR	credit institution
KBC Asset Management NV	Brussels – BE	0469.444.267	100.00	BEL	asset management
KBC Autolease NV	Leuven – BE	0422.562.385	100.00	BEL	leasing
KBC Bank Ireland Plc.	Dublin – IE	–	100.00	IMA	credit institution
KBC Commercial Finance NV	Brussels – BE	0403.278.488	100.00	BEL	factoring
KBC Credit Investments NV	Brussels – BE	0887.849.512	100.00	BEL/GRP	investment firm
KBC IFIMA SA	Luxembourg – LU	–	100.00	GRP	financing
KBC Securities NV	Brussels – BE	0437.060.521	100.00	BEL	stockbroker
K&H Bank Zrt.	Budapest – HU	–	100.00	IMA	credit institution
Loan Invest NV	Brussels – BE	0889.054.884	100.00	BEL	securitisation
United Bulgarian Bank AD	Sofia – BG	–	99.91	IMA	credit institution
KBC Insurance (group)					
KBC Insurance NV	Leuven – BE	0403.552.563	100.00	BEL/GRP	insurance company
ADD NV	Heverlee – BE	0406.080.305	100.00	BEL	insurance broker
KBC Group Re SA	Luxembourg – LU	–	100.00	GRP	reinsurance company
ČSOB Pojišt'ovna a.s.	Pardubice – CZ	–	100.00	CZR	insurance company
ČSOB Poist'ovňa a.s.	Bratislava – SK	–	100.00	IMA	insurance company
DZI (group)	Sofia – BG	–	100.00	IMA	insurance company
Groep VAB NV	Zwijndrecht – BE	0456.920.676	95.00	BEL	driving school/roadside assistance
K&H Biztosító Zrt.	Budapest – HU	–	100.00	IMA	insurance company
NLB Vita d.d. (equity method)	Ljubljana – SI	–	50.00	IMA	life insurance
KBC Group					
KBC Group NV	Brussels – BE	0403.227.515	100.00	GRP	bank-insurance holding company
KBC Bank (group)	various locations	–	100.00	various	credit institution
KBC Insurance (group)	various locations	–	100.00	various	insurance company

* BEL = Belgium Business Unit, CZR = Czech Republic Business Unit, IMA = International Markets Business Unit, GRP = Group Centre.

- Companies eligible for consolidation are effectively included in the consolidated accounts if two of the following criteria are met: (i) the group's share in equity exceeds 2.5 million euros (ii) the group's 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.
- All (material) entities (including structured entities (SPVs)) over which the consolidating entity exercises, directly or indirectly, exclusive control are consolidated according the method of full consolidation. To assess whether or not structured entities have to be consolidated, KBC uses the principles set out in IFRS 10, as well as thresholds for inclusion in consolidation (see previous bullet point).
- Disclosures of interests in other entities (IFRS 12)
  - Significant judgements and assumptions
    - In general, funds managed by KBC are not included in the scope of consolidation, as they do not meet the three criteria of control (power, exposure to a variable return and ability to use such power to affect those returns).
    - Joint subsidiaries in which KBC does not hold 50% of the share capital are classified as joint subsidiaries, since it has joint control over these entities based on shareholder agreements.
  - Interests in subsidiaries
    - For the vast majority of the entities, the voting rights are materially equal to the ownership rights.
    - Pursuant to the joint capital decision, specific pillar-II levels have been set to ensure that certain minimum capital ratios are respected, which impose certain restrictions on the repatriation of capital and distribution of dividends.
    - With regard to Loan Invest NV, KBC is exposed to loan losses on the mortgage portfolio and, therefore, recognises impairment losses on them where necessary.
  - Interests in joint ventures and associated companies

- For a summary of the financial information on ČMSS, see Note 5.3.
- No summarised financial information is provided for immaterial entities on an aggregate basis, because, even on that basis, the amount is immaterial.

- Interests in unconsolidated structured entities
  - KBC Bank NV is arranger and dealer of a number of 40-billion-euro medium term notes programmes issued by 19 unconsolidated structured entities established for that purpose. Between 2006 and 2016, these entities were established as Irish public limited companies or Irish private limited companies under the Irish Companies Act 1963 to 2012. Their primary business is to raise money by issuing notes in order to buy financial assets (such as securities, bonds and deposits) and to enter into related derivative and other contracts (like equity-linked swaps, interest-linked swaps, total return swaps and repo transactions). They provide investment opportunities for clients by providing economies of scale, a diversification of credit risk and a high level of granularity. Each structured entity has a prospectus that was approved by the Central Bank of Ireland (available at www.kbc.be/prospectus/spv). However, the structured entities are not consolidated because they fail to meet the three criteria for consolidation (power, exposure to a variable return and ability to use such power to affect those returns). At year-end 2018, the assets under management at these entities amounted to 13.2 billion euros.
  - Sponsored unconsolidated structured entities are defined as structured entities where KBC or one of its subsidiaries acts as arranger of the issuance programme, but where the decision-making power of the entities does not reside with KBC or one of its subsidiaries. As a result, these entities are not consolidated.
  - At year-end 2018, KBC had received income from unconsolidated structured entities in the form of management fees (69 million euros), custody fees (1 million euros), administrative agent fees (1 million euros) and accounting fees (1 million euros).
  - At year-end 2018, KBC held 5.2 billion euros' worth of notes issued by the unconsolidated structured entities. Its liabilities towards the unconsolidated structured entities amounted to 6 billion euros and comprised mainly term deposits (5.8 billion euros).
  - 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.

- One subsidiary was active in the extractive industry during 2018, but has not been included in the scope of consolidation for reasons of materiality. Furthermore, this subsidiary did not make any payments to governments that reached the threshold of 100 000 euros. As a result, no consolidated report on such payments has been prepared (see Article 119/1 of the Companies Code). The company was liquidated in August 2018.

Note 6.6: Main changes in the scope of consolidation

Company	Consolidation method	Ownership percentage at group level 31-12-2018	31-12-2017	Remarks
Additions				
United Bulgarian Bank AD	Full	99.91%	99.91%	Acquired in 2Q 2017
UBB Interlease EAD (formerly Interlease EAD)	Full	100.00%	100.00%	Acquired in 2Q 2017 (name changed in 1Q 2018)
Exclusions				
KBC Towarzystwo Funduszy Inwestycyjnych a.s. (KBC TFI)	Full	–	100.00%	Sold in 4Q 2017
KBC Finance Ireland	Full	–	100.00%	Deconsolidated in 1Q 2018
Changes in ownership percentage and internal mergers				
UBB Zhivotozastrahovane EAD (formerly UBB-MetLife Zhivotozastrahovatelno Drujestvo AD)	From equity method to full	100.00%	59.95%	Remaining 40% stake purchased and entity moved from UBB to DZI in 1Q 2018 (and name changed), before merging with DZI Life Insurance Jsc in 4Q 2018
CIBANK EAD	Full	–	100.00%	Merged with UBB in 1Q 2018
Kredietcorp SA	Full	–	100.00%	Moved from KBC Group NV to KBC Group Re in 3Q 2018 and merged with KBC Group Re SA in 4Q 2018

- United Bulgarian Bank (UBB) and Interlease: on 13 June 2017, we concluded the deal to acquire 99.91% of the shares of United Bulgarian Bank AD and 100% of the shares of Interlease EAD in Bulgaria for a total consideration of 609 million euros, without any contingent consideration. The consolidated figures in this report incorporate the impact of the acquisition of UBB and Interlease as from 30 June 2017. The table below provides the fair value of the main assets and liabilities involved in the acquisition of UBB/ Interlease, as well as the impact of both these entities on the group's income statement (for the period July through December 2017). UBB and CIBANK merged in the first quarter of 2018.
- KBC TFI: on 12 December 2017, PKO Bank Polski Group completed the acquisition of all the shares of KBC TFI in Poland. However, the impact of the deal on KBC’s results was negligible.
- MetLife: on 29 December 2017, KBC and MetLife reached agreement for KBC (through DZI) to acquire MetLife’s remaining 40% stake in UBB-MetLife Life Insurance Company AD, a life-insurance joint venture between UBB and MetLife. KBC (through UBB) had earlier acquired 60% of this joint venture as part of KBC’s acquisition of UBB and Interlease. The financial impact of this deal was negligible. UBB-MetLife Life Insurance Company AD has since been renamed UBB Zhivotozastrahovane EAD.

Impact of the acquisition of United Bulgarian Bank and Interlease (in millions of EUR)	**2017**
General information	
Percentage of shares bought or sold in the relevant year	99.91% (UBB) and 100% (Interlease)
For business unit/segment	International Markets Business Unit
Deal date (month and year)	June 2017
Results of the relevant company/business recognised in the group result as from:	July 2017
Purchase price or sale price	609
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	185
Amounts recognised for the purchased assets and liabilities	
Cash and cash balances with central banks	693
Financial assets	2 810
Held for trading	502
Available for sale	335
Loans and receivables	1 973
Tax assets	12
Investments in associated companies and joint ventures	17
Investment property	15
Property and equipment	20
Goodwill and other intangible assets	4
Other assets	20
Cash and cash equivalents (included in the above assets)	*801*
Financial liabilities	3 063
Measured at amortised cost	3 062
Other liabilities	20
Cash and cash equivalents (included in the above liabilities)	*7*
Contribution to the consolidated income statement (July through December 2017)	
Net interest income	55
Dividend income	0
Net result from financial instruments at fair value through profit or loss	10
Net realised result from available-for-sale assets	0
Net fee and commission income	23
Other net income	-5
TOTAL INCOME	**83**
Operating expenses	-40
Impairment	-13
on loans and receivables	-12
on available-for-sale assets	-1
on goodwill	0
other	0
Share in results of associated companies and joint ventures	0
RESULT BEFORE TAX	**30**
Income tax expense	-3
RESULT AFTER TAX	**27**
attributable to minority interests	0
attributable to equity holders of the parent	**27**

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 group, the bank and the insurance company based on IFRS data and according to the rules imposed by the regulator.

- For the KBC group and KBC Bank, this implies that we calculate our solvency ratios based on CRR/CRD IV. KBC has received authorisation from the regulator to apply a risk weighting to the participation in KBC Insurance (Danish compromise method) at KBC group level. The KBC group and KBC Bank are subject to minimum solvency ratios. The main measure is the fully loaded common equity ratio, with the minimum regulatory requirement being 10.7%. This includes the pillar 1 minimum requirement (4.5%), the pillar 2 requirement (1.75% set by the ECB following its supervisory review and evaluation process) and the buffer requirements (4.45% set by the local competent authorities in KBC's core markets). At year-end 2018, the fully loaded common equity ratio came to 16.0%, which represented a capital buffer of 4 998 million euros relative to the minimum requirement of 10.7%.
- The solvency of KBC Insurance is calculated on the basis of Solvency II (the regulatory minimum requirement is 100%). At year-end 2018, the Solvency II ratio came to 217%, which represented a capital buffer of 1 939 million euros relative to the minimum requirement of 100%.

Key solvency figures for the KBC group, KBC Bank and KBC Insurance

(in millions of EUR)[1]		KBC Group (consolidated) CRR/CRD IV		KBC Bank (consolidated) CRR/CRD IV		KBC Insurance (consolidated) Solvency II
	31-12-2018 Fully loaded	31-12-2017 Fully loaded	31-12-2018 Fully loaded	31-12-2017 Fully loaded	31-12-2018	31-12-2017
Total regulatory capital, after profit appropriation	18 217	18 706	15 749	15 756	3 590	3 865
Tier-1 capital	16 150	16 504	13 625	13 484	3 090	3 365
Common equity	15 150	15 104	12 618	12 077	–	–
Parent shareholders' equity	17 233	17 403	14 150	14 083	2 728	3 051
Solvency adjustments	-2 083	-2 299	-1 532	-2 006	362	314
Additional going concern capital	1 000	1 400	1 007	1 407	–	–
Tier-2 capital	2 067	2 202	2 124	2 273	500	500
Total weighted risk volume (group, bank)[2]	94 875	92 410	85 474	83 117	–	–
Solvency capital requirement (insurance)	–	–	–	–	1 651	1 823
Common equity ratio (group, bank)	16.0%	16.3%	14.8%	14.5%	–	–
Solvency II ratio (insurance)	–	–	–	–	217%	212%

1 More detailed figures can be found in the 'How do we manage our capital?' section.
2 Supervision of the RWA internal models' compliance with the approval criteria as provided for in the regulatory standards does not come under the responsibility of the statutory auditor.

More detailed information is provided in the 'How do we manage our capital?' section.

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 that have been audited by the statutory auditor.

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 (14 March 2019):

- On 21 January 2019, it was announced that – on 19 March 2019 – KBC would call the additional tier-1 instrument it issued in 2014. The European Central Bank (ECB) granted KBC permission to call this instrument, which has a nominal value of 1.4 billion euros, and at the same time to call the subordinated inter-company loan of the same amount that KBC Group NV granted to KBC Bank NV.
- On 26 February 2019, KBC Group NV issued 500 million euros in non-dilutive, additional tier-1 (AT1) securities. This five-year, non-call, perpetual AT1 instrument has a temporary write-down trigger when the common equity tier-1 ratio reaches 5.125% and an initial coupon of 4.75% per annum, which is payable every six months. The instrument was placed with institutional investors spread across Europe and Asia.

Note 6.9: General information on the company

- Name: KBC Group.
- Incorporated: 9 February 1935 as the Kredietbank; the present name dates from 2 March 2005.
- Country of incorporation: Belgium.
- Registered office: Havenlaan 2, 1080 Brussels, Belgium.
- VAT: BE 0403.227.515.
- RLP: Brussels.
- Legal form: *naamloze vennootschap* (company with limited liability) under Belgian law, which seeks to attract or has sought to attract savings from the public. The company is a mixed financial holding company that is subject to the prudential supervision of the National Bank of Belgium and the European Central Bank.
- Life: undefined.
- Purpose: the company has as its object, the direct or indirect ownership and management of shareholdings in other companies, including but not restricted to credit institutions, insurance companies and other financial institutions. The company also has as object to provide support services for third parties, as mandatary or otherwise, in particular for companies in which the company has an interest – either directly or indirectly. The object of the company is also to acquire in the broadest sense of the word (including by means of purchase, hire and lease), to maintain and to operate resources, and to make these resources available in the broadest sense of the word (including through letting, and granting rights of use) to the beneficiaries referred to in the second sentence above. In addition, the company may function as an 'intellectual property' company responsible for, among other things, the development, acquisition, management, protection and maintenance of intellectual property rights, as well as for making these rights available and/or granting rights of use in respect of these rights to the beneficiaries referred to in the second sentence above. The company may also perform all commercial, financial and industrial transactions that may be useful or expedient for achieving the object of the company and that are directly or indirectly related to this object. The company may also by means of subscription, contribution, participation or in any other form whatsoever participate in all companies, businesses or institutions that have a similar, related or complementary activity. In general, the company may, both in Belgium and abroad, perform all acts which may contribute to the achievement of its object (Article 2 of the Articles of Association, which are available at www.kbc.com).
- Documents open to public inspection: the Articles of Association of the company are open to public inspection at the Registry of the Dutch-speaking division of the Brussels 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.* Financial reports about the company are published in the financial press and/or on www.kbc.com. Convening notices of general meetings of shareholders are published in the *Belgian Official Gazette*, in at least one national newspaper, in the media and on www.kbc.com.
- For information on the general meeting of shareholders and the right of shareholders to take part in such meetings, see Article 23 *et seq.* of the Articles of Association, which are available at www.kbc.com.

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

We present to you our statutory auditor's report in the context of our statutory audit of the consolidated accounts of KBC Group 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 4 May 2016, following the proposal formulated by the board of directors and following the recommendation by the audit committee and the proposal formulated by the workers' council. Our mandate will expire on the date of the general meeting which will deliberate on the annual accounts for the year ended 31 December 2018. We have performed the statutory audit of the consolidated accounts of KBC Group NV for 3 consecutive years.

Report on the consolidated accounts

Unqualified opinion

We have performed the statutory audit of the Group's consolidated accounts, which comprise the consolidated balance sheet as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cashflow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information, and which is characterised by a consolidated balance sheet total of EUR 283.808 million and a profit for the year (share of the Group) of EUR 2.570 million.

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

Basis for unqualified opinion

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

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

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

Key audit matters

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

Estimation uncertainty with respect to financial instruments measured at fair value

Description of the Key Audit Matter

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

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

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

Our audit approach regarding the Key Audit Matter

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

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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.

Estimation uncertainty with respect to impairment allowances for loans and advances

Description of the Key Audit Matter

The appropriateness of the impairment allowances for loans and advances at amortised cost requires significant judgment of management. Measuring impairment allowances for loans and advances under IFRS 9 requires an assessment of 12-month or lifetime expected credit losses and the assessment of significant increases in credit risk or whether loans and advances at amortised cost are in default. At year-end 31 December 2018 information regarding impairment allowances for loans and advances is included in Note 4.2 to the consolidated accounts, in application of the policies as described in Note 1.2. of the Summary of significant accounting policies on IFRS 9. At year-end 31 December 2018 the gross loans and advances at amortised cost amount to EUR 176.680 million, the total impairment at that date amounts to EUR 3.523 million.

The assessment of significant increases in credit risk, the assessment of whether loans and advances at amortised cost are in default and the measurement of 12-month or lifetime expected credit losses are part of the estimation process at Group and are, amongst others, based on macroeconomic scenarios, credit risk models, triggers indicating a significant increase in credit risk and default triggers, the financial condition of the counterparty, the expected future cash flows or the value of collateral. The use of different modelling techniques, scenarios and assumptions could lead to different estimates of impairment charges on loans and advances. As the loans and advances represent the majority of the Group's balance sheet and given the related estimation uncertainty on impairment charges, we consider this as a key audit matter.

Our audit approach regarding the Key Audit Matter

Our audit procedures included an assessment of the overall governance of the credit and impairment process of the Group, including the 12-month and lifetime expected loss modelling processes. We have assessed and tested the design and operating effectiveness of the controls within the loan origination process, risk management process and the estimation process for determining impairment allowances. For loan impairment allowances determined on an individual basis we have performed, for a sample of corporate credit files, a detailed review of loans granted by the Group. We challenged the default triggers and the quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. We found no material exceptions in these tests.

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For the loan 12-month and lifetime expected credit loss impairment allowances, we challenged the significant increases in credit risk triggers and the macroeconomic scenarios and tested the underlying models including the Group's model approval and validation process. Finally, we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the International Financial Reporting Standards as adopted by the European Union.

In our view, the impairments estimated by management are within a reasonable range of outcomes in view of the overall loans and advances and the related uncertainties as disclosed in the consolidated accounts.

Estimation uncertainty with respect to technical insurance provisions

Description of the Key Audit Matter

At year-end 31 December 2018 the technical insurance provisions (before reinsurance) amount to EUR 18.324 million. For detailed information regarding the valuation of the technical insurance provisions, please refer to disclosure Note 1.2. of the Summary of significant accounting policies on technical provisions and Note 5.6 to the consolidated accounts, as well as to the Technical insurance risk section of the Annual Report.

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

Our audit approach regarding the Key Audit Matter

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

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

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.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

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- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our statutory auditor's report to the related disclosures in the consolidated accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated accounts, including the disclosures, and whether the consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Other legal and regulatory requirements

Responsibilities of the board of directors

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

Statutory auditor's responsibilities

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

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Aspects related to the directors' report on the consolidated accounts

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

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

The non-financial information required by virtue of article 119, §2 of the Companies' Code is included in the directors' report on the consolidated accounts. The Company has prepared the non-financial information, based on Global Reporting Initiative (GRI) Standards. However, we do not express an opinion as to whether the non-financial information has been prepared in accordance with the Global Reporting Initiative (GRI) Standards as disclosed in the consolidated accounts.

Statement related to independence

- Our registered audit firm and our network did not provide services which are incompatible with the statutory audit of the consolidated accounts, and our registered audit firm remained independent of the Group in the course of our mandate.

- The fees for additional services which are compatible with the statutory audit of the consolidated accounts referred to in article 134 of the Companies' Code are correctly disclosed and itemized in the notes to the consolidated accounts.

Other statements

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

Sint-Stevens-Woluwe, 19 March 2019

The statutory auditor
PwC Bedrijfsrevisoren cvba
represented by

Roland Jeanquart
Accredited auditor

Tom Meuleman
Accredited auditor

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The company annual accounts of KBC Group NV are presented here in abridged form. A full set of these accounts will be submitted for approval to the General Meeting of Shareholders of 2 May 2019.
The company annual accounts, the report of the Board of Directors and the statutory auditor's report are filed with the National Bank of Belgium. These documents are available free of charge from KBC Group NV, Investor Relations Office – IRO, Havenlaan 2, 1080 Brussels, Belgium. They can also be viewed at www.kbc.com.
The statutory auditor has delivered an unqualified audit opinion on the company annual accounts of KBC Group NV.
The company annual accounts have been prepared according to Belgian accounting standards (B-GAAP) and are, therefore, not comparable with the figures prepared in accordance with IFRS in the other sections of this report.

COMPANY ANNUAL ACCOUNTS AND ADDITIONAL INFORMATION

Company balance sheet, income statement and profit appropriation

Balance sheet after profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2018	31-12-2017
Fixed assets	**23 029**	**21 447**
Intangible fixed assets	293	212
Property and equipment	95	87
Land and buildings	26	27
Plant, machinery and equipment	56	46
Furniture and vehicles	11	12
Other tangible fixed assets	1	1
Assets under construction and advance payments	1	1
Financial fixed assets	22 641	21 148
Affiliated companies	22 640	21 147
Participating interests	14 037	14 044
Amounts receivable	8 603	7 103
Other companies linked by participating interests	1	1
Participating interests	1	1
Amounts receivable	0	0
Current assets	**319**	**193**
Amounts receivable at more than one year	1	0
Trade receivables	0	0
Other amounts receivable	1	0
Stocks and contracts in progress	0	1
Stocks	0	1
Goods purchased for resale	0	1
Amounts receivable within one year	53	58
Trade receivables	39	45
Other amounts receivable	14	13
Current investments	0	0
Own shares	0	0
Other investments	0	0
Cash at bank and in hand	121	52
Deferred charges and accrued income	144	82
Total assets	**23 348**	**21 640**
Equity	**13 411**	**13 468**
Capital	1 457	1 456
Issued capital	1 457	1 456
Share premium account	5 461	5 448
Reserves	1 286	1 467
Legal reserves	146	146
Reserves not available for distribution	1	1
Untaxed reserves	190	190
Reserves available for distribution	949	1 129
Profit (Loss (-)) carried forward	5 207	5 098
Provisions and deferred taxes	**13**	**17**
Provisions for liabilities and charges	13	17
Pensions and similar obligations	13	16
Other liabilities and charges	0	0
Amounts payable	**9 925**	**8 155**
Amounts payable at more than one year	7 201	7 102
Financial debt	7 201	7 102
Subordinated loans	3 181	3 580
Non-subordinated bonds	4 020	3 522
Credit institutions	0	0
Amounts payable within one year	2 617	983
Amounts payable at more than one year falling due within the year	1 400	0
Financial debt	0	0
Credit institutions	0	0
Other loans	0	0
Trade debt	69	34
Advance payments received on orders	0	0
Taxes, remuneration and social security charges	69	81
Income tax expense	15	15
Remuneration and social security charges	54	65
Other amounts payable	1 078	868
Accrued charges and deferred income	107	70
Total liabilities	**23 348**	**21 640**

Income statement (B-GAAP)

(in millions of EUR)	31-12-2018	31-12-2017
Operating income	**962**	**905**
Turnover	862	837
Increase (decrease (-)) in stocks of finished goods, work and contracts in progress	0	0
Own construction capitalised	83	52
Other operating income	17	15
Non-recurring operating income	0	0
Operating charges	**1 017**	**917**
Services and other goods	537	473
Remuneration, social security charges and pensions	347	351
Depreciation of and amounts written off formation expenses and intangible and tangible fixed assets	97	89
Provisions for liabilities and charges: amounts set aside (amounts reversed (-))	-4	0
Other operating charges	2	1
Non-recurring operating charges	38	3
Operating profit (loss (-))	**-55**	**-13**
Financial income	1 823	1 208
Recurring financial income	1 812	1 208
Income from financial fixed assets	1 615	1 048
Income from current assets	3	2
Other financial income	193	158
Non-recurring financial income	11	0
Financial charges	189	147
Recurring financial charges	189	147
Debt charges	186	145
Amounts written down on current assets: increase (decrease (-))	0	0
Other financial charges	3	2
Non-recurring financial charges	0	0
Profit (Loss (-)) for the period, before tax	**1 579**	**1 048**
Transfers from deferred taxes	0	0
Transfers to deferred taxes	0	3
Income tax	3	7
Profit (Loss (-)) for the period	**1 576**	**1 038**
Profit (Loss (-)) for the period available for appropriation	**1 576**	**1 038**

Profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2018	31-12-2017
Profit (Loss (-)) to be appropriated	**6 673**	**6 364**
Profit (Loss (-)) for the period available for appropriation	1 576	1 038
Profit (Loss (-)) carried forward from the previous period	5 098	5 326
Transfers to equity	**0**	**0**
To the legal reserves	0	0
To other reserves	0	0
Profit (Loss (-)) to be carried forward	**5 207**	**5 098**
Profit to be distributed	**1 466**	**1 266**
Dividends	1 456	1 256
Directors' entitlements	0	0
Employees/other allocations	10	11

We will propose to the General Meeting of Shareholders that the profit for appropriation for the 2018 financial year be distributed as shown in the table. If this proposal is approved, the total gross dividend per share entitled to dividend will amount to 3.50 euros, 1 euro of which was already paid as an interim gross dividend in November 2018, leaving a final gross dividend of 2.50 euros.

Notes to the company annual accounts

Note 1: Financial fixed assets (B-GAAP)

(in millions of EUR)	Participating interests in affiliated companies	Amounts receivable from affiliated companies	Participating interests in companies linked by participating interests	Amounts receivable from companies linked by participating interests
Carrying value at 31-12-2017	**14 044**	**7 103**	**1**	**0**
Acquisitions in 2018	0	1 501	0	0
Disposals in 2018	-6	-1	0	0
Other changes in 2018	0	0	0	0
Carrying value at 31-12-2018	**14 037**	**8 603**	**1**	**0**

Participating interests in affiliated companies are mainly the shareholdings in KBC Bank NV, KBC Insurance NV and KBC Asset Management NV. The amounts receivable from affiliated companies related to loans to KBC Bank NV in the form of additional tier-1 capital (2.4 billion euros in total), tier-2 capital (1.7 billion euros), tier-3 capital (4 billion euros) and a subordinated perpetual loan of 0.5 billion euros to KBC Insurance NV. The main changes in 2018 related to the issue of a new additional tier-1 loan of 1 billion euros and a green bond of 0.5 billion euros (qualifying as tier-3 capital).

Note 2: Changes in equity (B-GAAP)

(in millions of EUR)	31-12-2017	Capital increase for staff	Appropriation of results	Share buyback	31-12-2018
Capital	1 456	1	0	0	1 457
Share premium account	5 448	12	0	0	5 461
Reserves	1 467	0	0	-181	1 286
Profit (Loss) carried forward	5 098	0	109	0	5 207
Equity	**13 468**	**13**	**109**	**-181**	**13 411**

At year-end 2018, the company's issued share capital amounted to 1 456 980 548.26 euros, represented by 416 155 676 shares of no nominal value, and the share premium account came to 5 460 663 930.66 euros. The share capital is fully paid up.

Changes in 2018:

- Between 22 May 2018 and 3 July 2018, KBC Group NV repurchased 2 700 000 of its own shares for a total cost of 180 549 108 euros. Each share had an accounting par value of 3.48 euros. In total, they represented 0.65% (rounded) of the paid-up capital (2 700 000/418 597 567). The reason behind the share buyback was to compensate for the dilution of shareholders' interests resulting from the annual capital increases for staff carried out in previous years. KBC Group NV cancelled the 2 700 000 shares in question on 8 August 2018.
- A capital increase under the authorisation to increase capital carried out on 21 December 2018 and reserved exclusively for employees of KBC Group NV and its Belgian subsidiaries resulted in 258 109 shares being issued at a price of 51.92 euros per share. These shares are blocked for two years, since the issue price was less than the closing price of the KBC share on 15 November 2018. As a result of this operation, capital was increased by 905 962.59 euros and the share premium account went up by 12 495 056.69 euros. By carrying out this capital increase, the group aims to strengthen ties with its staff and the staff of its Belgian subsidiaries. Given the limited extent of the capital increase, the financial ramifications for existing shareholders are minor. All of the shares issued in 2018 will also be entitled to dividend from the 2018 financial year (but not the interim dividend of 1 euro per share already paid by the company in November 2018).

The authorisation to increase capital may be exercised up to and including 23 October 2023 for an amount of 699 094 037.41 euros, with suspension of the preferential subscription rights of existing shareholders being restricted to a maximum of 290 094 037.41 euros. Based on an accounting par value of 3.51 euros a share, a maximum of 199 172 090 new KBC Group NV shares can therefore be issued, with the possibility to suspend the preferential subscription rights attached to a maximum of 82 647 874 of these shares.

Note 3: Shareholders

We received a large number of notifications in 2018 pursuant to the Belgian Act of 2 May 2007 concerning the disclosure of significant participations. We publish all such notifications on www.kbc.com. The table below gives an overview of the situation at 31 December 2018 (based on notifications received between 1 January 2018 and 31 December 2018) and the updated situation at 28 February 2019 (based on notifications received between 1 January 2019 and 28 February 2019). Please note that the number of shares stated in the notifications may differ from the current number in possession, as a change in the number of shares held does not always give rise to a new notification.

Notifications	Total voting rights*	% of total voting rights*
Situation at 31 December 2018 (based on notifications received between 1 January 2018 and 31 December 2018)		
FMR LLC (last update: situation at 6 September 2018)	12 531 817 (12 531 817)	3.01% (3.01%)
BlackRock Inc. (last update: situation at 31 October 2018)	16 474 105 (20 778 528)	3.96% (5.00%)
Situation at 28 February 2019 (based on notifications received between 1 January 2019 and 28 February 2019)		
None	–	–

* As indicated in the transparency notification. The figures between brackets include the 'voting rights that may be acquired if the instrument is exercised' as stated under 'B) Equivalent financial instruments' in the transparency notification.

The following table gives an overview of KBC shares held by KBC group companies at the end of the financial year. The average accounting par value of the KBC share came to 3.51 euros in 2018.

KBC shares held by KBC group companies	31 December 2018	31 December 2017
KBC Securities NV	2	2
KBC Bank NV	50 282*	64 845*
Total (as a percentage of the total number of shares)	*0.0%*	*0.0%*

* Held for the purpose of hedging outstanding derivatives on indices/baskets that include KBC Group shares.

Note 4: Balance sheet

- On 31 December 2018, total assets came to 23 348 million euros, compared with 21 640 million euros a year earlier.
- 'Financial fixed assets' are discussed in Note 1.
- 'Current assets' amounted to 319 million euros, whereas the year-earlier figure was 193 million euros. This change was largely attributable to the increased level of cash at bank and in hand at year-end and the higher amount of costs to be carried forward.
- 'Equity' is dealt with in Note 2.
- 'Amounts payable' totalled 9 925 million euros, compared with 8 155 million euros at year-end 2017. The main changes to this item were the issuance of a new tier-1 loan (of 1 billion euros) and a new tier-3 loan (green bond of 0.5 billion euros). 'Other amounts payable' increased as well, going up by 0.2 billion euros (the dividend payment was higher than in 2017).

Note 5: Income statement

- KBC Group NV generated a net profit of 1 576 million euros in 2018, as opposed to 1 038 million euros a year earlier.
- 'Operating income' rose by 6% and 'Operating charges' by 11% year-on-year, due primarily to higher ICT expenses and costs (38 million euros) relating to a legal case.
- The main change in the financial result was the increase of 567 million euros in dividends received.

Note 6: Statutory auditor's remuneration

See Note 6.4 in the 'Consolidated financial statements' section.

Note 7: Branch offices

KBC Group NV had three branch offices (in the Czech Republic, Slovakia and Hungary) at year-end 2018.

Note 8: Additional information

KBC Group NV uses financial instruments to hedge interest rate risks. At year-end 2018, the outstanding notional amount of interest rate swaps used for hedging such risks was 500 million euros. It also uses foreign exchange derivatives to hedge the currency risk of the Hungarian branch office (outstanding amount of roughly 3 million euros).

KBC Group NV intends to transfer the shares it holds in KBC Asset Management (48.14% of the outstanding shares) to KBC Bank on 25 April 2019 by means of a share sale, after which KBC Group NV will carry out a capital increase at KBC Bank. The transfer fits in with the aim to simplify and optimise the shareholder structure of KBC Asset Management. As a result, KBC Bank will hold all of KBC Asset Management's shares (apart from one which will continue to be held by KBC Insurance). The reorganisation is subject to the regulatory approval of the Financial Services and Markets Authority. KBC Group NV is due to realise a statutory capital gain of 2 113 million euros on this sale, which will not have any impact on its consolidated results and solvency position.

The information required in accordance with Article 96 of the Belgian Companies Code that has not been provided above (including the non-financial information statement) appears in the 'Report of the Board of Directors' section.

Glossary of financial ratios and terms

Besides the ratios and terms required by law or IFRS, the group also uses its own ratios and definitions, known as 'alternative performance measures' (APM). These are identified by the inclusion of 'APM' in the heading.

We have started applying IFRS 9 with effect from 2018, with the result that some of the income statement and balance sheet figures – and the related ratios – are not fully comparable to the 2017 reference figures (which are still based on IAS 39, as KBC is making use of transition relief for comparative data)

Basic and diluted earnings per share

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

Calculation (in millions of EUR)	**Reference**	**2018**	**2017**
Result after tax, attributable to equity holders of the parent (A)	'Consolidated income statement'	2 570	2 575
-			
Coupon on the additional tier-1 instruments included in equity (B)	'Consolidated statement of changes in equity'	-76	-52
/			
Average number of ordinary shares less treasury shares (in millions) in the period (C)	Note 5.10	417	418
or Average number of ordinary shares plus dilutive options less treasury shares in the period (D)		*(idem)*	*(idem)*
Basic = (A-B) / (C) (in EUR)		5.98	6.03
Diluted = (A-B) / (D) (in EUR)		5.98	6.03

Combined ratio (non-life insurance) (APM)

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. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	**Reference**	**2018**	**2017**
Technical insurance charges, including the internal cost of settling claims (A)	Note 3.7	878	813
/			
Earned insurance premiums (B)	Note 3.7	1 553	1 465
+			
Operating expenses (C)	Note 3.7	505	482
/			
Written insurance premiums (D)	Note 3.7	1 597	1 493
= (A/B) + (C/D)		88%	88%

Common equity ratio

A risk-weighted measure of the group's solvency based on common equity tier-1 capital (the ratios given here are based on the Danish compromise). The CRD IV rules are gradually being implemented to allow banks to build up the necessary capital buffers. The capital position of a bank, when account is taken of the transition period, is referred to as the 'phased-in' view. The capital position based on full application of all the rules – as would be the case after this transition period – is referred to as 'fully loaded'. The impact of IFRS 9 on this ratio is dealt with in the 'How do we manage our capital?' section.

Calculation	**2018**	**2017**
Detailed calculation under 'Solvency at group level' in the 'How do we manage our capital?' section		
Phased-in	16.0%	16.5%
Fully loaded	16.0%	16.3%

Cost/income ratio (APM)

Gives an impression of the relative cost efficiency (costs relative to income) of the banking activities. We also use the same methodology to calculate this ratio for each business unit.

Where relevant, we also eliminate exceptional and/or non-operating items when calculating the cost/income ratio. This calculation aims to give a better idea of the relative cost efficiency of the pure business activities.

Calculation (in millions of EUR or %)	**Reference**	**2018**	**2017**
Cost/income ratio			
Operating expenses of the banking activities (A)	'Consolidated income statement': component of 'Operating expenses'	3 714	3 570
/			
Total income of the banking activities (B)	'Consolidated income statement': component of 'Total income'	6 459	6 587
= (A) / (B)		57.5%	54.2%
Cost/income ratio with exceptional and/or non-operating items eliminated			
Operating expenses of the banking activities (A)	'Consolidated income statement': component of 'Operating expenses'	3 714	3 570
-			
Smaller items (a1)		-27	-16
/			
Total income of the banking activities (B)	'Consolidated income statement': component of 'Total income'	6 459	6 587
-			
Impact of the mark-to-market valuation of ALM derivatives (b1)		-10	-93
-			
Smaller items (b2)		-25	-17
= (A-a1) / (B-b1-b2)		57.4%	54.9%

Coverage ratio (APM)

Indicates the proportion of impaired loans (see 'Impaired loans ratio' for definition) that are covered by specific impairment charges. The numerator and denominator in the formula relate to all impaired loans, but may be limited to impaired loans that are more than 90 days past due (the figures for that particular calculation are given in the 'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section).

Please note that we are using a slightly modified definition of the loan portfolio as of 2018 (based on gross carrying amount), more details of which can be found in the 'How do we manage our risks?' section. Under this new definition, the coverage ratio would have been 48% in 2017.

Calculation (in millions of EUR or %)	**Reference**	**2018**	**2017**
Specific impairment on loans (A)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	3 203	4 039
/			
Impaired loans (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	7 151	9 186
= (A) / (B)		45%	44%

Credit cost ratio (APM)

Gives an idea of loan impairment charges recognised in the income statement for a specific period, relative to the total loan portfolio (see 'Loan portfolio' for definition). In the longer term, this ratio can provide an indication of the credit quality of the portfolio. A negative figure indicates a net reversal of impairment and hence a positive impact on the results. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	**Reference**	**2018**	**2017**
Net changes in impairment for credit risks (A)	'Consolidated income statement': Note 3.10, component of 'Impairment'	-59	-87
/			
Average loan portfolio (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	163 393	151 681
= (A) / (B)		-0.04%	-0.06%

Dividend payout ratio (APM)

Gives an idea of the extent to which KBC Group NV distributes its annual profit (and, therefore, also indirectly the extent to which profits are used to strengthen the capital reserves). More information on the group's dividend distribution policy can be found under 'Our employees, capital, network and relationships' in the 'Our business model' section. The amount of dividend for 2018 is subject to the approval of the General Meeting of Shareholders.

Calculation (in millions of EUR or %)	Reference	2018	2017
Amount of dividend to be distributed (including interim dividend) (A)	'Consolidated statement of changes in equity'	1 456	1 256
+			
Coupon to be paid/already paid on the additional tier-1 instruments included in equity (B)	'Consolidated statement of changes in equity'	70	52
/			
Net result, group share (C)	'Consolidated income statement'	2 570	2 575
= (A+B) / (C)		59%	51%

Impaired loans ratio (APM)

Indicates the proportion of impaired loans in the loan portfolio (see 'Loan portfolio' for definition) and, therefore, gives an idea of the creditworthiness of the portfolio. Impaired loans are loans where it is unlikely that the full contractual principal and interest will be repaid/paid. These loans have a KBC default status of PD 10, PD 11 or PD 12. Where appropriate, the numerator in the formula may be limited to impaired loans that are more than 90 days past due (PD 11 + PD 12). Relevant figures for that calculation are given in the 'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section. We also use the same methodology to calculate this ratio for each business unit.
Please note that we are using a slightly modified definition of the loan portfolio as of 2018 (based on gross carrying amount), more details of which can be found in the 'How do we manage our risks?' section. Under this new definition, the impaired loans ratio would have been 6.1% in 2017.

Calculation (in millions of EUR or %)	Reference	2018	2017
Amount of impaired loans (A)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	7 151	9 186
/			
Total loan portfolio (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	164 824	154 160
= (A) / (B)		4.3%	6.0%

Leverage ratio

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

Calculation (in millions of EUR or %)	Reference	2018	2017
Regulatory available tier-1 capital (A)	'Solvency at group level' table in the 'How do we manage our capital?' section	16 150	16 504
/			
Total exposure measures (total of non-risk-weighted on and off-balance sheet items, with a number of adjustments) (B)	'Solvency at group level' table in the 'How do we manage our capital?' section	266 594	272 373
= (A) / (B)		6.1%	6.1%

Liquidity coverage ratio (LCR)

Gives an idea of the bank's liquidity position in the short term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-month period. It is the average of 12 end-of-month LCR figures.

Calculation (in millions of EUR or %)	Reference	2018	2017
Stock of high-quality liquid assets (A)	Based on the European Commission's Delegated Act on LCR and the European Banking Authority's guidelines for LCR disclosure	79 300	79 850
/			
Total net cash outflows over the next 30 calendar days (B)		57 200	57 600
= (A) / (B)		139%	139%

Loan portfolio (APM)

Gives an idea of the magnitude of (what are mainly traditional) lending activities. As of 2018, we have slightly changed the definition, switching from 'outstanding amount' to the new definition of gross carrying amount, i.e. including reserved and accrued interest. We also extended the scope of the loan portfolio to include other exposures to credit institutions (money market placements, documentary credit, accounts), KBC Commercial Finance debtor risk, unauthorised overdrafts, and reverse repos (excluding central bank exposure). Under this new definition, the total loan portfolio would have come to roughly 162 billion euros at year-end 2017.

Calculation (in millions of EUR)	**Reference**	**2018**	**2017**
Loans and advances to customers (A)	Note 4.1, component of 'Loans and advances to customers'	147 052	140 999
+			
Reverse repos (not with central banks) (B)	Note 4.1, component of 'Reverse repos with credit institutions and investment firms'	538	–
+			
Debt instruments issued by corporates and by credit institutions and investment firms (banking) (C)	Note 4.1, component of 'Debt instruments issued by corporates and by credit institutions and investment firms'	5 750	6 243
+			
Loans and advances to credit institutions and investment firms (banking, excluding dealing room activities) (D)	Note 4.1, component of 'Loans and advances to credit institutions and investment firms'	–	881
+			
Other exposures to credit institutions (E)	–	4 603	–
+			
Financial guarantees granted to clients (F)	Note 6.1, component of 'Financial guarantees given'	8 302	8 235
+			
Impairment on loans (G)	Note 4.2, component of 'Impairment'	3 534	4 058
-			
Insurance entities (H)	Note 4.1, component of 'Loans and advances to customers'	-2 296	-2 458
+			
Non-loan-related receivables (I)	–	-517	–
+			
Other (J)	Component of Note 4.1	-2 142	-3 797
= (A)+(B)+(C)+(D)+(E)+(F)+(G)-(H)+(I)+(J)		164 824	154 160

Market capitalisation

Provides an indication of the stock market value of the KBC group.

Calculation (in EUR or quantity)	**Reference**	**2018**	**2017**
Closing price of KBC share (in EUR) (A)	–	56.7	71.1
x			
Number of ordinary shares (in millions) (B)	Note 5.10	416.2	418.6
= (A) x (B) (in billions of EUR)		23.6	29.8

Minimum requirement for own funds and eligible liabilities (MREL)

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

Calculation (in millions of EUR or %)		**2018**	**2017**
Point-of-entry view	Detailed calculation under 'Solvency at group level' in the 'How do we manage our capital?' section (the ratios in this table are expressed as a % of risk weighted assets)	25.0%	24.0%
Consolidated view		26.0%	26.3%

Net interest margin (APM)

Gives an idea of the net interest income of the banking activities (one of the most important sources of revenue for the group) relative to the average total interest-bearing assets of the banking activities. We also use the same methodology to calculate this ratio for each business unit. Please note that, as of 2018, the dealing-room activities and the net positive impact of foreign exchange swaps and repos used for asset/liability management purposes have been excluded from the calculation. Under this revised definition, the net interest margin would have amounted to 1.95% in 2017.

Calculation (in millions of EUR or %)	**Reference**	**2018**	**2017**
Net interest income of the banking activities* (A)	'Consolidated income statement': component of 'Net interest income'	3 813	3 513
/			
Average interest-bearing assets of the banking activities* (B)	'Consolidated balance sheet': component of 'Total assets'	187 703	187 216
= (A) / (B) x 360/number of calendar days		2.00%	1.85%

* After elimination of all divestments and volatile short-term assets used for liquidity management purposes.

Net stable funding ratio (NSFR)

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

Calculation (in millions of EUR or %)	**Reference**	**2018**	**2017**
Available amount of stable funding (A)	'Basel III: the net stable funding ratio' (Basel Committee on Banking Supervision publication, October 2014)	165 650	157 700
/			
Required amount of stable funding (B)		122 150	117 300
= (A) / (B)		136%	134%

Own capital target (APM)

We aim to be one of the better capitalised financial institutions in Europe. Each year, therefore, we assess the common equity ratios of a peer group of European banks that are active in the retail, SME, and corporate client segments. We then position ourselves relative to the median fully loaded common equity ratio of that peer group. We reflect this capital policy in an 'own capital target'.

Calculation (expressed as fully loaded common equity ratio)	**2018 (target)**	**2017 (target)**
Median fully loaded common equity ratio of a peer group of European banks	14.0%	14.0%

Parent shareholders' equity per share (APM)

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

Calculation (in millions of EUR or quantity)	**Reference**	**2018**	**2017**
Parent shareholders' equity (A)	'Consolidated balance sheet'	17 233	17 403
/			
Number of ordinary shares less treasury shares (in millions at period-end) (B)	Note 5.10	416.1	418.5
= (A) / (B) (in EUR)		41.4	41.6

Reference capital position (APM)

We want to maintain an additional flexible buffer of up to 2% of common equity – over and above the 'Own capital target' (see definition) – for potential mergers and acquisitions that would strengthen our position in our core markets. Any such opportunities will be assessed subject to very strict financial and strategic criteria. This buffer is added to KBC's own capital target to form the 'Reference capital position'.

Calculation (expressed as fully loaded common equity ratio)	2018 (target)	2017 (target)
Own capital target (A)	14.0%	14.0%
+		
Additional flexible buffer for mergers and acquisitions (B)	2.0%	2.0%
= (A) + (B)	16.0%	16.0%

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

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

Calculation (in millions of EUR or %)	Reference	2018	2017
BELGIUM BUSINESS UNIT			
Result after tax (including minority interests) of the business unit (A)	Note 2.2: Results by segment	1 450	1 575
/			
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency II) (B)		6 496	6 007
= (A) / (B)		22%	26%
CZECH REPUBLIC BUSINESS UNIT			
Result after tax (including minority interests) of the business unit (A)	Note 2.2: Results by segment	654	702
/			
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency II) (B)		1 696	1 620
= (A) / (B)		39%	43%
INTERNATIONAL MARKETS BUSINESS UNIT			
Result after tax (including minority interests) of the business unit (A)	Note 2.2: Results by segment	533	444
/			
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency II) (B)		2 204	2 054
= (A) / (B)		24%	22%

Return on equity (APM)

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

Calculation (in millions of EUR or %)	**Reference**	**2018**	**2017**
Result after tax, attributable to equity holders of the parent (A)	'Consolidated income statement'	2 570	2 575
-			
Coupon on the additional tier-1 instruments included in equity (B)	'Consolidated statement of changes in equity'	-76	-52
/			
Average parent shareholders' equity, excluding the revaluation reserve for FVOCI instruments and for FVPL equity instruments – overlay approach (revaluation reserve for available-for-sale assets in 2017) (C)	'Consolidated statement of changes in equity'	15 935	14 926
= (A-B) / (C)		16%	17%

Solvency ratio (insurance)

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

Calculation	**2018**	**2017**
Detailed calculation under 'Solvency of KBC Bank and KBC Insurance separately' in the 'How do we manage our capital?' section	217%	212%

Total assets under management (APM)

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

Calculation (in billions of EUR)	**2018**	**2017***
Belgium Business Unit (A)	186.4	202.1
+		
Czech Republic Business Unit (B)	9.5	9.6
+		
International Markets Business Unit (C)	4.4	5.0
= (A)+(B)+(C)	200.3	216.7

* The figures for 2017 have been adjusted (i.e. reduced by 2 billion euros) following a correction with regard to institutional mandates.

Management certification

'I, Rik Scheerlinck, Chief Financial Officer of the KBC group, certify on behalf of the Executive Committee of KBC Group NV that, to the best of my knowledge, the 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 Group NV, including its consolidated subsidiaries, and that the annual report provides a fair overview of the development, the results and the situation of KBC Group NV, including its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed.'

Contact details and calendar

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Calendar for 2019	
Publication of the Annual Report and the Risk Report for 2018	29 March 2019
General Meeting of Shareholders (agenda available at www.kbc.com)	2 May 2019
Earnings release for 1Q 2019	16 May 2019
Earnings release for 2Q 2019	8 August 2019
Earnings release for 3Q 2019	14 November 2019

The most up-to-date version of the financial calendar is available at www.kbc.com.

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