KBC Bank Annual Report for 2019

To the reader

Company name

'KBC', 'the group', 'we' or 'KBC Bank' as used in this annual report refer (unless otherwise indicated) to the consolidated bank entity, i.e. KBC Bank NV including all group companies included in the scope of consolidation. 'KBC Bank NV' refers solely to the non-consolidated entity. The 'Company annual accounts' section deals only with the non-consolidated entity.

Difference between KBC Bank and KBC Group

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

Forward-looking statements

The expectations, forecasts and statements regarding future developments that are contained in this annual report are based on assumptions and assessments made when drawing up this annual report mid-March 2020. By their nature, forward-looking statements involve uncertainty. Various factors, especially the recent corona crisis, could cause actual results and developments to differ from the initial statements. As far as the macroeconomic outlook is concerned, our baseline scenario – when it comes to Brexit – rests on the assumption of difficult trade negotiations between the EU and the UK by 2020, leading in turn to uncertainty for the British and European economies.

Translation

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

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

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

Non-financial information statement

As required by Articles 3:6 §4 and 3:32 §2 of the CAC, we provide a statement on non-financial information at the highest consolidated level for a Belgian entity, i.e. (in the annual report of) KBC Group NV. That particular report is available at www.kbc.com. Nevertheless, most of the information in question is also provided in KBC Bank's annual report.

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Ratios used

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

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Table of Contents

Report of the Board of Directors

Group profile p. 6

Our financial report p. 35

Our business units p. 39

How do we manage our risks? p. 46

How do we manage our capital? p. 79

Corporate governance statement p. 82

Consolidated financial statements

Consolidated income statement p. 93

Consolidated statement of comprehensive income p. 94

Consolidated balance sheet p. 96

Consolidated statement of changes in equity p. 97

Consolidated cashflow statement p. 99

1.0 Notes on the accounting policies p. 102

- Note 1.1: Statement of compliance p. 102
- Note 1.2: Summary of significant accounting policies p. 102
- Note 1.3: Critical estimates and significant judgements p. 119

2.0 Notes on segment reporting p. 120

- Note 2.1: Segment reporting based on the management structure p. 120
- Note 2.2: Results by segment p. 121
- Note 2.3: Balance-sheet information by segment p. 124

3.0 Notes to the income statement p. 125

- Note 3.1: Net interest income p. 125
- Note 3.2: Dividend income p. 125

Note 3.3: Net result from financial instruments at fair value through profit or loss p. 126
Note 3.4: Net realised result from debt instruments at fair value through other comprehensive income p. 127
Note 3.5: Net fee and commission income p. 127
Note 3.6: Other net income p. 128
Note 3.7: Insurance results p. 128
Note 3.8: Operating expenses p. 128
Note 3.9: Personnel p. 129
Note 3.10: Impairment (income statement) p. 129
Note 3.11: Share in results of associated companies and joint ventures p. 132
Note 3.12: Income tax expense p. 133

4.0 Notes on the financial assets and liabilities on the balance sheet p. 135

Note 4.1: Financial assets and liabilities, breakdown by portfolio and product p. 135
Note 4.2: Financial assets and liabilities, breakdown by portfolio and quality p. 138
Note 4.3: Maximum credit exposure and offsetting p. 140
Note 4.4: Fair value of financial assets and liabilities – general p. 142
Note 4.5: Financial assets and liabilities measured at fair value – fair value hierarchy p. 144
Note 4.6: Financial assets and liabilities measured at fair value – transfers between levels 1 and 2 p. 147
Note 4.7: Financial assets and liabilities measured at fair value – focus on level 3 p. 147
Note 4.8: Derivatives p. 148

5.0 Notes on other balance sheet items p. 152

Note 5.1: Other assets p. 152
Note 5.2: Tax assets and tax liabilities p. 152
Note 5.3: Investments in associated companies and joint ventures p. 154
Note 5.4: Property and equipment and investment property p. 155
Note 5.5: Goodwill and other intangible assets p. 156
Note 5.6: Technical provisions, insurance p. 157
Note 5.7: Provisions for risks and charges p. 157
Note 5.8: Other liabilities p. 160
Note 5.9: Retirement benefit obligations p. 161
Note 5.10: Parent shareholders' equity and additional tier-1 instruments p. 165
Note 5.11: Non-current assets held for sale and discontinued operations p. 165

6.0 Other notes p. 166

Note 6.1: Off-balance sheet commitments and financial guarantees given and received p. 166
Note 6.2: Leasing p. 167
Note 6.3: Related-party transactions p. 168
Note 6.4: Statutory auditor's remuneration p. 169
Note 6.5: List of subsidiaries and associated companies p. 170
Note 6.6: Main changes in the scope of consolidation p. 171
Note 6.7: Risk management and capital adequacy p. 172
Note 6.8: Post-balance-sheet events p. 173
Note 6.9: General information p. 174

Statutory auditor's report p. 175

Company annual accounts p. 183

Additional information

Ratios used p. 283

Management certification p. 287

Report of the Board of Directors

Dear reader,

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

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

Johan Thijs	Thomas Leysen
Chief Executive Officer	Chairman of the Board of Directors

Group profile

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

The digital transformation of the financial sector is in full swing

Johan Thijs: The biggest challenge facing a financial institution is responding to rapidly changing client behaviour. People are buying more and more online and they're also comparing products and services via the Internet. Technology is evolving at lightning speed and a variety of new players are entering the traditional financial landscape. So, if you as a financial institution don't keep up, you have a problem. We're embracing the digital future. The starting point is always what the client wants and we adapt our offering to that. Ease of use is one of the most important factors in that respect. Our Mobile app, for instance, does not only contain all our own banking and insurance services, we've also added multibanking functionality and are constantly adding non-banking functions to it as well. More than that, we've actually opened up the app to non-clients too. The focus on digital convenience applies to all our core countries, which is why we copy applications from one country to others wherever possible. And we don't only invest in the applications our clients can see, but also in the seamless integration of our internal functions and the underlying operating systems. It is the intention, for instance, that when a client enters information at KBC, it's immediately integrated in all applications. Another upshot of our clients' enthusiasm for digital solutions is that they generally visit our branches less frequently. Consequently, we are also gradually aligning our omnichannel distribution network with that changing behaviour.

At the same time, we have optimised our group-wide governance model over the past year at management level and have started work on improving the operational efficiency of the entire organisation. The goal is to raise our client service to an even higher level. This adaptation is essential in response to the new environment in which organisations are expected to be more agile, take decisions faster and so continue to meet the expectations of clients and society. This optimisation exercise also has implications, of course, for some of our employees. As always, we are doing everything in a respectful way.

Sustainability is firmly interwoven in KBC's business model

Thomas Leysen: Sustainability remains an inseparable part of our strategy. Climate change in particular is at the top of society's agenda; it represents a real challenge for the financial sector too and is an important theme within our company's risk management. We support international initiatives in the field of climate change and sustainability. In 2019, for example, we signed up to the Collective Commitment to Climate Action – part of the United Nations Environmental Programme Finance Initiative. This commits KBC – in collaboration with our clients – to promote the maximum greening of the economy to help limit the warming of the earth. As part of our general sustainability approach, we have launched a Sustainable Finance programme to that end, including a structural approach to the management and reporting of climate-related risks and opportunities.

Strong focus on core markets and core activities

Thomas Leysen: Our core business is bank-insurance for retail clients in our six core markets of Belgium, the Czech Republic, Slovakia, Hungary Bulgaria and Ireland. Where it is possible, opportune and attractive, we aim to strengthen our position in those countries further. In 2019, for instance, we consolidated our status as the biggest provider of housing-related financial solutions in the Czech Republic by acquiring the remaining 45% stake in the Czech building society ČMSS for 240 million euros. The transaction leaves our Czech subsidiary bank ČSOB as the sole owner of ČMSS. At the beginning of February 2020, we continued along this path, with the announced acquisition of OTP Banka Slovensko. This should allow us to further strengthen our position in the Slovak banking market.

Focus also means running down non-core activities where possible. Our Irish group company KBC Bank Ireland, for instance, had already sold part of its legacy non-performing loan portfolio in 2018. In 2019, it also sold its residual corporate loan portfolio to the tune of approximately 260 million euros. This will allow KBC in Ireland to concentrate fully on its core activities in the retail and micro-SME markets.

Net earnings and solvency turned out strong once again

Johan Thijs: 2019 was another good year in financial terms too. Our revenue benefited from a number of factors, including the increase in net interest income and higher net fee and commission income, which more than offset the decline in certain other income items. We kept our costs firmly under control again. The quality of our loan portfolio continued to improve and loan loss provisions remained relatively limited, albeit higher than in the previous year. All of this, combined with a number of one-off items, gave us a total net profit for 2019 of 2 005 million euros.

The economic environment in 2019 and beyond

Johan Thijs: European economic growth slowed down considerably in 2019. Various risks and uncertainties – including the protracted Brexit negotiations and the deterioration in the international trade climate – weighed on economic sentiment, while difficulties in industry and the weakening of the German economy put a damper on European economic activity.

2020 got off to a more positive economic start, but the coronavirus outbreak has disrupted the recovery of the world economy and the European economy, in particular. Moreover, risks on the geopolitical and international trade fronts are and will remain major impediments to European economic growth. Given these circumstances, we expect 2020 to be a very weak year for the European economy as a whole.

We are convinced that we can continue to build on our strong foundations in these challenging circumstance too. Far more than that, however, our existence and our future depend on the trust that you, our clients, our staff, our shareholders and other stakeholders have placed in us. I sincerely thank you for that.

Johan Thijs	Thomas Leysen
Chief Executive Officer	Chairman of the Board of Directors

Area of operation and activities

KBC Bank is a multi-channel bank catering mainly for retail, private banking, SME and mid-cap clients. Geographically, we focus on our core markets of Belgium, the Czech Republic, Slovakia, Hungary, Bulgaria and Ireland. We have a limited presence elsewhere in the world, primarily to support corporate clients from our core markets.

Shareholders

Shareholder structure (31-12-2019)	Number of shares
KBC Group NV	995 371 468
KBC Insurance NV	1
Total	995 371 469

All shares carry voting rights. The shares are not listed.

Network and personnel

Network and personnel	
Bank branches (31-12-2019)	
Belgium	518
Central and Eastern Europe (Czech Republic, Slovakia, Hungary and Bulgaria)	733
Rest of the world	27
Number of staff (2019 average in FTEs)	approx. 29 500

Financial calendar

Financial communication is largely organised at KBC Group level. Financial information relating to KBC Bank is available at www.kbc.com > Investor Relations > Information on KBC Bank.

Financial calendar for KBC Group and KBC Bank	
FY 2019	KBC Group Annual Report for 2019 and Risk Report for 2019 available: 3 April 2020
	KBC Bank Annual Report for 2019 available: 3 April 2020
	AGM of KBC Bank: 29 April 2020
	AGM of KBC Group: 7 May 2020
1Q 2020	Earnings release for KBC Group: 14 May 2020
2Q 2020/1H 2020	Earnings release for KBC Group: 6 August 2020
	Earnings release for KBC Bank: end of August 2020
3Q 2020/9M 2020	Earnings release for KBC Group: 12 November 2020

The most up-to-date version of the financial calendar is available at www.kbc.com.

Long-term credit ratings

The table shows the long-term and short-term credit ratings of KBC Bank NV.

Credit ratings for KBC Bank (30 March 2020)	Long-term ratings (long-term debt ratings)	Short-term ratings
Fitch	A+ (negative outlook)	F1
Moody's	A1 (stable outlook)	P-1
Standard & Poor's	A+ (stable outlook)	A-1

Please refer to the respective credit rating agencies for definitions of the different ratings and methodologies.

Our business model

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

For more detailed information, please see the KBC Group annual report for 2019.

How do we create sustainable value? (KBC Group)

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

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

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

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

The role we play, especially as a deposit-taker, a lender and an insurer ultimately means that we assume our clients' risks for them. Our highly developed risk and capital management know-how allows us to manage those risks. In the process, we also pay close attention to areas such as cyber risk, anti-corruption measures and climate change risks.

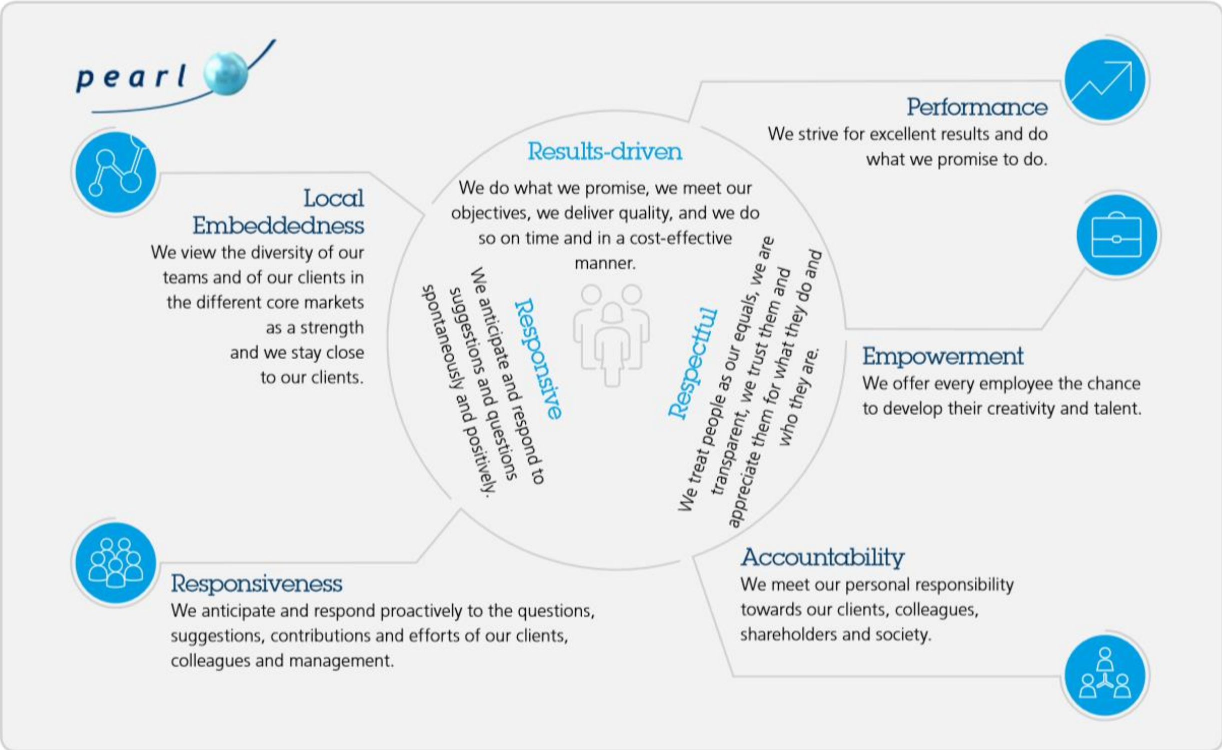
At the same time, we have made a conscious choice to enhance our positive impact on society – where possible – by focusing on areas where we can make a difference as a bank-insurer. The areas in question include financial education, environmental awareness, entrepreneurship and the issue of demographic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

What's more, as a major player in each of our core countries, we form part of the local economic and social fabric. We make an important contribution to employment in all our core markets and, as such, recognise that we have a significant direct impact on the lives of our staff. We encourage responsible behaviour on the part of our employees and offer them a fair reward for their work, thereby contributing to the welfare of the countries in which we operate.

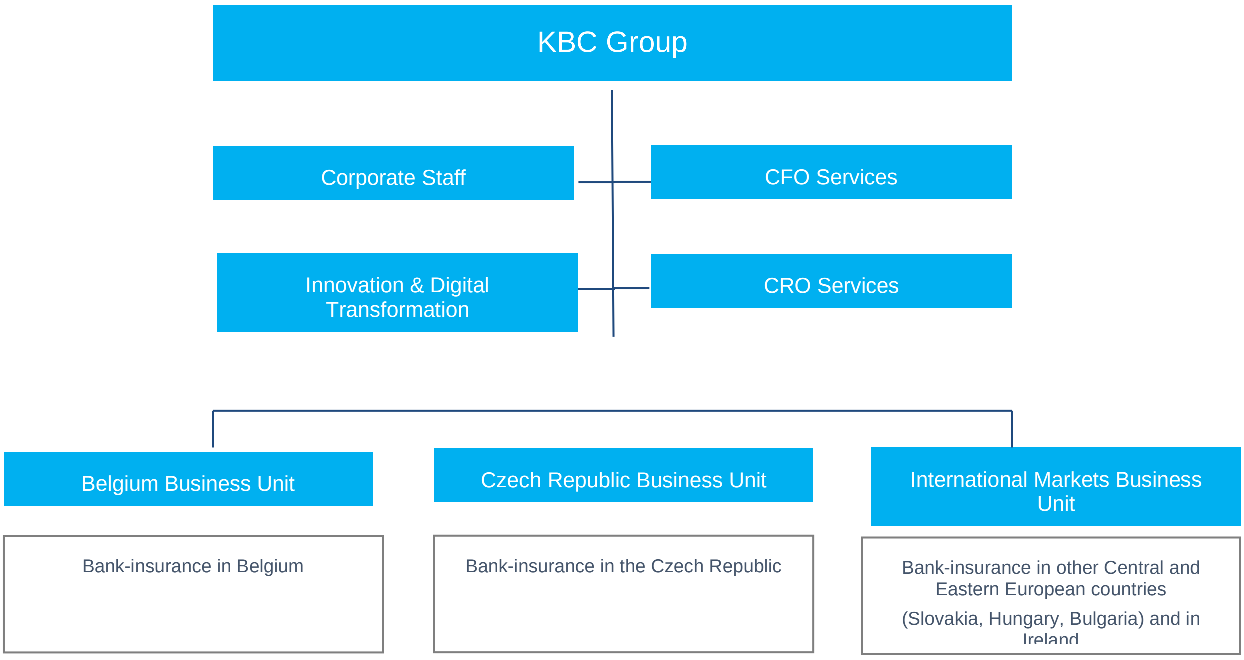
What makes us who we are? (KBC Group)

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

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



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



What differentiates us from our peers? (KBC Group)

Our integrated bank-insurance model

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

Our strong geographical focus

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

Our focus on local responsiveness

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

Our approach to sustainability

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

Our shareholder structure

A special feature of the KBC Group shareholder structure is the core shareholder syndicate consisting of Cera, KBC Ancora, MRBB and the other core shareholders, which together held roughly 40% of the shares at the end of 2019. These shareholders act in concert, thereby ensuring shareholder stability in our group.

Our strengths				
A well-developed and unique omnichannel bank-insurance and innovative digital strategy, which enables us to respond immediately to our clients' needs	Strong commercial banking and insurance franchises in all our business units	Successful track record of underlying business results	Solid capital position and strong liquidity	Firmly embedded in the local economies of our core countries

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

In what environment do we operate? (KBC Group)

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

The world economy, geopolitical challenges and the environment

The world economy, the financial markets and demographic developments influence our results. Persistently low interest rates have become an important factor in recent years, exerting significant pressure on income and prompting a search for yield. Demographic ageing is also a challenge, for our life insurance business, for instance. There is a risk, moreover, of corrections in markets where an imbalance may have built up. Geopolitical developments could also have significant implications for the economy and hence our results. The same goes for global health risks, climate change and the transition to a low-carbon society.

How are we addressing them?

- We ensure in our long-term planning/scenario that our capital and liquidity position is capable of withstanding a negative scenario.
- The environment and climate change form an important part of our sustainability strategy.
- We take proactive measures. Examples include adjusting our offering to take account of demographic ageing (such as insurance policies relating to health care) and of demand for sustainable products like Green Bonds and sustainable pension saving.
- We calculate the potential impact of changes in key parameters and estimate the impact of material events as effectively as possible.
- We aim to diversify our income sources further to include more fee business, for example, alongside interest income.

Shifting client behaviour and competition

We face strong competition, technological changes and shifting client behaviour. Besides the traditional players, there is intensifying competition from online banks, fintechs, bigtechs and e-commerce in general. This potentially means pressure on cross-sell opportunities and is influencing client expectations, including speed and digital interaction. All this is increasing the significance of digitalisation and innovation within our group and an effective framework for it and creating the need for a resilient, responsive organisation capable of continuously adapting its processes and systems.

How are we addressing them?

- The creative input and training/diversity of our employees is exceptionally important when it comes to equipping ourselves to deal with competition and technological change.
- We can draw on an immense volume of data, which enables us to understand more clearly what clients really want. What's more, our integrated model allows us to offer our clients more comprehensive solutions than pure banks or insurers can.
- We have a process in place to ensure that the business side receives approval efficiently for new product launches. The process also includes a thorough examination of the potential risks. We regularly review all our existing products, so that they can be adapted to take account of evolving client needs or changing circumstances.
- Research and development have been performed at a variety of group companies as part of a programme to develop new and innovative financial products and services. Over the past few years, we have launched numerous successful mobile and other innovative apps (examples are provided in the 'Our business units' section).
- Where possible, applications are copied across the group's different home markets. We are also open to partnerships with fintech firms or even sector peers.
- In addition to innovation and digitalisation, we are working hard to simplify products and processes.

Regulation

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

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

How are we addressing them?

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

Cyber risk and information security

Robust ICT systems are extremely important in an increasingly digital world where hacking and cyber attacks are a constant threat, with the potential to cause significant financial and reputational harm.

Our focus is on the optimum protection of both our clients and our group itself.

How are we addressing them?

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

Market conditions in our most important countries in 2019 (KBC Group)

Belgium

Market environment

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

KBC group in Belgium

- Main brands: KBC, KBC Brussels and CBC
- 518 bank branches (1), 355 insurance agencies, electronic channels
- Estimated market share of 20% for traditional bank products, 30% for investment funds, 13% for life insurance and 9% for non-life insurance
- 3.5 million clients (bank alone: 3.3 million clients)
- 112-billion-euro loan portfolio (2) and 139 billion euros in deposits and debt securities

(1) Not including self-service branches and the 11 KBC Bank branches in the US, Asia and Europe.
(2) Including KBC Bank's branches abroad.

Czech Republic

Market environment

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

KBC Group in the Czech Republic

- Main brand: ČSOB
- 225 bank branches, various distribution channels for insurance, electronic channels
- Estimated market share of 21% for traditional bank products, 24% for investment funds, 8% for life insurance and 8% for non-life insurance
- 4.2 million clients (bank alone: 3.7 million clients)
- 32-billion-euro loan portfolio and 40 billion euros in deposits and debt securities

Slovakia

Market environment

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

KBC Group in Slovakia

- Main brand: ČSOB
- 117 bank branches, various distribution channels for insurance, electronic channels
- Estimated market share of 10% for traditional bank products, 7% for investment funds, 3% for life insurance and 4% for non-life insurance
- 0.6 million clients (bank alone: 0.4 million clients)
- 8-billion-euro loan portfolio and 7 billion euros in deposits and debt securities

The world economy

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

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

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

US economic growth also slowed down in 2019, but remained surprisingly stable in the second half of the year. The positive impact of government stimulation measures and a tax reform in 2017 petered out. What's more, trade conflicts and the deteriorating economic climate put a brake on US activity. The Federal Reserve responded by relaxing its monetary policy once again, cutting its key rate by 25 basis points three times. The unwinding of its balance sheet was also halted earlier than planned.

Fearing the economic consequences of the corona crisis, the Fed surprisingly cut rates again, the first time by 50 basis points in early March 2020 and then by 100 basis points in mid-March 2020. The Fed hopes that, by making this move, it will limit the impact of the corona crisis on the US economy. In the meantime, budgetary stimulus measures are being taken in the US to supplement the more flexible monetary policy there.

The Chinese economy was hit hard by the US-Sino trade war, but will take a much bigger bruising from the coronavirus crisis and the drastic measures implemented by the Chinese government to fight the virus. The additional stimulus provided by China's government and central bank will soften the downturn only to a limited extent. The gradual recovery of the Chinese economy will support a vigorous economic recovery in Europe, though the continuing slowdown of growth in the US is bad news for Europe's economy too. At present, the European economy can count on some support from lower oil prices caused by the recent oil price war between Saudi Arabia and Russia.

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

Hungary

Market environment

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

KBC in Hungary

- Main brand: K&H
- 208 bank branches, various distribution channels for insurance, electronic channels
- Estimated market share of 10% for traditional bank products, 13% for investment funds, 3% for life insurance and 8% for non-life insurance
- 1.6 million clients (bank alone: 0.8 million clients)
- 5-billion-euro loan portfolio and 8 billion euros in deposits and debt securities

Bulgaria

Market environment

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

KBC in Bulgaria

- Main brands: UBB and DZI Insurance.
- 183 bank branches, various distribution channels for insurance, electronic channels
- Estimated market share of 10% for traditional bank products, 16% for investment funds, 23% for life insurance and 10% for non-life insurance
- 1.3 million clients (bank alone: 1 million)
- 4-billion-euro loan portfolio and 4 billion euros in deposits and debt securities

Ireland

Market environment

- With real GDP growth of 5.5%, the Irish economy was one of the euro area's strongest performers.
- As in the previous year, inflation remained extremely limited (0.9%) and clearly below the EMU average.
- Strong economic growth contributed to a further decline in Irish public debt to 58% of GDP.
- Forecast real GDP growth *: -5% in 2020 and +4% in 2021.

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
- 10-billion-euro loan portfolio and 5 billion euros in deposits and debt securities

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

Our employees, capital, network and relationships

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

Our employees

Our HR policy features individual focuses in each country, so that we can respond in an optimum way to the local labour market. Our values group-wide, however, are the same and are founded on our PEARL business culture. It is our employees who give it tangible shape each day in all our group's core countries. The 'E' in PEARL stands for 'Empowerment', referring to our commitment to give every employee the space they need to develop their talent and creativity and to deploy it towards accomplishing our business strategy. Not only by learning, but also by communicating ideas and taking responsibility. We actively stimulate the PEARL culture amongst our employees. Team Blue' is KBC's way of uniting employees from different countries, to make them proud of their team and their company and enable them to draw on each other's experience and engage in 'smart copying'. We also promote this collective awareness in a light-hearted way, including our 'Team Blue Challenges', in which the group CEO sets the company a task to complete. Between 20 May and 18 October, for instance, KBC staff were challenged to set up as many initiatives as possible that would have a positive impact on climate and the environment. In return, KBC planted a tree for every employee who took part. A total of 24 000 trees were planted across the various core countries in which KBC operates.

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

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

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

To enable them to pursue a common vision, senior managers from across the group take part in the 'KBC University', an ambitious development programme with different speakers and modules focusing on bank-insurance, leadership, client-centricity and digitalisation. At the same time, we are actively working on a separate policy for top talent management, in which we identify future senior managers and fast-track them to face tomorrow's challenges. The theme of gender will be given special attention in this.

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

We view self-development as key to professional growth, along with KBC. Our staff can choose among a wide range of training methods, including e-learning, workplace coaching and traditional courses to acquire new skills. New digital skills certainly form a challenge in that respect.

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

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

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

We take the well-being of our employees very seriously. Healthy employees feel at ease with themselves and are strong enough to use their own creativity in pursuit of client-focused solutions. To that end, we aim to keep our staff as fit and deployable as possible in the long term, both mentally and physically. KBC runs a comprehensive well-being programme in Belgium, with a focus on exercise, healthy eating, mental health and a positive working atmosphere. Attention is paid preventively to stress and burn-out through initiatives such as presentations, training and interactive sessions with managers.

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

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

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

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

We invest in good social dialogue with employee representatives. This consultation covers a very wide range of themes, such as pay and employment conditions, reorganisation and well-being. It is organised primarily on an individual country and company basis to take account of the local legal and business-specific situations. The process also resulted in collective agreements being concluded in the different countries in 2019. Meanwhile, an annual meeting of the European Works Council has been held at group level for over 20 years now. It brings together employee representatives from the various countries, senior management and a broad, international HR delegation to deal with topics of cross-border importance, so ensuring that there is a forum for discussing the impact of decision-making at group level too.

We use an operational risk framework to perform an annual review of key risks in the HR process. The implementation and monitoring of legislation forms an important part of this process and we ensure that it is applied strictly in the area of HR. Examples in this regard include EBA guidelines on outsourcing, a variety of laws on remuneration policy (including the variable wage component) and the General Data Protection Regulation (privacy law). 2019 was the first full year in which the European GDPR rules were in force. A great deal of attention was therefore paid to their implementation within internal HR processes, and to the external parties with whom we work, so that all HR contractors are GDPR-compliant and our personal data is subject to the maximum protection. We ensure that all employees are in compliance with the legal training requirements in the various countries in which we are active, in areas such as the distribution of insurance policies, loans and investment products. We also raise risk-awareness among our staff through targeted information campaigns and training.

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

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

Our capital

Our activities are only possible if we have a solid capital base. At year-end 2019, KBC Group's total equity came to 20.4 billion euros. Its capital was represented by 416 394 642 shares at year-end 2019, an increase of 238 966 shares on the previous year, due to the capital increase reserved for staff in December each year.

At year-end 2019, KBC Bank's total equity was 16.6 billion euros.

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

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

Our network and our relationships

Alongside staff and capital, our network and relationships are especially important to our activities. An overview of our network can be found under 'Market conditions in our most important countries in 2019'.

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

Our strategy

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

For more detailed information, please see the KBC Group annual report for 2019.

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

Our strategy rests on four principles:

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

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

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

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

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

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

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

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

We continue to provide a proactive and integrated response to our clients' banking and insurance needs in this more digital world too, in the shape of a comprehensive, one-stop financial service, in which they can choose from a wider, complementary and optimised offering. We are investing around 1.5 billion euros in digital transformation between 2017 and year-end 2020 and continue to align our omnichannel distribution network with changing client behaviour. In doing so, KBC has firmly opted for a gradual approach. In 2019, for instance, we converted a number of smaller branches in Flanders into self-service branches and also closed several existing self-service branches, as the number of cash withdrawals there had declined substantially and sufficient KBC alternatives are available nearby. At the same time, we are continuing to invest in branches, in KBC Live and in its digital channels. KBC will further monitor changing client behaviour in the years ahead and will gradually adjust its distribution network in response. This will naturally affect our employees (see 'Our employees, capital, network and relationships').

Human contact will continue to play a crucial role, but backed up with digital possibilities: face-to-face contact, for instance, supported by robot advice or chatbots, as in the K'Ching app in Belgium. Examples of new digital products and services in our core countries can be found in the 'Our business units' section.

This approach also entails further internal simplification of processes, systems and products. To this end we will continue to enhance the efficiency and effectiveness of our processes and our data management. We are ensuring, moreover, that ideas are exchanged within our group and that apps are copied and reused as much as possible in other core countries. In this way, we create additional synergies and leverage the talent, entrepreneurship and resources available within our organisation.

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

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

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

Since putting the interests of our clients at the heart of everything we do is the cornerstone of our strategy, we keep a close eye on their situation. We continuously survey our clients and organise regular debates with client panels. A specific dialogue is likewise maintained with NGOs, and a stakeholder debate also organised each year. We closely monitor our reputation and communicate this analysis to all the departments and individuals concerned, so they can take appropriate action. Examples of the actions we take with the aim of addressing shifting client expectations, competition and technological challenges can be found under 'In what environment do we operate?'.

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

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

As a bank-insurer, we put our clients at the heart of what we do by offering them an integrated range of products and services. We advise them based on needs that transcend pure banking or insurance, including family, the home and mobility. We are organised in such a way that we approach the client with both insurance and banking solutions tailored to their individual needs. After all, our clients don't dream about loans or insurance policies, but about a car, a house, a holiday or a business of their own – things for which they need money. And when they have them, they want to protect them, so they look for insurance too. Thanks to our integrated bank-insurance model, we can offer them an answer to each of those concerns.

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

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

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

The roll-out of the model varies from one country to another.

We are furthest advanced in this area in Belgium, where our bank-insurance business operates as a single unit that is achieving both commercial and non-commercial synergies. An important feature of our model in Belgium is the unique co-operation between our bank branches and insurance agencies in micro markets. The branches sell bank and standard insurance products, and refer clients to the insurance agency in the same micro market for other insurance products. The insurance agencies sell the full range of insurance products and handle all claims, including those relating to policies taken out at a bank branch.

We have not yet gone so far as in Belgium in our other core countries, but we want to create an integrated distribution model as swiftly as possible, which will allow commercial synergies. This means at the same time that we are seeing the greatest growth in bank-insurance in those countries, as witnessed by our targets for bank-insurance clients (see table). In Ireland, our focus is on working together with third parties.

Our bank-insurance model also enables us to achieve various commercial synergies. In Belgium, for instance, roughly eight out of ten clients who agreed home loans with KBC Bank in 2019 also took out mortgage protection cover with KBC Insurance, while eight to nine out of ten purchased home insurance. At ČSOB in the Czech Republic, six out of ten clients who took out home loans in 2019 also purchased home insurance from the group.

To give another example, roughly half of households in Belgium that bank with KBC Bank hold at least one KBC Insurance product. About one in five of these households actually held three banking and three insurance products from KBC. The number of clients holding both banking and insurance products from our group rose again in 2019.

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

We focus on sustainable and profitable growth (KBC Group)

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

Sustainable and long-term thinking also means concentrating on the local economies of our core markets. Our geographical footprint remains firmly focused on our core countries. We view our presence in these countries as a long-term commitment and want to consolidate our presence there by means of organic growth or attractive acquisitions, in line with clear and strict strategic and financial criteria. At the end of May, for instance, we acquired the remaining 45% stake in ČMSS for 240 million euros. The revaluation of the group's existing 55% stake in ČMSS generated a one-off gain of 82 million euros. As a consequence of this transaction, ČSOB now owns 100% of ČMSS, thereby consolidating its position as biggest provider of financial solutions for housing purposes in the Czech Republic.

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

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

Lastly, we signed an agreement in February 2020 to acquire OTP Banka Slovensko. This deal will allow us to further strengthen our position on the Slovakian banking market (see Note 6.8 in the 'Consolidated financial statements' section for more details).

The pursuit of sustainable and profitable growth also coincides with the search for a diversified income base. In that respect, we want to generate more revenue from the fee business (including fees from asset management activities) and insurance activities, alongside our interest income. We are also diversified in geographical terms: almost half of our net profit, for instance, was already derived in countries other than the Belgium Business Unit in 2019.

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

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

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

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

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

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

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

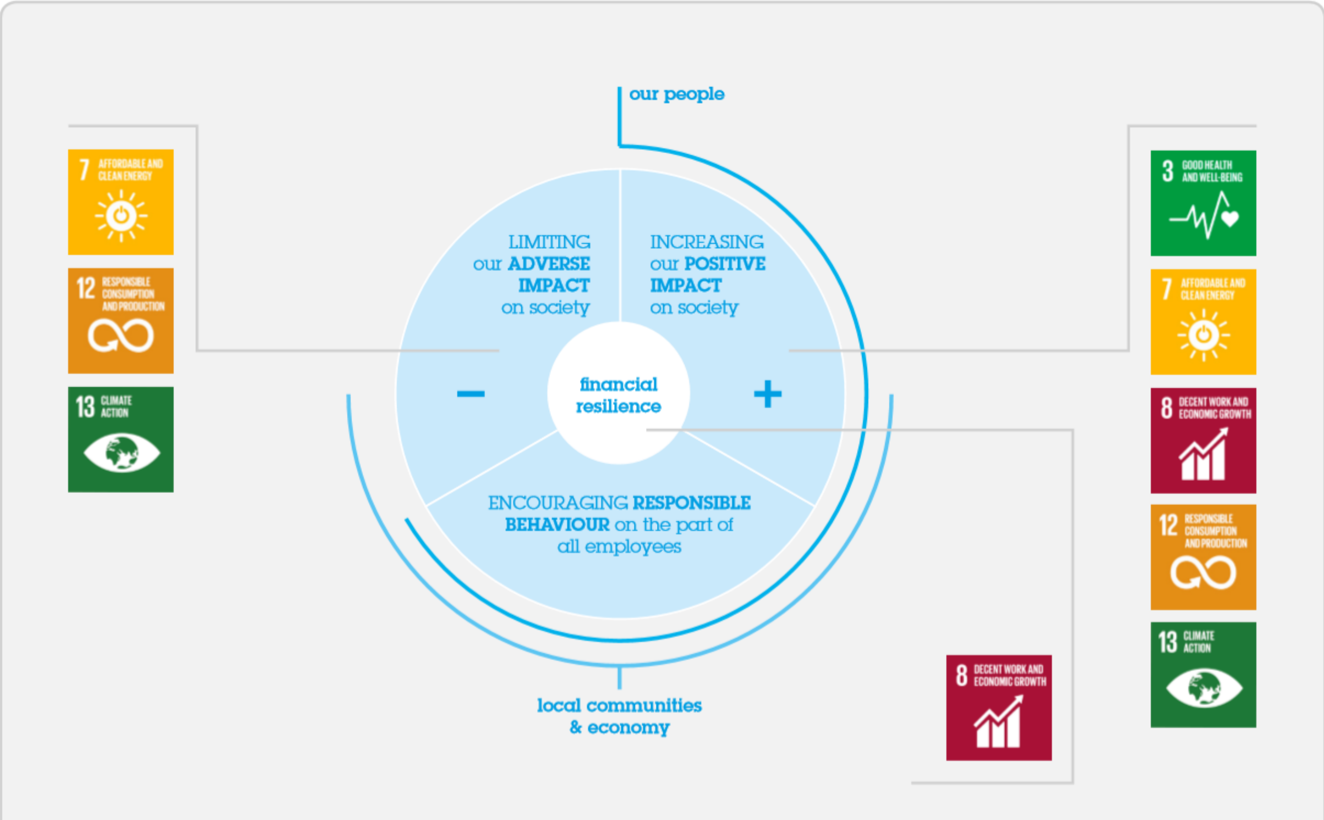
Aiming to encourage responsible behaviour on the part of all our employees

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

Responsible behaviour is especially relevant for a bank-insurer when it comes to appropriate advice and sales. We pay particular attention, therefore, to training (including testing) and awareness. For that reason, responsible behaviour is also a theme at KBC University, our senior management training programme, in which the theory is taught and practised using concrete situations. Senior managers are then tasked with disseminating it throughout the organisation.

Sustainable Development Goals (SDGs)

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



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 enhance our positive impact on society

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

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

Sustainability ratings, KBC group	2019	2018
FTSE4Good	4.6/5	4.4/5
CDP	A-	A-
RobecoSAM (DSJI)	72/100	69/100
Sustainalytics	86/100	85/100
ISS-oekom	C Prime	C Prime

Focus areas	Description	How? A few recent examples:
Financial literacy	• Helping clients make the right choices through good and transparent advice, and clear communication. • Improving general public knowledge of financial concepts and products.	• ‘Get-a-teacher’ at KBC Belgium, which gives schools the opportunity to extend financial knowledge by ‘ordering’ a teacher from KBC. • Primary and secondary school lessons by ČSOB colleagues in the Czech Republic; • Bolero’s B-coach programme, which focuses on young people’s financial knowledge of the stock market; • K&H e-dukacio cyber security programme in Hungary; • Organising projects to simplify and improve our client communication.
Environmental awareness	• Reducing our environmental footprint through a diverse range of initiatives and objectives. • Developing products and services that can make a positive contribution to the environment.	• Issuing the Green Bond and SRI pension savings fund in Belgium. • Expanding multi-mobility at KBC Autolease, including bicycle leasing for companies. • Endorsing the Collective Commitment to Climate Action. • Launching SRI funds in Ireland. • Providing ČSOB EU Smart Energy Credit in the Czech Republic.
Entrepreneurship	• Contributing to economic growth by supporting innovative ideas and projects.	• Development of KBC Vindr, the first online matchmaker for entrepreneurs in Belgium, alongside existing meeting platforms like Start it @KBC (for start-ups), KBC Match’it (for company transfers), KBC Trade Club (for internationally active businesses) and FarmCafe (for farmers and horticulturalists). • Roll-out of KBC Match’it, the digital platform for business transfers, to Slovakia (ČSOB Match’it). • Partnership with BRS, which supports microfinance and microinsurance businesses in the Southern Hemisphere. • Roll-out of Start it @KBC to the Czech Republic and Hungary.
Demographic ageing and health	• We have opted for ‘demographic ageing’ as our fourth pillar in Belgium and the Czech Republic. This requires us to adapt our policy and our range of products and services to the fact that people are living longer and to make a positive contribution to the issues surrounding an ageing population by offering specific solutions through our core activities. • We chose ‘health’ as the fourth pillar in Bulgaria, Slovakia, Hungary and Ireland. These core countries will develop products, services and projects geared towards improving general health, healthcare and quality of life.	• Providing free training to familiarise clients with digital trends. • Launch by ČSOB in the Czech Republic of the online portal ‘Don’t get lost in old age’ in collaboration with the Sue Ryder Home advisory centre. • Signing the ‘Tobacco-Free Finance Pledge’. • Providing financial and material assistance to sick children through the ‘K&H MediMagic Programme’ in Hungary. • Launch of the DZI e-SOS app ‘Follow me’ – an electronic health care dossier with an SOS button for emergencies.

Limiting any negative impact we might have on society

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

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

Important KBC sustainability policies		Applies to
Blacklist of companies and activities	We place stringent ethical restrictions on businesses involved with controversial weapons systems (including nuclear and white phosphorous weapons) and on businesses viewed as 'serious' infringers of UN Global Compact Principles.	Lending, insurance, advice, own investments, SRI and traditional funds, suppliers
Human rights	We have updated our human rights policy to bring us in line with the UN Guiding Principles on Business and Human Rights and UN Global Compact Principles. See also the separate section below.	Lending, insurance, advice, own investments, SRI and traditional funds, suppliers, personnel
Controversial regimes	We do not wish to be involved in financial activities with controversial regimes that fundamentally violate human rights and lack any form of good governance, rule of law or economic freedom. We do, however, make an exception for humanitarian goods. Based on reputable external sources, we decide each year what countries are to be included on our list of controversial regimes.	Lending, insurance, advice, own investments, SRI and traditional funds, suppliers
Sustainable and responsible banking, advisory and insurance policy	We have imposed restrictions on providing loans, advice and insurance to controversial and socially sensitive sectors and activities such as: the energy sector, project finance, arms-related activities, narcotic crops, gambling, fur, palm oil production, mining, deforestation, land acquisition and involuntary resettlement of indigenous populations, tobacco, mining, animal welfare and prostitution.	Lending, insurance, advice
KBC Asset Management SRI exclusions	In the case of traditional funds, we apply the minimum exclusions based on the blacklist of businesses that are involved with controversial weapons systems or which commit serious breaches of UN Global Compact Principles, and the policies on controversial regimes. What's more, investment products involving food-price speculation are entirely excluded. We have additionally decided to exclude the tobacco industry from KBC Asset Management's conventional investment funds and from KBC's own investment portfolio. For SRI funds, we go even further in the exclusion and restriction of controversial activities like gambling, defence and fur.	SRI funds

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

- Active internal screening of the application of our sustainability policy to our lending, insurance and investment operations;
- A general ESG assessment of the sustainability performance of the relevant companies by external parties, with the emphasis on sustainability strategy and companies' public sustainability strategy and on any recent controversies in which they have been involved.

Examples of measures in the event that infringements are detected:

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

Our sustainability governance

We have anchored sustainability at the different levels within our group, guaranteeing that it receives attention from the highest decision-making bodies while also being broadly integrated into our operations. You can find more details later in this report regarding specific governance in respect of climate change.

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

The **Executive Committee** is the highest level with direct responsibility for sustainability, including policy on climate change.

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

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

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

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

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

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

Our objectives

We also use Key Performance Indicators (KPIs) in the KBC Sustainability Dashboard to see whether we are focusing sufficiently on socially relevant themes and whether we are meeting stakeholder expectations.

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

Focus on climate (KBC Group)

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

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

The climate aspect in our business model

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

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

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

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

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

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

Sustainability integrated into our remuneration policy

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

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

Climate governance

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

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

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

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

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

The environmental and climate aspects of our sustainability policy

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

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

Important elements of our climate and environmental policy include:

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

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

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

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

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

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

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

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

We meet our responsibility through various international organisations and initiatives:

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

Our climate risk management

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

Our benchmarks and targets

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

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

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

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

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

- *Paris Agreement Capital Transition Assessment (PACTA)*: as part of a group of 17 international banks, we are measuring the extent to which our large industrial clients and their assets are aligned with the Paris climate goals. This methodology measures credit exposure to transitional technologies in some of the most carbon-intensive sectors, such as the steel, automotive, shipping, aviation, electricity, oil and gas, coal and cement sectors. The first results of the project are anticipated in 2020. We also launched a PACTA pilot project at the beginning of 2020 for our asset management activities and investment portfolios.
- *UNEP FI*: we are involved with a project to further develop the methodology used within the UNEP FI programme, the goal of which is to identify the physical and transition risks arising from certain climate scenarios for the most significantly affected sectors in our loan portfolios. We have begun the analysis of physical risks for mortgage loans in Flanders and transition risks for the metals sector.
- *Platform Carbon Accounting Financials (PCAF)*: we are committed to evaluating and communicating the greenhouse gas emissions of our portfolios of the most carbon-intensive loans and investments within a period of three years. To that end, we signed up in 2019 to the PCAF initiative, which has evolved into a carbon accounting standard for financial institutions. We reported for the first time in 2019 on the emissions avoided through the KBC Green Bond issued in 2018 (the underlying assets of which consist of green mortgage loans and project finance for renewable energy in Belgium). We publish this impact report on our corporate website. On 31 March 2019, the emissions avoided annually through the KBC Green Bond totalled 44 960 tonnes of CO_2e or 89.9 tonnes per 1 million euros invested. We also began a pilot project to measure our greenhouse gas emissions in Belgium relating to mortgage loans, car loans, car leasing and commercial real estate.

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

Our own environmental footprint

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

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

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

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

Focus on human rights (KBC Group)

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

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

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

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

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

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

We expect our clients to at least comply with local and international laws and regulations, and our Compliance department ensures that this is the case. Our day-to-day operations are all performed subject to the KBC Group Policy on Blacklisted Companies and the KBC Group Policy on Controversial Regimes. These exclude companies or countries that are involved in, for instance, a serious infringement of human rights or with controversial weapons systems. We also pay considerable attention to privacy and data protection (see ‘The client is at the centre of our business culture’) and monitor this closely.

The Equator Principles apply in the case of international project finance.

Where relevant, we ask our clients to demonstrate their compliance with particular industry standards. We have developed a specific due diligence process for lending, insurance activities and advice (Credit Risk Standards on Sustainable and Responsible Lending, the KBC Sustainable and Responsible Insurance Policy and the Standards on Sustainable and Responsible Advisory Services). This likewise incorporates procedures to deal with any infringements that are detected. For instance, businesses can be excluded from all our activities, an exit strategy can be launched or special conditions imposed on existing loans and insurance cover.

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

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

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

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

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

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

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

Although the activities of a large financial group are exposed to risks that only become apparent in retrospect, we can currently identify a number of major challenges for our group. These are set out under ‘In what environment do we operate?’ in the ‘Our business model’ section.

As a bank-insurer, we are also exposed to the typical risks for the sector, such as credit risk, market risk, technical insurance risk, liquidity risk, solvency risk and non-financial risks, including operational and compliance risks.

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

Sector-specific risks	How are we addressing them?
Credit risk The potential negative deviation from the expected value of a financial instrument caused by default on the part of a party to a contract, due to the inability or unwillingness of that party to pay or perform, or due to particular measures on the part of political or monetary authorities in a particular country.	• Existence of a robust management framework • Recording impairment charges, taking risk-mitigating measures, optimising the overall credit risk profile, reporting, stress testing, etc. • Limit systems to manage concentration risk in the loan portfolio
Market risk in trading activities The potential negative deviation from the expected value of a financial instrument caused by fluctuations in the level or volatility of market prices, such as interest rates, exchange rates, and share and commodity prices.	• Existence of a robust management framework • Historical VaR method, BPV and basis risk limits, 'greeks' and scenario limits for products with options, stress tests, etc.
Non-financial risks Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems, human error or sudden external events, whether man-made or natural. Compliance risk is the risk of losses or sanctions due to failure to comply with laws and regulations promoting integrity, and with internal policies and codes of conduct reflecting the institution's own values. It includes conduct risk, i.e. the current or prospective risk of losses arising from inappropriate supply of financial services, including cases of wilful or negligent misconduct. Climate risk is the risk associated with the transition to a low-carbon economy and the risk from climate-related physical events that impact our business. Other non-financial risks include reputational risk, business risk and strategic risks.	• Existence of a robust management framework • Group key controls, risk scans, key risk indicators, etc. • Risk scans and developing new methodologies together with external parties • Strict acceptance policy, stress tests, monitoring, etc.
Market risk in non-trading activities Structural market risks, such as interest risk, equity risk, real estate risk, spread risk, currency risk and inflation risk, are risks inherent to the commercial activity or long-term positions.	• Existence of a robust management framework • Basis Point Value (BPV), sensitivity of net interest income, sensitivity per risk type, stress tests, limit tracking for crucial indicators, etc.
Liquidity risk The risk that an organisation will be unable to meet its obligations on time, without incurring higher-than-anticipated costs.	• Existence of a robust management framework • Drawing up and testing emergency plans for managing a liquidity crisis • Liquidity stress tests, management of funding structure, etc.
Technical insurance risks Risks stemming from uncertainty as to how often insured events will occur and how extensive they will be.	• Existence of a robust management framework • Underwriting, pricing, claims reserving, reinsurance and claims handling policies, etc.

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

Our financial report

- We review the consolidated results in this section of the annual report. A review of the non-consolidated results and the balance sheet is provided in the 'Company annual accounts' section.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was – 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 section dealing with the business units.
- We expect Basel IV to increase our risk-weighted assets by roughly 8 billion euros at KBC Group level (based on year-end 2019 figures).
- For information on significant post-balance-sheet events, see Note 6.8 of the 'Consolidated financial statements'.
- All KBC Bank shares are owned directly and indirectly by KBC Group. KBC Bank paid KBC Group a final dividend of 906 million euros for 2018.

Consolidated income statement

Consolidated income statement, KBC Bank (in millions of EUR)	2019	2018
Net interest income	4 153	4 033
Dividend income	35	29
Net result from financial instruments at fair value through profit or loss[1]	70	161
Net realised result from debt instruments at fair value through other comprehensive income	6	*8*
Net fee and commission income	2 085	2 062
Other net income	200	167
Total income	6 548	6 460
Operating expenses	-3 797	-3 712
Impairment	-213	19
on financial assets at amortised cost and at fair value through other comprehensive income[2]	-204	59
Share in results of associated companies	3	12
Result before tax	2 541	2 779
Income tax expense	-501	-598
Net post-tax result from discontinued operations	0	0
Result after tax	2 040	2 181
Result after tax, attributable to minority interests[3]	35	171
Result after tax, attributable to equity holders of the parent	2 005	2 010
Ratio of 'result before tax' to 'average total assets'	1.01%	1.10%

[1] Also referred to as 'Trading and fair value income'.

[2] Also referred to as 'Loan loss impairment'

[3] In April 2019, the remaining 48.14% stake in KBC Asset Management held by KBC Group was sold to KBC Bank, which now owns virtually all the shares of KBC Asset Management.

Key consolidated balance sheet and solvency figures

Selected balance-sheet and solvency items, KBC Bank (in millions of EUR)	2019	2018
Total assets	253 967	248 940
Loans and advances to customers (excl. reverse repos)	153 781	144 810
Securities (equity and debt instruments)	46 260	44 387
Deposits from customers and debt securities (excluding repos)	203 839	194 837
Risk-weighted assets (Basel III, fully loaded)	89 838	85 474
Total equity	16 594	16 709
of which parent shareholders' equity	15 091	14 150
Common equity ratio (Basel III, fully loaded)	14.7%	14.8%
Liquidity coverage ratio (LCR)	138%	139%
Net stable funding ratio (NSFR)	136%	136%

The growth figures for the volume of loans and deposits have been systematically adjusted for exchange rate effects. 'Unchanged scope' means that no account has been taken of significant changes in the scope of consolidation, namely the inclusion of the Czech building society ČMSS since June 2019 and the sale of parts of the Irish legacy portfolio in recent years. The growth figures for loans and deposits do not include intragroup transactions (between bank on the one hand and group and insurance on the other hand).

Analysis of the result

Net interest income

Our net interest income came to 4 153 million euros in 2019, up 3% on its year-earlier level. Pressure on commercial credit margins in most core countries (despite some recovery in margins on new mortgage loans), 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 consolidation of ČMSS in the Czech Republic with effect from June 2019. The contribution of ČMSS to the group's income statement items is dealt with in Note 6.6 in the 'Consolidated annual accounts'

Our loans and advances to customers (excluding reverse repos) went up by 6% in 2019 to 154 billion euros. With an unchanged scope, the figure was 3%, with a 2% increase at the Belgium Business Unit, 5% at the Czech Republic Business Unit and 6% at the International Markets Business Unit (with growth in all countries). Our total deposit volume (deposits from clients and debt securities, excluding repos) stood at 204 billion euros, an increase of 5% on the year-earlier figure. With an unchanged scope, the figure was 2%, with no change at the Belgium Business Unit, and growth of 3% at the Czech Republic Business Unit and 6% at the International Markets Business Unit (with growth again in all countries).

The net interest margin for our banking activities came to 1.95%, 5 basis points lower than in 2018. It amounted to 1.69% in Belgium, 3.04% in the Czech Republic and 2.64% at the International Markets Business Unit.

Net fee and commission income

Our net fee and commission income came to 2 085 million euros in 2019, up 1% on the year-earlier figure. Most of the increase was accounted for by higher fees for banking services (including payments) and the positive impact of consolidating ČMSS with effect from 2019. The contribution from our asset management activities, however, fell.

At the end of 2019, our total assets under management at KBC Group level came to approximately 216 billion euros, up almost 8% on the year-earlier figure. This was entirely attributable to price increases (+11%), which more than offset the net outflow (3%). Most of these assets at year-end 2019 were managed at the Belgium Business Unit (200 billion euros) and the Czech Republic Business Unit (11 billion euros).

Other income

Other income came to an aggregate 311 million euros, as opposed to 365 million euros in 2018. The 2019 figure includes 35 million euros in dividends received and the 6-million-euro net result from debt instruments at fair value through other comprehensive income. It also includes 70 million euros in trading and fair value income. The latter figure was down 91 million euros year-on-year, due primarily to lower dealing room results and a decline in the value of derivatives used for asset/liability management purposes. This was only partially offset by the impact of various fair value adjustments.

Lastly, other income also included 200 million euros in other net income in 2019. This is 33 million euros more than the previous year, thanks to factors including the 82-million-euro positive impact of the revaluation of the existing 55% stake in ČMSS when the remaining 45% interest was purchased. The most significant one-off negative item in other net income for 2019 was a negative 23 million euros relating to the tracker mortgage review in Ireland (14 million euros of which concerned the formation of a provision for a potential sanction). More information on this matter can be found in Note 3.6 of the 'Consolidated financial statements'.

Operating expenses

Our expenses amounted to 3 797 million euros in 2019, up 2% on the year-earlier figure. This reflected a number of items, including in particular the consolidation of ČMSS in the Czech Republic as of June 2019 and higher bank taxes (up 7% to 475 million euros). Adjusted for these two factors, the increase in expenses was even kept below 1%, reflecting our strict management of costs.

As a result, the cost/income ratio of our banking activities came to 58%, roughly the same level as in 2018. It was 58% for the Belgium Business Unit, 44% for the Czech Republic Business Unit and 70% for the International Markets Business Unit.

Impairment

There was a net increase in loan loss impairment charges totalling 204 million euros in 2019, compared to a net reversal of 59 million euros in 2018.

The net increase in 2019 comprised 241 million euros for Belgium (primarily relating to various cases in the corporate segment), 12 million euros for the Czech Republic, 11 million euros for Slovakia and 5 million euros for Bulgaria, and a net reversal for the Group Centre (32 million euros), Hungary (1 million euros) and Ireland (33 million euros, compared to a net reversal of 112 million euros in 2018). As a result, our overall credit cost ratio amounted to 12 basis points in 2019, compared to -4 basis points in 2018. 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 3.5% at year-end 2019, compared to 4.3% for 2018. This breaks down into 2.4% in Belgium, 2.3% in the Czech Republic and 8.5% at International Markets. The figure for the International Markets Business Unit in particular was substantially lower than in previous years, due primarily to Ireland, which recorded an impaired loans ratio of 16% at year-end 2019 (three years ago, the ratio there was still 43%). The significant reduction in Ireland in recent years benefited, moreover, from the sale of a portfolio of largely impaired loans in 2018 and the accounting write-off of fully provisioned legacy loans in 2019. For the group as a whole, the proportion of impaired loans more than 90 days past due came to 1.9%, compared to the year-earlier figure of 2.5%. At year-end 2019, 42% of the impaired loans were covered by accumulated specific ('Stage 3') impairment charges.

Other impairment charges totalled just 10 million euros in 2019. The figure in 2018 was 41 million euros, which related for a large part to the impact of revising the residual values of car leases in the Czech Republic.

Income tax expense

Our income tax expense came to 501 million euros in 2019, compared to a year-earlier figure of 598 million euros. The decline reflected factors including the lower result before tax, the untaxed one-off impact of the acquisition of the remaining stake in ČMSS along with a positive one-off item in 2019. 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 (up 7% to 475 million euros in 2019 and recognised under 'Operating expenses').

Analysis of the balance sheet

Total assets

At the end of 2019, our consolidated total assets came to 254 billion euros, up 2% year-on-year. Risk-weighted assets (Basel III, fully loaded) increased by 5% to 90 billion euros. More information in this regard can be found in the ‘How do we manage our capital?’ section.

Loans and deposits

Our core banking business is to attract deposits and use them to provide loans. This clearly explains the importance of the figure for loans and advances to customers on the assets side of our balance sheet (154 billion euros (excluding reverse repos) at year-end 2019). Loans and advances to customers rose by 6% for the group as a whole. With an unchanged scope, the figure was 3%, with 2% growth at the Belgium Business Unit, 5% at the Czech Republic Business Unit and 6% at the International Markets Business Unit (with growth in all countries). The main lending products at group level were again term loans (68 billion euros) and mortgage loans (67 billion euros).

On the liabilities side, our customer deposits (deposits from customers and debt securities, excluding repos) grew by 5% to 204 billion euros. With an unchanged scope, the figure was 2%, with no change in Belgium, and growth of 3% in the Czech Republic and 6% at the International Markets Business Unit. The main deposit products at group level were again demand deposits (86 billion euros) and savings accounts (69 billion euros).

Securities

We also hold a portfolio of securities, which totalled roughly 46 billion euros at year-end 2019. The portfolio comprised 2% shares and 98% bonds (with bonds increasing by almost 2 billion euros in 2019). At year-end 2019, 87% of these bonds consisted of government paper, the most important being Belgian, Czech, French, Hungarian, Slovak and Spanish. A detailed list of these bonds is provided in the ‘How do we manage our risks?’ section.

Other assets and other liabilities

Other important items on the assets side of the balance sheet were loans and advances to credit institutions and investment firms (5 billion euros, roughly comparable with a year earlier), reverse repos (26 billion euros, up 4 billion euros on the year-earlier figure), derivatives (positive mark-to-market valuation of 5 billion euros mainly for interest rate contracts, roughly the same as in 2018) and cash and cash balances with central banks and other demand deposits at credit institutions (8 billion euros, 10 billion euros less than at year-end 2018).

Other significant items on the liabilities side of the balance sheet were derivatives (negative mark-to-market valuation of 6 billion euros mainly for interest rate contracts, up slightly year-on-year) and deposits from credit institutions and investment firms (19 billion euros, down 5 billion euros year-on-year).

Equity

On 31 December 2019, our total equity came to 16.6 billion euros. This figure included 15.1 billion euros in parent shareholders’ equity and 1.5 billion euros in additional tier-1 instruments. Total equity declined slightly by 0.1 billion euros in 2019, with the most important components in this respect being the inclusion of the annual profit (+2.0 billion euros), the call of an additional tier-1 (AT1) instrument and the issue of a new AT1 instrument (-1.4 billion euros and +0.5 billion euros, respectively), the payment of a dividend to KBC Group (-0.9 billion euros), the impact of acquiring the remaining stake in KBC Asset Management (-2.3 billion euros, of which -2.1 billion euros being a deduction from the reserves for the price paid above the net asset value and -0.2 billion euros relating to minority interests), largely offset by a capital increase of 2 billion euros (carried out by KBC Group at KBC Bank) and various smaller items.

On 31 December 2019, our fully loaded common equity ratio stood at 14.7%, compared to 14.8% in 2018 (The amount of 2019 profits included in the calculation of the common equity capital is still subject to approval by the ECB). Our leverage ratio came to 5.5%. 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 138% and an NSFR ratio of 136%.

Our business units

Our group's management structure centres on three business units: 'Belgium', 'Czech Republic' and 'International Markets'. The latter is responsible for the other core countries in Central and Eastern Europe (Slovakia, Hungary and Bulgaria) and Ireland.

- The Belgium Business Unit comprises the activities of KBC Bank NV and its Belgian subsidiaries, the most important of which are CBC Banque, KBC Asset Management, KBC Lease Group and KBC Securities.
- The Czech Republic Business Unit comprises all KBC's activities in the Czech Republic. These consist primarily of the activities of the ČSOB group (under the ČSOB Bank, Postal Savings Bank, Hypoteční banka, ČMSS and Patria brands).
- The International Markets Business Unit comprises the activities conducted by entities in the other Central and Eastern European core countries, namely ČSOB in Slovakia, K&H Bank in Hungary and UBB in Bulgaria, plus KBC Bank Ireland's operations.

Besides financial reporting for three business units, we also report on a separate Group Centre. This centre includes the operating results of the group's holding-company activities, certain costs related to capital and liquidity management, costs related to the holding of participating interests and the results of the remaining companies and activities in the process of being run down.

The economic context

Belgium

The Belgian economy continued in the same vein as in the previous year, recording steady but modest growth in 2019. The year began weakly, but quarter-on-quarter real GDP growth picked up again somewhat over the rest of the year. There was a sharp weakening in the indicators, including that of the National Bank of Belgium, throughout the year, although the tide turned somewhat at the end of 2019. Annual economic growth slowed down slightly, falling from 1.5% in 2018 to 1.4% in 2019, although Belgian growth did outstrip the euro area average for the first time since 2014.

Belgium's still generally favourable economic picture in 2019 was entirely underpinned by final domestic demand (excluding stocks), as it was in the previous year. Changes in stocks and net exports made a negative contribution to GDP growth. Growth in domestic demand was broadly underpinned by both household consumption and private investment. Government spending contributed positively, government investment negatively. Households benefited from a sharp increase in real disposable income. Job creation remained robust, with some 70 000 jobs being created on balance in 2019. Unemployment continued to decline, falling from 5.8% at the end of 2018 to a record low of 5.3% at year-end 2019.

Inflation stood at 1.2%, well down on its 2018 level. It fell sharply in the autumn, reaching 0.2% in October, due primarily to substantial falls in the price of energy and unprocessed food, before creeping up again in the closing months of the year. On the property market, house prices bounced back a little. According to Eurostat's harmonised index, Belgian homes increased in price by an estimated 3.5% in 2019, compared to 2.9% in 2018. Housing market activity was still exceptionally vigorous in the second half of the year, due to the scheduled abolition of mortgage tax relief in Flanders at the beginning of 2020. Belgian 10-year government bond yields dipped below the 0% level at the end of July. They reached a low of -0.4% in August, before rising in the autumn to around 0% at year-end. The spread with their German counterparts peaked at 75 basis points at the beginning of 2019, before narrowing to around 30 points between August and the end of the year.

Expected GDP growth in 2020: see The market conditions in our core countries.

Czech Republic

Following the strong performance in previous years, the Czech economy grew at a slower rate in 2019, in line with economic developments in the euro area. It suffered the adverse impact in particular of the slowdown in German growth and the general decline in industrial production. Growth potential was also held back by a tight labour market. Real GDP nevertheless grew by a robust 2.4%, 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 of about 2% at year-end 2019 and accelerating wage growth. To offset the increasing shortage of workers, Czech businesses invested more in order to raise their production capacity and productivity.

Inflation averaged 2.6% in 2019, slightly above the 2% target set by the Czech National Bank (CNB). Even though the rate hike in February 2020 was unexpected, monetary tightening still appears to be coming to an end, given the slowdown in growth, which will also gradually begin to weigh on inflation.

Expected GDP growth in 2020: see The market conditions in our core countries.

International Markets

We are having to contend with diverging growth trends in our core markets in Central Europe. Economic growth remains exceptionally strong in Hungary, supported by monetary stimulation, strong absorption of EU funds and fiscal stimulus measures by the government. The Hungarian economy is expected to have grown by 4.9% in 2019, actually making it one of the strongest-growing countries in Europe, following the trend in this respect of its neighbour Poland. Inflation remains within the Hungarian central bank's target band, which means the accommodative monetary policy can be maintained for longer. Slovakia by contrast – like the Czech Republic – is feeling the effects of the economic slowdown in Germany and the global challenges faced by industry. As a result, Slovakian growth eased substantially in 2019 to 2.3%, although this is still relatively strong. At 3.4%, Bulgarian growth held up too, despite challenges in its neighbour and trading partner Turkey. Generally speaking, therefore, the Central and Eastern Europe region is still performing relatively strongly in economic terms, and so the convergence trend with Western Europe remains intact. Domestic demand and investment in particular continue to contribute strongly to economic growth in the region as a whole.

With real GDP growth of 5.5%, the Irish economy was once again one of the euro area's strongest performers in 2019. 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 rose, but at 0.9% nevertheless remains very limited. Persistently robust economic growth ensured that Irish public debt declined further to 58% of GDP.

Expected GDP growth in 2020: see The market conditions in our core countries.

Where do we stand in each of our countries?

Market position in 2019[1]	Belgium	Czech Republic	Slovakia	Hungary	Bulgaria	Ireland
Main brands	KBC CBC KBC Brussels	ČSOB	ČSOB	K&H	UBB DZI	KBC Bank Ireland
Network	518 bank branches Online channels	225 bank branches Online channels	117 bank branches Online channels	208 bank branches Online channels	183 bank branches Online channels	16 bank branches Online channels
Clients (millions, estimate)	3.3	3.7	0.4	0.8	1.0	0.3
Loan portfolio (in billions of EUR)	112	32	8	5	4	10
Deposits and debt securities (in billions of EUR)	139	40	7	8	4	5
Market share (estimate)						
- banking products	20%	21%	10%	10%	10%	9%[2]
- investment funds	30%	24%	7%	13%	16%	-
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 2019[3]						
- GDP growth (real)	1.4%	2.4%	2.3%	4.9%	3.4%	5.5%
- Inflation (average annual increase in consumer prices)	1.2%	2.6%	2.8%	3.4%	2.4%	0.9%
- Unemployment (% of the labour force at year-end; Eurostat definition)	5.3%	2.0%	5.7%	3.4%	4.2%	4.7%
- Government budget balance (% of GDP)	-1.9%	0.0%	-1.2%	-1.6%	-1.0%	0.7%
- Public debt (% of GDP)	99%	31%	48%	67%	20%	58%

[1] Market shares and client numbers: based on own estimates. For bank products: average estimated market share for loans and deposits. 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 excludes self-service branches and the 11 KBC Bank branches established in the rest of Europe, the US and Southeast Asia. Market shares are based on the latest available data (e.g., from the end of September 2019).
[2] Retail segment (home loans and deposits for private individuals (excluding demand deposits)).
[3] Data based on estimates made at the start of 2020.

Belgium

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 and data to provide our clients with more targeted and proactive advice.
- To expand our service provision via our own and other channels. We collaborate to this end with partners through 'eco-systems' that enable us to offer our clients comprehensive solutions. To integrate a range of selected partners in our own mobile app (see further) and for our products and services to be present in the distribution channels of selected third parties (e.g., cycle loans and insurance at cycle dealers).
- 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. We actively participate in the mobility debate and develop solutions.

A few achievements in 2019

Use of our digital systems and apps has risen sharply in recent years within our omnichannel strategy. The main examples in this regard are KBC Touch, KBC Mobile, K'Ching and the Business Dashboard. We are investing heavily to further expand and improve these systems, with the emphasis on solutions that make our clients' lives easier. They include not only banking and insurance applications for retail and business clients (e.g., multibanking options in our mobile app, payments via wearables like FitbitPay and the ability for companies to open a business account digitally), but also non-banking applications. Recent examples of the latter are the possibility of paying for parking or public transport tickets, ordering and paying for certain service vouchers, checking luncheon voucher balances directly, ordering shared bikes, entering and exiting certain car parks via licence plate recognition and paying automatically, and viewing personal administrative documents in the client's government eBox. Towards the end of the year, we once again broke new ground in digital bank-insurance by opening up KBC Mobile to non-customers too, who will have direct, free access to a number of popular non-banking apps. They don't even have to become a client or open an account at KBC.
As a consequence of this growing preference for digital solutions, we are further aligning our omnichannel network with changes in client behaviour while pursuing a gradual approach. In 2019, we converted around 60 smaller branches in Flanders into self-service branches and also closed various self-service branches, as the number of cash withdrawals there had declined substantially and sufficient KBC alternatives are available nearby. At the same time, we are investing in branches with a deep product and service offering and long opening hours, in KBC Live and, as noted, in our digital channels. We began work in May on a large-scale optimisation of our group-wide governance, with the goal of further raising our operational efficiency. More information on this and about the impact for our staff in Belgium, can be found under 'Our employees, capital, network and relationships' in the 'Our business model' section.

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 2019 and to bolster the provision of remote advice via 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 2019. We took several important steps in our growth strategy in Wallonia too, which similarly resulted in the acquisition of over 26 000 new clients and growth that outstripped that of the overall Walloon market.

Our bank-insurance concept continued to enjoy considerable success. At year-end 2019, 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 2019, while roughly eight out of ten had taken out mortgage protection cover.

We took a variety of initiatives once again to stimulate entrepreneurship, a good example of which is KBC Vindr, the first online matchmaker for entrepreneurs. This is a platform on which entrepreneurs and the self-employed can register and find matches with colleagues based on an algorithm. The initiative complements the other existing meeting platforms like Start it @KBC (for start-ups), KBC Match'it (for takeovers), KBC Trade Club (for internationally active businesses) and FarmCafe (for farmers and horticulturalists).

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. Since the scheme began in 2017, over 2 300 teaching packs have been requested and 100 teachers have reached in the region of 37 000 pupils at over 850 schools.

KBC also joined Trooper – a platform enabling clubs, societies and charities to raise money easily and in original ways. Members and supporters can support their favourite club or good cause by shopping online via Trooper, without it costing them anything extra.

We also continued to work on the transition to multi-mobility, offering bicycle loans for retail clients, bicycle leasing for our own staff as well as employees of other companies/organisations, and bicycle insurance including roadside assistance.

Czech Republic

Specific objectives

- To maintain our position as the reference for bank-insurance by offering integrated, client-centric solutions.
- To continue to digitalise services and to introduce new innovative products and services, including open bank-insurance solutions.
- To concentrate on further simplifying products, processes (including application of RPA and IPA), our head office, distribution model and branding, with a view to achieving even greater cost efficiency.
- To unlock business potential through advanced use of data and to leverage our position as market leader in home finance.
- To strengthen our business culture, with the goal of becoming even more flexible, agile and diverse.
- To express our social engagement by focusing on environmental awareness, financial literacy, entrepreneurship and demographic ageing.

A few achievements in 2019

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 and ČSOB Investment Portal. We work continuously on the ongoing expansion, improvement and user-friendliness of these systems. Multibanking options have been added, for instance, to our online and mobile banking facilities, and since 2019, ČSOB clients have been able to pay contactlessly using Apple Pay, Google Pay and Garmin Pay. We also signed an agreement with the Mall Group in April to create MALL Pay, a joint venture which will offer a variety of services to retail clients using e-shops, including deferred payment capabilities, insurance, certain loans and payment cards.

We do not limit ourselves to purely banking or insurance apps. For instance, we lead the field in services that facilitate the use of payment cards for buying public transport tickets and trams in Prague have recently been equipped with our contactless terminals. We also offer the services comparison website Ušetřeno.cz, which clients can use to compare the costs and other features of energy, telecoms, financial and similar services.

We began work in May on a large-scale optimisation of our group-wide governance, with the goal of further raising our operational efficiency. You can discover more about this and the impact for our staff in the Czech Republic, under 'Our employees, capital, network and relationships' in the 'Our business model' section.

At the end of May, ČSOB acquired the remaining 45% stake in ČMSS for 240 million euros. As a consequence of this, we now own 100% of ČMSS and have consolidated our position as biggest provider of financial solutions for housing purposes in the Czech Republic. Revaluation of the existing 55% stake in ČMSS resulted, moreover, in a one-off gain of 82 million euros for the group in 2019.

As in previous years, we achieved decent growth in the areas we targeted, such as consumer finance (+8% in 2019) and lending to SMEs (+3% in 2019). 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 38% in 2019, thanks primarily to the consolidation of ČMSS. Overall, our lending activities rose by 26% in 2019 and our deposits by 21%. With an unchanged scope (i.e. without the impact of consolidating ČMSS), lending increased by 5% and deposits by 3%.

About six out of ten ČSOB clients who took out home loans with the bank in 2019 also purchased home insurance from the group. Approximately half of the clients taking out this type of home loan also took out life insurance from the group. 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 approximately 10% in 2019, 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 around 15%.

We took a number of initiatives once again in terms of our social engagement, focusing on environmental awareness, financial literacy, entrepreneurship and demographic ageing.
On the environmental front, we had already taken the decision at group level not to finance oil, gas and coal extraction and oil and coal-fired power generation. ČSOB in the Czech Republic will be the sole and temporary exception to this with regard to the financing of ecological improvements to coal-fired, centrally-controlled heating networks.
We also support clients wishing to make the transition towards renewable energy. In the Czech Republic, for instance, we launched the ČSOB EU Smart Energy Credit for SMEs, with the support of the European Investment Bank (EIB).
Following on from the success of Start it @KBC in Belgium, we introduced Start it @CSOB – an accelerator that provides start-ups with accommodation, support and advice – in the Czech Republic.
In terms of financial literacy, ČSOB has collaborated with the Czech National Institute for Education to develop teaching material on various themes including cybersecurity, household budgeting and knowledge of financial products. In 2019, over 400 ČSOB ambassadors reached around 31 000 pupils at some 400 schools. Our Education Fund, meanwhile, has worked with the Olga Havel Foundation for many years to support students in difficulty.
We also want to support our clients throughout their lives and therefore pay particular attention to senior citizens and people with disabilities. Specific examples in this regard include adapting our ATMs to make them easier for visually impaired clients to use. 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.

International Markets

Specific objectives

- To pursue an omnichannel distribution model in the Central European countries, with particular attention being paid to digital solutions. With a view to supporting commercial growth and enhancing the client experience, increased attention will also be paid to commercial leads. We are fully committed to implementing a 'Digital First' strategy in Ireland (see below).
- To simplify products and processes in all countries. This is being supported by a specific business transformation project and software. We are also striving to achieve additional synergies via shared service centres, competence centres and group projects.
- To become the undisputed leader in the area of innovation in Hungary. We are aiming to raise our profitability by targeting income through vigorous client acquisition in all banking segments and through more intensive cross-selling.
- To maintain our robust growth in strategic products in Slovakia (i.e. home loans, consumer finance, SME funding and leasing), partly through cross-selling to ČSOB group and via digital clients. Other priorities include the sale funds and increased fee income.
- To focus on increasing our share of the lending market in all segments in Bulgaria, while applying a robust risk framework.
- 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 will further develop our strong position in home loans and are fully committed, as in the other core countries, to bank-insurance.
- 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 2019

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. Driven by software developed by a strategic external partner and supported by a multi-year business transformation project, we aim in all our countries to reduce and simplify products and processes, to align in all countries the operating models, business processes and enterprise architecture and to achieve further front and back-end digitalisation. To supplement this business transformation project, we aim to achieve additional synergies via shared service centres, competence centres and group projects.

Specifically for 2019, we again launched various innovative products. In Slovakia, for example, we introduced a 'mini-loan' product for clients with a pre-approved limit, available exclusively via the Smartbanking app. We added various features to our online banking app, including the ability to buy into investment funds. We launched a number of products in Hungary, including a fully online cash loan for existing and new clients. UBB, meanwhile, was the first bank in Bulgaria to offer multibanking facilities in its mobile app.

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 for the entire business unit. This was due in part to the writing off of certain fully provisioned legacy loans in Ireland.

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

Lastly, we signed an agreement in February 2020 to acquire OTP Banka Slovensko. This deal will allow us to further strengthen our position on the Slovakian banking market (see Note 6.8 in the 'Consolidated financial statements' section for more details).

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 2% in 2019. Growth amongst the stable bank-insurance clients (those holding at least two banking and two insurance products) was 6%. 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.

We link our social projects to financial literacy, environmental responsibility, entrepreneurship and health. In Hungary, for instance, K&H has organised 'K&H Ready, Steady, Money!' for nine years now – a financial literacy programme and contest for primary and secondary school pupils, to encourage them to grasp the basic principles of household finance. Over 8 000 pupils took part in the programme in 2019. In Slovakia, we rolled out KBC Match'it – the digital platform for transferring businesses that was launched at the end of 2016 – under the name 'ČSOB Match'it'. The smooth matching of supply and demand via an umbrella platform boosts the chances of a good fit between sellers and buyers of businesses. This platform will also be made available at a later stage in the group's other Central European core markets. The DZI e-SOS app 'Follow me' is a fine example in the area of health. The SOS feature can be used in the event of emergencies and/or accidents. The emergency services are notified and the person's medical file is immediately made available to responders. KBC Ireland launched two SRI funds at the beginning of 2019 to help leverage the transition to a low-carbon economy. Employees were kept informed via information sessions, to enable them to build their knowledge. Raising staff awareness in this way helps us to offer sustainable alternatives alongside the traditional range of funds, so that clients can make well-informed choices.

How do the business units contribute to the group result?

Consolidated income statement, KBC Bank: Result after tax, attributable to equity holders of the parent (in millions of EUR)	2019	2018
Belgium Business Unit	932	903
Czech Republic Business Unit	743	619
International Markets Business Unit	329	496
Hungary	*156*	*182*
Slovakia	*69*	*73*
Bulgaria	*76*	*86*
Ireland	*29*	*155*
Group Centre	0	-8
Total net result, KBC Bank	2 005	2 010

A complete overview of the underlying results and a brief commentary for each business unit is provided under 'Notes on segment reporting' in the 'Consolidated financial statements' section.

How do we manage our risks?

Mainly active in banking 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, operational and other non-financial risks.

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

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' and the 'Other credit exposure, banking' 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 Bank 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';

Risk governance

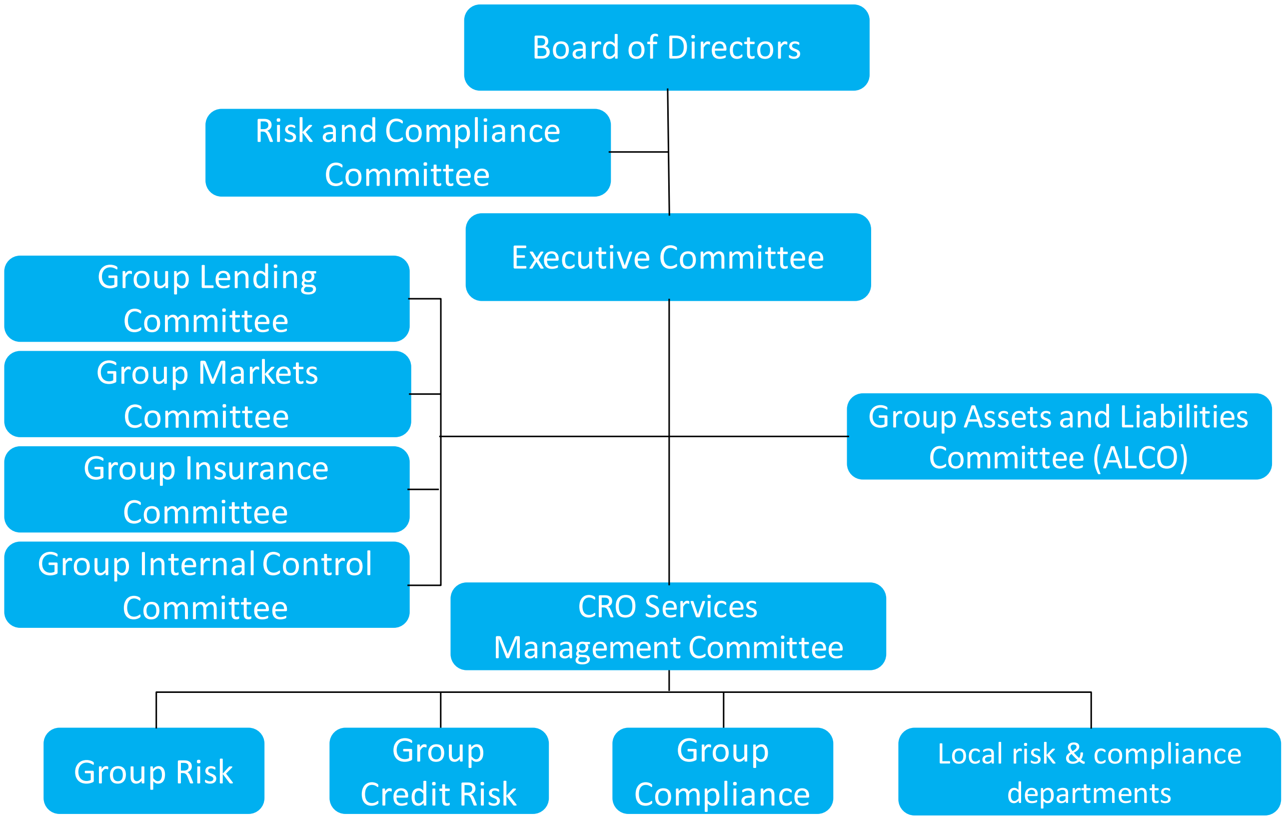
Main elements in our risk governance model:

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

Relevant risk management bodies and control functions:

- Executive Committee:
  - makes proposals to the Board of Directors about risk appetite – including the risk strategy - and the general concept of the risk management framework;
  - decides on the integrated and risk-type-specific risk management frameworks and monitors their implementation throughout the group;
  - acts as the leading risk committee, covering material issues that are channeled via the specific risk committees or the Group Assets & Liabilities Committee (Group ALCO);
  - monitors the group's major risk exposure to ensure conformity with the risk appetite
- Group ALCO:
  - is a business committee that assists the Executive Committee in the domain of (integrated) balance sheet management at group level. It handles matters related to ALM and liquidity risk.
- Risk committees:
  - The CRO Services Management Committee supports the Executive Committee in assessing the adequacy of, and compliance with, the KBC Risk Management Framework and defines and implements the vision, mission and strategy for the CRO Services of the KBC group.
  - The activity-based Group Risk Committees (for lending, markets and insurance, respectively) support the Executive Committee in setting and monitoring limits for these activities at group level. Liquidity and ALM issues related to these activities are addressed by the Group ALCO.
  - The Group Internal Control Committee (GICC) supports the Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system.

In order to strengthen the voice of the risk function and to ensure that the decision-making bodies of the business entities are appropriately challenged on matters of risk management and receive expert advice, KBC has deployed independent Chief Risk Officers (CROs) throughout the group according to a logical segmentation based on entity and/or business unit. Close collaboration with the business is assured since they take part in the local decision-making process and, if necessary, can exercise a right of veto. Independence of the CROs is achieved through a direct reporting line to the Group CRO. For each main risk type, a Risk Competence Centre is established at Group level. The majority of these competence centers are extended virtual teams composed of both group and local experts working together.



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

Risk appetite

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

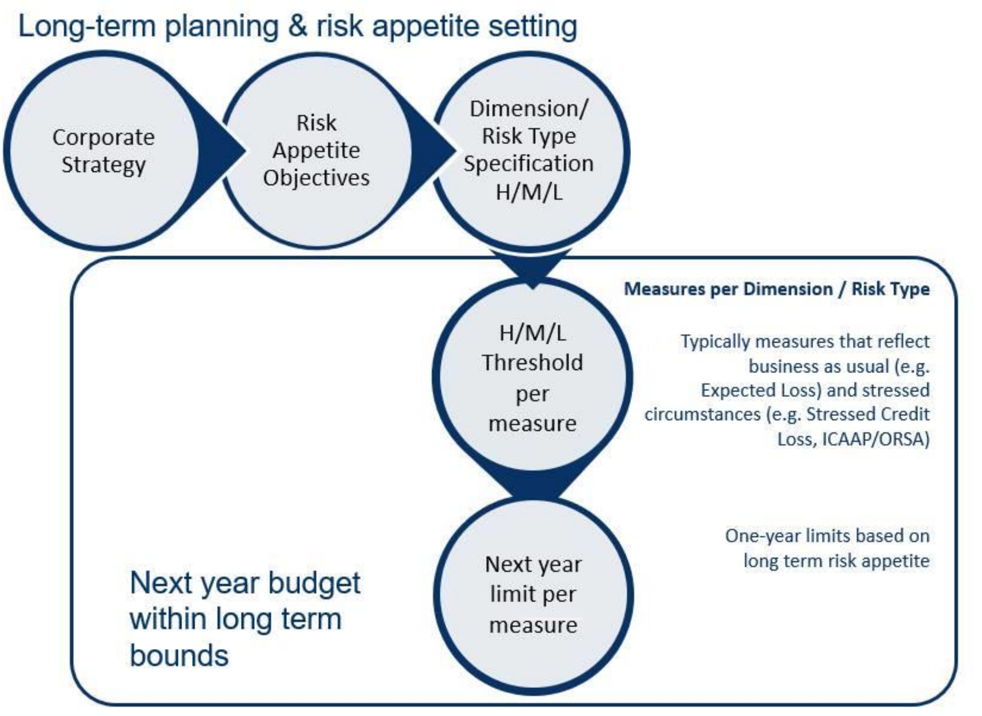
The overall management responsibility of a financial institution can be defined as managing capital, liquidity, return (income versus costs) and risks, which in particular arise from the special situation of banks and insurers as risk transformers. Taking risks and transforming risks is an integral part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

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

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

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

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



Credit risk

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

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

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 2019, the main group entities and some smaller entities had adopted the IRB Advanced approach, apart from United Bulgarian Bank (UBB) 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.

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, apart for material defaulted borrowers, which are assessed individually to estimate ECL.

Credit risk exposure arising from lending and investing

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

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.

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		
Total loan portfolio	**31-12-2019**	**31-12-2018**
Total loan portfolio (in billions of EUR)		
Amount outstanding and undrawn	218	205
Amount outstanding	175	165
Loan portfolio breakdown by business unit (as a % of the outstanding portfolio)[1]		
Belgium[2]	64.1%	65.8%
Czech Republic	18.4%	15.6%
International Markets	15.6%	16.3%
Group Centre	2.0%	2.3%
Total	100.0%	100.0%
Loan portfolio breakdown by counterparty sector (as a % of the outstanding portfolio)[1]		
Private individuals	41.7%	39.9%
Finance and insurance	7.6%	7.4%
Governments	2.9%	3.5%
Corporates	47.7%	49.2%
Services	*10.9%*	*11.2%*
Distribution	*7.3%*	*7.5%*
Real estate	*6.4%*	*6.6%*
Building and construction	*3.9%*	*4.1%*
Agriculture, farming, fishing	*2.7%*	*2.7%*
Automotive	*2.6%*	*2.5%*
Other (sectors < 3%)	13.9%	14.5%
Total	100.0%	100.0%
Loan portfolio breakdown by region (as a % of the outstanding portfolio)[1,3]		
Home countries	86.4%	86.6%
Belgium	*52.9%*	*55.0%*
Czech Republic	*17.6%*	*15.0%*
Ireland	*5.9%*	*6.5%*
Slovakia	*4.9%*	*5.0%*
Hungary	*3.1%*	*3.2%*
Bulgaria	*2.0%*	*2.0%*
Rest of Western Europe	8.6%	7.9%
Rest of Central and Eastern Europe	0.4%	0.5%
North America	1.5%	1.4%
Asia	1.5%	1.6%
Other	1.6%	1.9%
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%)	*29.3%*	*28.8%*
PD 2 (0.10% – 0.20%)	*7.9%*	*9.0%*
PD 3 (0.20% – 0.40%)	*17.2%*	*14.9%*
PD 4 (0.40% – 0.80%)	*11.7%*	*14.1%*
PD 5 (0.80% – 1.60%)	*13.5%*	*12.0%*
PD 6 (1.60% – 3.20%)	*8.7%*	*8.5%*
PD 7 (3.20% – 6.40%)	*4.5%*	*4.6%*
PD 8 (6.40% – 12.80%)	*1.9%*	*1.9%*
PD 9 (highest risk, ≥ 12.80%)	*1.7%*	*1.8%*
Unrated	*0.2%*	*0.1%*
Impaired		
PD 10	*1.6%*	*1.9%*
PD 11	*0.7%*	*0.7%*
PD 12	*1.3%*	*1.8%*
Total	100.0%	100.0%
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)	85.2%	83.9%
Stage 2 (significant increase in credit risk since initial recognition – not credit impaired) incl. POCI[5]	11.3%	11.8%
Stage 3 (significant increase in credit risk since initial recognition – credit impaired) incl. POCI[5]	3.5%	4.3%
Total	100.0%	100.0%

Impaired loan portfolio	31-12-2019	31-12-2018
Impaired loans (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans[6]	6 160	7 151
Of which more than 90 days past due	3 401	4 099
Impaired loans by business unit (as a % of the impaired loan portfolio)[1]		
Belgium[2]	43.5%	38.9%
Czech Republic	11.8%	8.8%
International Markets	37.7%	45.9%
Ireland	*26.9%*	*34.2%*
Slovakia	*2.3%*	*2.2%*
Hungary	*2.5%*	*2.7%*
Bulgaria	*6.1%*	*6.8%*
Group Centre	6.9%	6.4%
Total	100.0%	100.0%
Impaired loans by sector (as a % of impaired loan portfolio)[1]		
Private individuals	38.1%	43.0%
Distribution	18.6%	13.2%
Real estate	7.9%	9.1%
Services	7.8%	6.9%
Building and construction	4.4%	6.8%
Metals	3.4%	4.5%
Agriculture, farming, fishing	2.4%	1.6%
Electricity	2.0%	2.4%
Other (sectors <2%)	15.5%	12.6%
Total	100.0%	100.0%
Loan loss impairment (in millions of EUR)		
Impairment for Stage 1 portfolio	144	130
Impairment for Stage 2 portfolio, incl. POCI[5] (cured)	265	321
Impairment for Stage 3 portfolio, incl. POCI[5] (still impaired)	2 584	3 203
Of which impairment for impaired loans that are more than 90 days past due	*2 050*	*2 695*
Credit cost ratio		
Belgium Business Unit[2]	0.22%	0.09%
Czech Republic Business Unit	0.04%	0.03%
International Markets Business Unit	-0.07%	-0.46%
Ireland	*-0.32%*	*-0.96%*
Slovakia	*0.14%*	*0.06%*
Hungary	*-0.02%*	*-0.18%*
Bulgaria	*0.14%*	*-0.31%*
Group Centre	-0.88%	-0.83%
Total	0.12%	-0.04%
Impaired loans ratio		
Belgium Business Unit[2]	2.4%	2.6%
Czech Republic Business Unit	2.3%	2.4%
International Markets Business Unit	8.5%	12.2%
Ireland	*16.4%*	*23.0%*
Slovakia	*1.7%*	*2.0%*
Hungary	*2.8%*	*3.8%*
Bulgaria	*10.6%*	*15.0%*
Group Centre	12.4%	12.0%
Total	3.5%	4.3%
Of which more than 90 days past due	*1.9%*	*2.5%*
Coverage ratio		
Loan loss impairment / impaired loans	42.0%	44.8%
Of which more than 90 days past due	*60.3%*	*65.7%*
Loan loss impairment / impaired loans (excl. mortgage loans)	49.7%	49.3%
Of which more than 90 days past due	*71.7%*	*73.5%*

[1] Unaudited figures.
[2] Also includes the small network of KBC Bank branches established in the rest of Europe, the US and Southeast Asia. These branches accounted for a total outstanding portfolio of approximately 7.8 billion euros at year-end 2019.
[3] A more detailed breakdown by country is available in KBC's quarterly reports (at www.kbc.com).
[4] For more information on stages, see Note 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 991-million-euro decline between year-ends 2018 and 2019 breaks down as follows: -104million euros at the Belgium Business Unit, +101 million euros at the Czech Republic Business Unit, -957 million euros at the International Markets Business Unit (mainly due to -788 million euros at Ireland (see below)) and -31 million euros at the Group Centre.

The ‘Loan portfolio breakdown by IFRS 9 ECL Stage (as a % of the outstanding portfolio)’ and ‘Loan loss impairment’ sub-sections in the above table have been broken down further as follows:

Loan portfolio breakdown by IFRS 9 ECL Stage				31-12-2019				31-12-2018
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loan portfolio by country/business unit								
Belgium	53.7%	8.9%	1.5%	64.1%	55.0%	9.2%	1.7%	65.8%
Czech Republic	16.9%	1.1%	0.4%	18.4%	14.3%	0.9%	0.4%	15.6%
International Markets	13.0%	1.2%	1.3%	15.6%	12.8%	1.5%	2.0%	16.3%
Ireland	4.4%	0.4%	0.9%	5.8%	4.4%	0.6%	1.5%	6.4%
Slovakia	4.2%	0.4%	0.1%	4.7%	4.2%	0.5%	0.1%	4.8%
Hungary	2.8%	0.2%	0.1%	3.1%	2.7%	0.3%	0.1%	3.1%
Bulgaria	1.6%	0.2%	0.2%	2.0%	1.5%	0.2%	0.3%	2.0%
Group Centre	1.7%	0.1%	0.2%	2.0%	1.8%	0.2%	0.3%	2.3%
Total	85.2%	11.3%	3.5%	100.0%	83.9%	11.8%	4.3%	100.0%
Loan portfolio by sector								
Private individuals	37.5%	2.9%	1.3%	41.7%	34.9%	3.1%	1.9%	39.9%
Finance and insurance	7.2%	0.3%	0.0%	7.6%	7.0%	0.4%	0.0%	7.4%
Governments	2.9%	0.0%	0.0%	2.9%	3.2%	0.2%	0.0%	3.5%
Corporates	37.6%	8.0%	2.1%	47.7%	38.8%	8.0%	2.4%	49.2%
Total	85.2%	11.3%	3.5%	100.0%	83.9%	11.8%	4.3%	100.0%
Loan portfolio by risk class								
PD 1-4	62.7%	3.4%	0.0%	66.0%	63.1%	3.7%	0.0%	66.8%
PD 5-9	22.6%	7.9%	0.0%	30.4%	20.8%	8.1%	0.0%	28.9%
PD 10-12	0.0%	0.0%	3.5%	3.5%	0.0%	0.0%	4.3%	4.3%
Total	85.2%	11.3%	3.5%	100.0%	83.9%	11.8%	4.3%	100.0%
Total (in millions of EUR)	149 521	19 751	6 160	175 431	138 271	19 401	7 152	164 824

Impairment broken down by IFRS 9 ECL Stage				31-12-2019				31-12-2018
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Impairment by country/business unit								
Belgium	2.2%	4.5%	37.4%	44.0%	1.6%	3.8%	31.7%	37.0%
Czech Republic	1.3%	2.2%	11.5%	15.0%	0.8%	1.4%	8.1%	10.3%
International Markets	1.3%	2.0%	25.4%	28.6%	1.1%	2.7%	38.2%	42.0%
Ireland	0.1%	0.4%	13.6%	14.1%	0.1%	1.0%	26.0%	27.2%
Slovakia	0.4%	1.1%	3.3%	4.8%	0.3%	1.0%	3.1%	4.5%
Hungary	0.4%	0.3%	2.8%	3.5%	0.3%	0.4%	3.0%	3.6%
Bulgaria	0.4%	0.3%	5.6%	6.3%	0.4%	0.3%	6.0%	6.7%
Group Centre	0.1%	0.2%	12.1%	12.4%	0.0%	0.9%	9.7%	10.7%
Total	4.8%	8.9%	86.3%	100.0%	3.6%	8.8%	87.7%	100.0%
Impairment by sector[1]								
Private individuals	0.8%	2.7%	23.9%	27.3%	-	-	-	-
Finance and insurance	0.1%	0.1%	1.6%	0.4%	-	-	-	-
Governments	0.1%	0.0%	0.3%	0.1%	-	-	-	-
Corporates	3.8%	6.0%	60.5%	72.2%	-	-	-	-
Total	4.8%	8.9%	86.3%	100.0%	3.6%	8.8%	87.7%	100.0%
Impairment by risk class[1]								
PD 1-4	0.9%	0.5%	0.0%	1.4%	-	-	-	-
PD 5-9	3.9%	8.4%	0.0%	12.3%	-	-	-	-
PD 10-12	0.0%	0.0%	86.3%	86.3%	-	-	-	-
Total	4.8%	8.9%	86.3%	100.0%	3.6%	8.8%	87.7%	100.0%
Total (in millions of EUR)	144	265	2 584	2 994	130	321	3 203	3 654

[1] Breakdown available as of 2019.

Additional information for Ireland:

- In June 2019, KBC Bank Ireland sold a legacy portfolio of performing corporate loans worth roughly 0.3 billion euros.
- In 2019, KBC Bank Ireland made an accounting write-off of approximately 0.5 billion euros for certain fully provisioned legacy loans. This, together with the ongoing work to reduce impaired loans, had the effect of reducing the impaired loans ratio (see table).

Details for the loan and investment portfolio of KBC Bank Ireland	31-12-2019	31-12-2018
Total portfolio (outstanding, in billions of EUR)	10.1	10.6
Breakdown by loan type		
Private individuals	99.8%	96.8%
Corporate	0.2%	3.2%
Impaired loans	16.4%	23.0%
Credit cost ratio	-0.32%	-0.96%
Coverage ratio	24.6%	38.9%

Additional information for the Czech Republic:

- In May 2019, ČSOB closed the acquisition of the remaining 45% stake in the Czech building savings bank, ČMSS. It now owns 100% of ČMSS and has, therefore, consolidated its position as the largest provider of financial solutions for housing purposes in the Czech Republic. Since then, ČMSS has been fully consolidated in the financial statements and has also been included in the loan portfolio figures for 2019.

Details for the loan and investment portfolio of ČMSS	31-12-2019
Total portfolio (outstanding, in billions of EUR)	4.7
Breakdown by loan type	
Private individuals	100%
Corporate	0.0%
Impaired loans	3.2%
Credit cost ratio	0.11%
Coverage ratio	51.0%

Forbearance measures

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.

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, a facility tagged as 'forborne' is allocated to 'Stage 2' (if the client/facility is classified as 'non-defaulted') and to 'Stage 3' (if the client/facility is classified as 'defaulted').

KBC applies criteria that are consistent with the corresponding EBA standards to move forborne exposures from 'defaulted' to 'non-defaulted' status and to remove the forbearance status. 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.

On-balance-sheet exposures with forbearance measures (in millions of EUR) – movements between opening and closing balances							
Gross carrying value		Movements					
	Opening balance	Loans which have become forborne	Loans which are no longer considered to be forborne	Repayments	Write-offs	Other[1]	Closing balance
2019							
Total	3 890	277	-712	-253	-137	10	3 075
Of which KBC Bank Ireland	2 195	98	-439	-57	-103	-26	1 668
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
Impairment		Movements					
	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
2019							
Total	655	64	-173	69	-86	-13	516
Of which KBC Bank Ireland	353	22	-127	15	-38	-1	224
2018							
Total	1 422	47	-298	217	-176	-557	655
Of which KBC Bank Ireland	838	0	-148	192	-34	-495	353

[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.

At the end of 2019, forborne loans accounted for some 1.8% of our total loan portfolio. Compared to the end of 2018, the forborne exposure decreased by 0.6 percentage points, owing mainly to a decrease in Ireland (where the forborne exposure fell by 4 percentage points as a result of repayments, write-offs and the fact that loans are no longer classified as forborne when the forbearance period ends).

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)
31-12-2019					
Total	1.8%	13.2%	18.1%	43.4%	25.3%
Of which KBC Bank Ireland	16.5%	0.0%	24.9%	46.2%	28.9%
By client segment[1]					
Private individuals[2]	2.7%	7.9%	22.5%	42.6%	27.0%
SMEs	1.1%	24.6%	11.8%	35.1%	28.5%
Corporations[3]	1.2%	21.0%	9.9%	49.9%	19.2%
31-12-2018					
Total	2%	10.5%	19.9%	46.2%	23.4%
Of which KBC Bank Ireland	21%	1.0%	27.8%	45.6%	25.5%
By client segment[1]					
Private individuals[2]	4%	8.8%	24.9%	41.5%	24.8%
SMEs	1%	26.0%	12.1%	33.4%	28.5%
Corporations[3]	1%	8.3%	9.7%	64.6%	17.4%

[1] Unaudited.
[2] 99% of the forborne loans total relates to mortgage loans in 2019 (99% in 2018).
[3] 22% of the forborne loans relates to commercial real estate loans in 2019 (33% in 2018).

Other credit risks

Trading book securities. These securities carry an issuer risk (potential loss should the issuer default). 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.

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. We have put in place limiting caps for both non-core and core country sovereign bond exposure. Details on the exposure to government bonds are provided in a separate section below.

Counterparty credit risk of derivatives transactions. The amounts shown in the table below are the group's pre-settlement risks which are measured via the internal model method for the interest rate and foreign exchange derivatives in the Belgium Business Unit. For inflation, equity and commodity derivatives, the pre-settlement risks are calculated as the sum of the (positive) current replacement value ('mark-to-market' value) of a transaction and the applicable add-on. This calculation is also used for measuring pre-settlement risks for interest rate and foreign exchange derivatives in the other business units.

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 (in billions of EUR)	31-12-2019	31-12-2018
Issuer risk[1]	0.05	0.2
Counterparty credit risk of derivatives transactions[2]	5.6	4.0

[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.

Structured credit exposure

The total net portfolio (i.e. excluding de-risked positions) of structured credit products amounted to 0.5 billion euros at year-end 2019 and consisted primarily of European residential mortgage-backed securities (RMBS). It was down 0.2 billion euros on its level at year-end 2018 due to redemptions. No new investments were made in 2019.

Regulatory capital

The regulatory capital requirements for credit risk increased from 5 698 million euros at the end of 2018 to 6 063 million euros at the end of 2019, driven largely by additional regulatory requirements. For more details, please see the 'Credit risk' section in KBC's Risk Report, which is available at www.kbc.com.

Market risk in non-trading activities

Managing market risk in non-trading activities

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

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

- mismatches in the banking activities linked to the branch network's acquisition of working funds and the use of those funds (via lending, among other things);
- the risks associated with holding an investment portfolio for the purpose of reinvesting shareholders' equity (the so-called strategic position);
- the structural currency exposure stemming from the activities abroad (investments in foreign currency, results posted at branches or subsidiaries abroad, foreign exchange risk linked to the currency mismatch between the insurer's liabilities and its investments).

Management of the ALM risk strategy at KBC is the responsibility of the Group Executive Committee, assisted by the Group ALCO, which has representatives from both the business side and the risk function. The Group Executive Committee decides on the non-trading market risk framework, which sets out specific risk guidance.

Managing the ALM risk on a daily basis starts with risk awareness at Group Treasury and the local treasury functions. The treasury departments measure and manage interest rate risk on a playing field defined by the risk appetite. They take into account measurement of prepayment and other option risks in KBC's banking book and manage a balanced investment portfolio. KBC's ALM limits are approved at two levels. Major limits for interest rate risk, equity risk, real estate risk and foreign exchange risk for the consolidated entities are approved by the Board of Directors. Local limits for interest rate risk, equity risk, real estate risk and foreign exchange risk are approved for each entity by the Executive Committee. Together this forms the playing field for KBC's solid first line of defence for ALM risk.

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

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

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

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 KBC Bank (in millions of EUR)	Impact on value[1]	
	2019	2018
Banking	-96	-65

[1] Full market value, regardless of accounting classification or impairment rules.
[2] 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* (in millions of EUR)	2019	2018
Average for 1Q	-84	-76
Average for 2Q	-104	-64
Average for 3Q	-94	-61
Average for 4Q	-96	-65
As at 31 December	-96	-65
Maximum in year	-104	-76
Minimum in year	-84	-61

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

In line with European Banking Authority (EBA) guidelines, we conduct an outlier stress test at regular intervals by applying six different scenarios to the banking books (material currencies). The worst-case scenario is set off against total common equity tier-1 (CET1) capital. For the banking book at KBC group level, this risk came to 7.91% of CET1 capital at year-end 2019. This is well below the 15% threshold, which is monitored by the European Central Bank (ECB).

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) (in millions of EUR)	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2019	2 961	-1 982	945	6 471	6 863	2 419	-17 677	0
31-12-2018	7 337	-5 922	763	3 558	5 561	1 512	-12 810	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.

Credit spread risk

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

Exposure to sovereign bonds at year-end 2019, carrying value[1] (in millions of EUR)						
Total (by portfolio)	At amortised cost	At fair value through other comprehensive income (FVOCI)	Held for trading	Total	*For comparison purposes: total at year-end 2018*	Economic impact of +100 basis points[3]
KBC core countries						
Belgium	9 280	926	344	10 550	*11 184*	-417
Czech Republic	5 177	541	481	6 199	*5 814*	-322
Hungary	2 393	269	60	2 722	*2 298*	-148
Slovakia	2 306	167	0	2 473	*2 532*	-149
Bulgaria	584	477	16	1 077	*971*	- 67
Ireland	1 263	67	0	1 329	*1 131*	- 71
Other countries						
France	3546	876	24	4 446	*4 309*	-251
Spain	743	508	0	1 251	*2 351*	-114
Italy	1773	385	0	2 159	*1 295*	-47
Poland	1 234	154	9	1 398	*1 349*	-50
US	1 016	0	0	1 016	*1 008*	-42
Germany	468	0	3	472	*395*	-8
Austria	325	114	0	439	*442*	-17
Rest[2]	3 127	368	209	3704	*2 454*	-89
Total carrying value	33 236	4 851	1 148	39 234	*37 530*	–
Total nominal value	31 427	4 261	1 117	36 804	*35 244*	–

1 The table excludes exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.
2 Sum of countries whose individual exposure is less than 0.5 billion euros at year-end 2019 (based on Group level)
3 Theoretical economic impact in fair value terms of a parallel 100-basis-point upward shift in the spread over the entire maturity structure. Only a portion of this impact is reflected in profit or loss and/or equity. Figures relate to non-trading positions in sovereign bonds for the banking and insurance businesses (impact on trading book exposure was quite limited and amounted to -15 million euros at year-end 2019).

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

- The carrying value of the total FVOCI government bond portfolio measured at FVOCI incorporated a revaluation reserve of 0.4 billion euros, before tax (105 million euros for Belgium, 53 million euros for France, 37 million euros for Bulgaria, 31 million euros for Spain, and 169 million euros for the other countries combined)

At year-end 2019, Belgian sovereign bonds accounted for 27% of our total government bond portfolio, reflecting the importance to KBC of Belgium, the group's primary core market.

Apart from interest rate risk, the main risk to our holdings of Belgian sovereign bonds is a widening of the credit spread. To assess the potential impact of a 100-basis-point upward shift in the spread (by year-end 2019), we apply two approaches:

- The theoretical full economic impact approach, which assumes a potential sale of the entire portfolio at market prices. The impact of a 100-basis-point shift would then result in a change in value of -417 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 (88%; impact only upon realisation). The remaining part from the Banking Books is classified as 'FVOCI' (9%; no impact on profit or loss); the impact of a 100-basis-point increase on IFRS unrealised gains is -22 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 banking book 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)	31-12-2019	31-12-2018
Bonds rated AAA	-153	-108
Bonds rated AA+, AA, AA-	-62	-64
Bonds rated A+, A, A-	-10	-15
Bonds rated BBB+, BBB, BBB-	-18	-21
Non-investment grade and non-rated bonds	-27	-18
Total carrying value (Excluding trading portfolio)	5 895	5 749

Equity risk

KBC Bank and KBC Asset Management hold smaller equity portfolios. More information on total non-trading equity exposures is provided below.

Equity portfolio of the KBC Bank (breakdown by sector, in %)	31-12-2019	31-12-2018
Financials	58%	46%
Consumer non-cyclical	0%	1%
Communication	0%	0%
Energy	0%	0%
Industrials	26%	36%
Utilities	0%	0%
Consumer cyclical	4%	7%
Materials	0%	0%
Other and not specified	11%	10%
Total	100%	100%
In billions of EUR	0.26	0.26
of which unlisted	0.22	0.21

Impact of a 25% drop in equity prices (in millions of EUR)	Impact on value	
	2019	2018
Total	-64	-65

Non-trading equity exposure (in millions of EUR)	Net realised gains (in income statement)		Net unrealised gains on year-end exposure (in equity)	
	31-12-2019	31-12-2018	31-12-2019	31-12-2018
Total	–	-	27	16

Real estate risk

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

Impact of a 25% drop in real estate prices (in millions of EUR)	Impact on value	
	2019	2018
Total	-92	-94

Inflation risk

Inflation – as an econometric parameter – indirectly affects the life of companies in many respects, as do other parameters (for instance, economic growth or the rate of unemployment). It is not easily quantifiable as a market risk concept. However, certain financial products or instruments have a direct link with inflation and their value is directly impacted by a change in market expectations. At KBC, it relates specifically to workmen's compensation insurance.

The banking activities are not exposed to a significant inflation risk.

Foreign exchange risk

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

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

Impact of a 10% decrease in currency value* (in millions of EUR)	Impact on value Banking	
	31-12-2019	31-12-2018
CZK	-200.41	-0.67
HUF	-77.79	0.00
BGN	-34.68	0.00
RON	-2.22	-2.33
USD	-1.61	-0.64
CHF	0.01	0.00
GBP	0.01	0.03
SEK	0.02	0.00
DKK	0.27	0.00

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

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, KBC Bank (as % points of CET1 ratio)		
IFRS impact caused by	31-12-2019	31-12-2018
+100-basis-point parallel shift in interest rates	0.1%	-0.2%
+100-basis-point parallel shift in spread	-0.2%	-0.2%
-25% in equity prices	-0.3%	-0.0%
Joint scenario	-0.4%	-0.4%

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. 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 or 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 partly funded in the local currency by deposits and foreign exchange derivatives, to ensure stability of the CET1 ratio. By using hedges of net investments in foreign operations, the foreign exchange component is reported in equity until realization (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 targeted hedge amount 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.

Regulatory capital

Regulatory capital for non-trading market activities totalled 19 million euros. It is used to cover foreign exchange exposures only, as KBC does not have any commodity exposures. In line with regulations, other types of non-trading market risk are covered through pillar II assessments.

Non-financial risks

Operational risk

Managing operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems, human error or sudden external events, whether man-made or natural. Operational risks include process risk, legal risk, outsourcing risk, information security risk, information technology risk, model risk, but exclude business, strategic and reputational risks.

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

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

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

The building blocks for managing operational risks

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

- Setting and cascading risk appetite: the risk appetite for operational risk is set in line with the overall requirements as defined in our overarching risk management framework.
- Risk identification: identifying operational risks involves following up on legislation, as well as using the Product Approval Process, analysing key risk indicators, risk challenges, deep dives, root cause analysis of losses and other trigger-based risk observations. A structured, process-based repository of Group Key Risks and related mitigating Group Key Controls (GKCs) is in place to set top-down minimum standards for risk and control self-assessments performed by the business side. The current set of GKCs covers the complete process universe of the KBC group and is designed to manage key operational risk types. A review process is in place to keep the repository in line with new or emerging operational risk types. Entities translate these group control objectives into their operational process environment and supplement them with additional, local operational controls, if necessary.
- Risk and control metrics: as operational risk is embedded in all aspects of the organisation, unified group metrics and scales are in place to define and support not only the underpinning of the risk profile of an entity, but also the process and individual operational risk levels. The maturity status of individual control objectives within the processes are also defined on a unified scale. In addition to this, a group-wide uniform scale is used to express the overall internal control state of each process in each material entity.
- Risk response and follow-up: a uniform approach – strongly based on first-line of defence accountability (business side) and challenges by the second line of defence (risk, compliance, legal, etc) and assurance by the third line of defence (internal audit) – 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 NBB, the FSMA and ECB via the annual Internal Control Statement.
- Stress testing: an annual stress test is performed to assess the adequacy of pillar 1 operational risk capital.

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

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

Information risk management

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

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

The core activities of information risk management are:

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

Outsourcing risk management

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

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

Model risk management

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

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

Compliance risk

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

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

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

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

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

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

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

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

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

Reputational risk

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

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

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

Business and strategic risks

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

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

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

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

Risk innovation and transformation

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

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

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

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

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

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

Brexit

At the end of January 2020, the UK formally left the EU after signing the EU Withdrawal Agreement. At this stage, the UK has a limited time span (the so-called 'implementation period' that ends on 31 December 2020) to negotiate its future relationship with the EU. If trade deals are agreed and ratified with the EU in that period, the UK will be able to start its new relationship with the EU on the basis of those deals as of 2021. Exiting the implementation period with no deals in place would mean the UK having to follow World Trade Organisation Rules and imposing tariff rates for goods. For services, regulatory divergence – reflecting an absence of reciprocal recognition of each other's frameworks – would distort free trade.

It is important to mention that a one-off extension of the negotiation period is possible for up to one or two years, provided the UK and the EU mutually agree to it before the end of June 2020.

KBC still expects negotiations to end up in 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 that might materialise towards the end of 2020.

KBC Bank London branch: during the transition period in 2020, KBC's UK branch will continue to operate under the EU passport system as an incoming EEA (European Economic Area) firm, meaning that EU regulations continue to apply.

Derivatives clearing business: as reported last year, KBC had taken the contingent decision to become active on an alternative platform for derivatives clearing on the EU continent. The resulting cooperation with EUREX Frankfurt started already in 2018 and became fully operational in 2019.

Should no trade agreements be reached, the domains affected most are comparable with those identified in previous analyses of hard Brexit scenarios.

If no trade agreement or extension period is decided in 2020, the consequences for KBC would mainly affect:

- KBC Bank Ireland: The open nature of the Irish economy and its close links to the UK underpin the consensus view that the impact of moving back to World Trade Organisation Rules would be negative. Earlier studies on a hard Brexit scenario have already suggested that real GDP growth in Ireland would contract 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 Economic & Social Research Institute (ESRI) study suggested 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 would suffer from a further depreciation of Sterling and higher tariff rates.
- Net interest income: the absence of trade deals would 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 has been delayed and is now scheduled to come into effect by the end of 2021) sets revised guidelines and regulations on the eligibility of a benchmark calculation methodology to move the focus away from 'professional judgement' to a more transaction-based methodology. The European Security and Markets Association (ESMA) was given the role of overseeing this transition.

The ECB has launched two initiatives in this field: the development of a daily euro unsecured overnight interest rate (ESTER) and the set-up of an industry working group, together with other European institutions, tasked with identifying alternative risk-free rates for widespread adoption.

In this context, KBC has set up a working group to quantify the risks associated with these changes and to follow up any new developments. KBC has prepared implementation plans for ESTER in its different business segments and will start activating them in the course of 2020.

Corona virus

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

Climate-related risks

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

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

Governance

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

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

Risk identification and classification

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

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

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

Cascading and setting risk appetite

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

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

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

Risk measurement

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

Risk analysis, monitoring and reporting

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

A number of initiatives were started to improve our understanding of how to measure ESG and climate-related risks. The insights gained will then be used to explore how we can further integrate these risks into our credit assessment process and modelling (including expected credit losses) and to adapt our policies, where necessary. Moreover, management has the ability to overrule the expected credit losses and to capture events that are not part of the financial assessment, such as the growing insights into ESG and climate-related risks. To date, this approach has yet to be applied.

Market risk in trading activities

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. This risk relates solely to positions taken in our different dealing rooms.

We are exposed to market risk in our trading books, when providing money and capital market services to our clients, and when funding the banking activities. The focus is on trading interest-rate instruments, while activity on the foreign exchange markets has traditionally been limited. These activities are carried out by our dealing rooms in Belgium, the Czech Republic, Hungary, Bulgaria and Slovakia, as well as via a minor presence in the UK and Asia. Wherever possible and practical, the residual trading positions of our foreign entities are systematically transferred to KBC Bank NV, reflecting that the group's trading activity is managed centrally both from a business and a risk management perspective. Consequently, KBC Bank NV holds about 96% of the trading-book-related regulatory capital of KBC Group NV.

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).

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

As stated in the Trading Risk Management 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, whereas 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 our model for calculating regulatory capital), and limits are set at various levels (i.e. at KBC group level, entity level and desk level). Regulatory HVaR is calculated using 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). Management HVaR uses the same standards, except a one-day holding period is used instead of a ten-day period, as it is more intuitive for senior management and is also 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, which means that the model is subject to regular review and improvements. However, there were no major developments to report in relation to the HVaR model during 2019.

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.

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 value 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.

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. Our 2019 review of the stress tests (as regards mix and checking that they remain up-to-date and relevant) concluded that no significant changes were necessary for that year, as confirmed by the GMC (a minor change was made to the KBC Securities stress test framework). 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.

Risk analysis and quantification

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

Market risk (Management HVaR) (in millions of EUR)	2019	2018
Average for 1Q	7	6
Average for 2Q	7	5
Average for 3Q	8	5
Average for 4Q	6	5
As at 31 December	5	6
Maximum in year	9	7
Minimum in year	4	4

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 KBC (Management HVaR; in millions of EUR)	Average for 2019	Average for 2018
Interest rate risk	7.0	5.2
FX risk	0.8	0.4
FX options risk	0.5	0.2
Equity risk	0.7	0.6
Diversification effect	-2.0	-1.3
Total HVaR	7.0	5.1

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

The capital requirements for trading risk at year-ends 2018 and 2019 are shown in the table below. It shows the regulatory capital requirements by risk type, as assessed by the internal model. Business lines not included in the internal model calculations are measured according to the Standardised approach and likewise shown by risk type.

Trading regulatory capital requirements by risk type, KBC Bank (in millions of EUR)		Interest rate risk	Equity risk	FX risk	Commodity risk	Total
31-12-2019						
Market risks assessed by internal model	HVaR	38	6	7	–	51
	SVaR	79	24	20	–	122
Market risks assessed by the Standardised approach		8	7	29*	0	44
Total		125	36	56	0	217
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

* In accordance with COREP requirements, this figure includes the 26 mln EUR capital requirements for FX in the banking book although this does not stem from trading activities

The Stressed VaR (SvaR) capital requirement in the table 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

Please note that the internal model regulatory capital in the table also includes the residual amounts (approximately 1.6 million euros in 2019) generated by the Approved Internal Model (AIM) at our Czech Republic subsidiary. Recognising that effectively all of the market risk of the Czech Republic dealing room is always transferred to Brussels (i.e. reflecting the policy described in the first paragraph of this section), the Czech National Bank has given its permission for the Czech Republic AIM to cease being used as of 1 January 2020.

The total capital requirement at year-end 2019 was 39 million euros lower (486 mln EUR in risk weighted assets) than its year-earlier level. The driver of the decrease (i.e. the required capital estimated by the internal model) was the systematic consolidation of the Czech Republic and Brussels positions into one AIM, as described in the previous paragraph. Please note that the consolidated position correctly reflects the market risk (and related capital requirements) of the KBC group, unlike last year when the capital requirements were the simple sum of the entities.

Liquidity risk

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.

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 group funding 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'.
- *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.

Similar to the Internal Capital Adequacy Assessment Process (ICAAP), as described in the 'How do we manage our capital?' section, KBC also has an Internal Liquidity Adequacy Assessment Process (ILAAP) in place to ensure it has robust strategies, policies, processes and systems for identifying, measuring, managing and monitoring liquidity risk and funding positions over all appropriate time horizons, in order to maintain adequate levels of liquidity buffers.

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
31-12-2019									
Total inflows	13	11	46	59	41	59	6	18	254
Total outflows	33	10	9	27	5	4	141	25	254
Professional funding	13	5	1	2	0	0	0	0	21
Customer funding	16	5	5	5	2	0	141	0	174
Debt certificates	0	0	3	20	3	4	0	0	30
Other	4	–	–	–	–	–	–	25	29
Liquidity gap (excl. undrawn commitments)	-20	1	37	33	36	55	-135	-7	0
Undrawn commitments	–	–	–	–	–	–	–	38	38
Financial guarantees	–	–	–	–	–	–	–	10	10
Net funding gap (incl. undrawn commitments)	-20	1	37	33	36	55	-135	-55	-48
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	37
Financial guarantees	–	–	–	–	–	–	–	10	10
Net funding gap (incl. undrawn commitments)	-5	-4	12	29	43	32	-105	-49	-47

* 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 2019, KBC had 67 billion euros' worth of unencumbered central bank eligible assets, 58 billion euros of which in the form of liquid government bonds (86%). The remaining available liquid assets were mainly other ECB/FED eligible bonds (10%). Most of the liquid assets are expressed in our home market currencies. Available liquid assets were roughly 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.

Funding mix	Information	31-12-2019	31-12-2018
Funding from customers[1]	Demand deposits, term deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network	84%	79%
Debt issues placed with institutional investors	IFIMA debt issues, covered bonds[3], tier-2 issues, KBC Group NV senior debt	8%	7%
Net unsecured interbank funding	Including TLTRO[4]	6%	9%
Net secured funding[2]	Repo financing	-11%	-10%
Certificates of deposit	-	5%	7%
Total equity	Including AT1 issues	8%	8%
Total		100%	100%
in billions of EUR		210	209

[1] Some 76% of this funding relates to private individuals and SMEs (year-end 2019).
[2] Negative on account of KBC carrying out more reverse repo transactions than repo transactions.
[3] 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. No covered bonds were issued in 2019.
[4] In 2019 we repaid all TLTRO-II funding and entered into TLTRO-III for 2.5 billion euro.

LCR and NSFR

Two of the main regulatory liquidity measures are the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Both are defined in the ‘Glossary of financial ratios and terms’. At year-end 2019, our NSFR stood at 136% while our LCR for 2019 came to 138%.

How do me 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 Bank

We report the solvency of the bank based on IFRS data and according to the rules imposed by the regulator. For KBC Bank, this implies that we calculate our solvency ratios based on CRR/CRD IV. As from 1 January 2018, there is no longer any difference between the fully loaded and phased-in figures at KBC Bank.

This regulation entered gradually into force on 1 January 2014, and will be fully implemented by 1 January 2022.

The minimum solvency ratios required under CRR/CRD IV are 4.5% for the common equity tier-1 (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 2019, the ECB formally notified KBC of its decision (effective from 1 January 2020) 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 on the required countercyclical buffer in its core markets. Taken together, this corresponds to a countercyclical buffer at KBC Bank consolidated level of approximately 0.35%.

In total, this brings the fully loaded CET1 capital requirement to 10.60% (4.5% (pillar 1) + 1.75% (P2R) + 2.5% (conservation buffer) + 1.5% (systemic buffer) + 0.35% (countercyclical buffer)), with an additional P2G of 1% consolidated at KBC Bank level.

The data above and in the table refer to the situation as known on 27 March 2020. No account is taken of changes that were announced afterwards.

Regulatory capital requirements KBC Bank (consolidated, fully loaded)		2020		2019
Pillar 1 minimum		8.00%		8.00%
of which CET1	4.50%		4.50%	
Additional Tier-1 instruments	1.50%		1.50%	
Tier-2 instruments	2.00%		2.00%	
Pillar 2 requirement		1.75%		1.75%
Combined Buffer Requirement (CBR)		4.35%		4.55%
of which Capital conservation buffer	2.50%		2.50%	
Buffer for systemically important institutions (O-SII)	1.50%		1.50%	
Entity-specific countercyclical buffer	0.35%		0.55%	
Overall Capital Requirement (OCR)		**14.10%**		**14.30%**
of which CET1		**10.60%**		**10.80%**
CET1 excluding conservation buffer (temporary ECB measure)		**8.10%**		

KBC Group 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 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. Following the acquisition of the remaining 45% stake in CMSS (Czech Republic) in 2019, the M&A buffer is now 1.7% This buffer is additional to the 'own capital target' of the KBC group and forms the 'reference capital position', which stands at 15.7%.

Solvency KBC Bank (in millions of EUR) consolidated, CRD IV,/CRR (Basel III), fully loaded	31-12-2019	31-12-2018
Total regulatory capital (after profit appropriation)	16 660	15 749
Tier-1 capital (1)	14 704	13 625
Common equity	13 204	12 618
Parent shareholders' equity (excluding minorities)	15 091	14 150
Intangible fixed assets (including deferred tax impact) (-)	- 386	- 299
Goodwill on consolidation (including deferred tax impact) (-)	- 914	- 750
Minority interests	0	34
Hedging reserve (cash flow hedges) (-)	1 331	1 263
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	- 9	- 14
Value adjustment due to the requirements for prudent valuation (-) (2)	- 54	- 63
Dividend payout (-)	- 1 145	- 906
Renumeration of AT1 instruments (-)	- 12	- 8
Deduction re. financing provided to shareholders (-)	- 57	- 91
Deduction re. Irrevocable payment commitments (-)	- 45	- 32
IRB provision shortfall (-)	- 140	- 100
Deferred tax assets on losses carried forward (-)	- 458	- 565
Additional going concern capital	1 500	1 007
CRR compliant AT1 instruments	1 500	1 000
Minority interests to be included in additional going concern capital	0	7
Tier-2 capital	1 957	2 124
IRB provision excess (+)	130	204
Subordinated liabilities	1 827	1 911
Minority interests to be included in tier 2 capital	0	9
Capital requirement		
Total weighted risks	89 838	85 474
Solvency ratios		
Common equity ratio	14,7%	14,8%
Tier-1 ratio	16,4%	15,9%
Total Capital ratio	18,5%	18,4%

(1) Audited figures (excluding 'IRB provision shortfall' and 'Value adjustment due to requirements for prudent valuation'). The amount of 2019 profits included in the calculation of the common equity capital is still subject to approval by the ECB.

(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.

Leverage ratio

At year-end 2019, our fully loaded leverage ratio at KBC Bank stood at 5.5% (see table below) as the higher total exposure was offset by a higher level of tier-1 capital. 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 KBC Bank (Basel III fully loaded)		
In millions of EUR	31-12-2019	31-12-2018
Tier-1 capital	14 704	13 625
Total exposures	269 707	263 249
Total Assets	253 967	248 940
Adjustment for derivatives	-2 882	-3 101
Adjustment for regulatory corrections in determining Basel III Tier-1 capital	-2 053	-1 900
Adjustment for securities financing transaction exposures	638	408
Off-balance sheet exposures	20 036	18 902
Leverage ratio	5.5%	5,2%

ICAAP

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 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.

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, including reverse 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.

Corporate governance statement

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

Name	Office held	Period served on the Board in 2019	Expiry date of current term of office	Board meetings attended	Non-executive directors	Share-holders' represe n-tatives	Inde-pendent directors	Member s of the EC	AC	RCC
Number of meetings in 2019				10					6	9
LEYSEN Thomas	Chairman	Full year	2023	10	●					
DEPICKERE Franky	Deputy Chairman of the Board	Full year	2023	10	●	●				9 (c)
THIJS Johan	President of the Executive Committee	Full year	2021	10				● (c)		
FALQUE Daniel	Executive Director	Full year	2020	10				●		
HOLLOWS John	Executive Director	Full year	2021	7				●		
LUTS Erik	Executive Director	Full year	2021	8				●		
POPELIER Luc	Executive Director	Full year	2021	10				●		
SCHEERLINCK Hendrik	Executive Director	Full year	2021	9				●		
VAN RIJSSEGHEM Christine	Executive Director	Full year	2021	10				●		
ARISS Nabil	Independent Director	Full year	2022	10	●		●		6	9
CALLEWAERT Katelijn	Non-Executive Director	Full year	2021	10	●	●				
DE BECKER Sonja	Non-Executive Director	Full year	2020	9	●	●				
KIRÁLY Júlia	Non-Executive Director	Full year	2023	10	●					
MAGNUSSON Bo	Independent Director	Full year	2020	9	●		●		5	8
PAPIRNIK Vladimira	Non-Executive Director	Full year	2023	10	●					
WITTEMANS Marc	Non-Executive Director	Full year	2022	10	●	●			6 (c)	

Statutory auditor: PwC Bedrijfsrevisoren BV, represented by Roland Jeanquart and Gregory Joos.
Secretary to the Board of Directors: Johan Tyteca.
Abbreviations: Board of Directors: Board; Executive Committee: EC; Audit Committee: AC; Risk & Compliance Committee: RCC.
(c) Chairman of this committee.

Changes in the composition of the Board in 2019

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

Vladimira Papirnik and Júlia Király were appointed definitively as directors for a term of four years.

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

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

Proposed changes in the composition of the Board in 2020

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

On the advice of the Nomination Committee, the Board will propose that Koenraad Debackere be appointed as non-executive director for a four-year term of office that will end after the General Meeting of 2024. The Board will appoint him as Chairman of the Board of Directors of KBC Bank NV later this year, when he hands over his duties as Managing Director of KU Leuven.

On the advice of the Nomination Committee, the Board will propose that Bo Magnusson be re-appointed as an independent director for a new four-year term of office and that Sonja De Becker and Daniel Falque be re-appointed as directors likewise for a new four-year term that will end after the General Meeting of 2024.

Brief CV for the proposed new director:

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

Composition of the EC

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

Statutory auditor

The statutory auditor, PwC Bedrijfsrevisoren BV (PwC), was represented by Messrs Roland Jeanquart and Gregory Joos.

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 respective 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 2019 to bring it into line and to keep up with new regulatory developments (including in the area of anti-money laundering, the Insurance Distribution Directive (IDD) and new EU tax disclosure rules (DAC 6)) and with 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:

- preventing the financial system being used for laundering money and funding terrorism, observing embargoes, and preventing proliferation financing of weapons of mass destruction;
- preventing fiscal irregularities including special mechanisms and DAC 6;
- protecting investors;
- protecting privacy, including banking secrecy, privacy in electronic communication, confidentiality of information and the professional duty of discretion;
- fostering ethics and coordinating fraud prevention;
- protecting insurance policyholders;
- complying with anti-discrimination legislation;
- respecting rules on consumer protection: market practices, payment and lending services, complaints handling by companies, rules on SME funding and Payment Services Directive II;
- 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, sound remuneration policy, 'Fit & Proper' requirements, conflicts of interest, loans made to members of the EC and directors (and persons associated with them) and to 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 903 KBC Bank, KBC Insurance and KBC Asset Management employees in Belgium attended in 2019, 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. 7 961 members of staff took this course in the Czech Republic, 1 931 in Slovakia and 784 in Hungary. In Bulgaria, training was provided to 3 545 employees and insurance agents. In Ireland, this training formed part of the compliance ethics e-learning course. ided each year (2 777 staff members took the course).

Furthermore, some 81% of our top 300 senior managers had completed the KBC University training programme on corporate social responsibility (by the end of 2019). The main reason this figure did not come to 100% was because of new recent appointments to senior management.

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 2019, 259 incidents of this kind were approved in Belgium. In Central Europe, too, gifts and donations above a certain value have to be reported (45 such incidents were reported in the Czech Republic, two in Hungary, 21 in Slovakia and one in Bulgaria). Four 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 and compliance functions, 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 group, characterised by its specific status (as provided for by law and regulations and 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 associated reporting lines (reporting to the RRC 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 processes, including corporate governance, 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 2019). 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 Investor Relations and of Experts, Reporting & Accounting, monitors compliance with IFRS accounting policies and the completeness of IFRS disclosure requirements.

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.

Shareholder structure on 31 December 2019

The Act of 2 May 2007 concerning the disclosure of significant participations in issuers whose shares are admitted to trading on a regulated market and containing miscellaneous provisions, does not apply to KBC Bank because the securities it issues that carry voting rights are not included on a regulated market.

At 31 December 2019, the shareholder structure of KBC Bank NV was as follows:

	Number of shares
KBC Group NV	995.371.468
KBC Insurance NV	1
Total	995.371.469

Disclosure under Article 34 of the Belgian Royal Decree of 14 November 2007

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, does not apply to KBC Bank because it has not permitted any securities carrying voting rights to be included on a regulated market for trading.

Additional information

- Acquisition of treasury shares. KBC Bank NV and its subsidiaries do not hold any treasury shares.
- Conflicts of interest that fall within the scope of Articles 523, 524 and 524*ter* of the Belgian Companies Code. There were no such conflicts during financial year 2019.
- 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 524ter of the Companies Code. It was incorporated into the Corporate Governance Charter of KBC Bank NV, which was in force until year-end 2019.
- Discharge to directors and to the statutory auditor. It will be requested at the General Meeting to grant discharge to the directors and auditor for the performance of their mandate in financial year 2019.
- At year-end 2019, the AC comprised the following members:
  - Marc Wittemans (non-executive director), who holds a Master's Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences. He is Managing Director of MRBB CVBA, the holding company of the Boerenbond (farmers' union), and is the Chairman of the AC.
  - Nabil Ariss (independent director), graduate from HEC Paris and the University of Chicago Booth School of Business . He has been advising boards of corporates, financial institutions and non-profit organisations for more than 30 years, on strategy, governance, organisation, operations, mergers & acquisitions and corporate finance. He served with McKinsey, then with J.P. Morgan from which he retired as vice chairman. He is the founder of Fresnel1823, an independent corporate adviser.
  - Bo Magnusson (independent director), who is a graduate of the High School Social Science Programme and holds certificates in Accounting, Macroeconomics, Treasury Management and Financial & Risk Management. He held different positions at SEB (1982-2011), including in the areas of accounting and finance. During his career there, he was Head of the Retail Division (2005-2008), Deputy President and CEO (2008-2011) and Head of Group Staff & Business Support (2009-2011). He was Chairman of the Board of Carnegie Investment Bank AB (2012-2019), SBAB Bank AB (2013-2019), Norrporten AB (2013-2016) and 4T Sverige AB (2012-2015). He is Vice Chairman of the Board of Swedbank AB since 2019 and Chairman of the Board of Rikshem AB since 2016.

  These members possess the requisite individual and collective expertise in the activities conducted by the bank and in the areas of accounting and/or auditing, based on their education and extensive business experience.
- At year-end 2019, the RCC comprised the following members:
  - Franky Depickere (non-executive director), who holds Master's Degrees in Trade & Finance (UFSIA Antwerp) and in Financial Management (VLEKHO Business School). He was internal auditor at CERA Bank and has held positions and offices in various financial institutions. He is currently Managing Director at Cera and KBC Ancora. Mr Depickere is the Chairman of the RCC.
  - Nabil Ariss (independent director).
  - Bo Magnusson (independent director).

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

- The Remuneration Committee of KBC Group NV is also authorised to act in relation to KBC Bank NV. It advises the Board of Directors of KBC Group NV regarding the remuneration policy pursued at both KBC Group NV and KBC Bank NV. At year-end 2019, the Remuneration Committee was made up of Thomas Leysen (Chairman), Júlia Király and Philippe Vlerick.
- The Nomination Committee of KBC Group NV is also authorised to act in relation to KBC Bank NV. At year-end 2019, the Nomination Committee was made up of Thomas Leysen, Philippe Vlerick, Franky Depickere, Sonja De Becker and Vladimira Papirnik.
- In compliance with the laws on the incompatibility of offices held by managers of credit institutions, the following is a list of the external offices held by the executive managers and directors of KBC Bank NV in other companies, with the exception of those offices performed in companies within the meaning of Article 27, §3, para. three of the Act of 22 March 1993.

Annex 1
to the annual report of the board of directors for the financial year ending on 31 December 2019

Naamloze vennootschap (company with limited liability): KBC Bank NV
Trade register: Brussels 623 074
VAT number or national number: 462.920.226

Company name	Reg.office	Sector	Office held	Listed (N= not)	Share of capital held (N= none)
Nabil Ariss, Independent Director					
Fresnel1823 Limited	UK	Consulting	Executive Director	N	N
Callewaert Katelijn, Director					
Cera Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Almancora Beheersmaatschappij NV	Belgium	Management	Executive Director	N	N
Cera cvba	Belgium	Management	Member of the Board	N	N
Sonja De Becker, Director					
SBB Accountants en Belastingconsulenten BV cvba	Belgium	Accountancy & consulting	Chairman of the Board of Directors	N	N
M.R.B.B. cvba	Belgium	Holding company	Chairman of the Board of Directors	N	N
SBB Bedrijfsdiensten BV cvba	Belgium	Accountancy & consulting	Executive Director	N	N
BB-Patrim cvba	Belgium	Holding company	Chairman of the Board of Directors	N	N
Agri Investment Fund cvba	Belgium	Holding company	Director	N	N
Acerta cvba	Belgium	Holding company	Director	N	N
Franky Depickere, Director					
Almancora Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Cera cvba	Belgium	Management	Executive Director	N	N
Cera Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Euro Pool System International BV	Netherlands	Packaging	Director	N	N
BRS Microfinance Coop cvba	Belgium	Finance	Director	N	34,94%
Julia Kiraly, Director					
Fintor Holding Ltd	Hungary	Management	Member of the Board	N	N
Thomas Leysen, Chairman of the Board of Directors					
Umicore nv	Belgium	Non-ferrous metals	Chairman of the Board of Directors	Euronext	N
Booischot nv	Belgium	Real estate	Director	N	N
Mediahuis NV	Belgium	Publishing	Chairman of the Board of Directors	N	N
INM Plc	Ireland	Media	Director	IEX	N
Bo Magnusson, Independent Director					
Rikshem AB	Sweden	Real estate	Chairman of the Board of Directors	N	N
Rikshem Intressenter AB	Sweden	Holding company	Chairman of the Board of Directors	N	N
Swedbank AB	Sweden	Banking industry	Vice president Board of Directors	IEX	N
Val Papirnik, Director					
Marc Wittemans, Director					
Aktiefinvest cvba	Belgium	Real estate	Executive Director/CEO - Chairman of the Board of Directors	N	N
Arda Immo nv	Belgium	Real estate	Chairman of the Board of Directors	N	N
SBB Accountants en Belastingconsulenten bv cvba	Belgium	Accountancy & consulting	Director	N	N
SBB Bedrijfsdiensten bv cvba	Belgium	Accountancy & consulting	Director	N	N
M.R.B.B. cvba	Belgium	Holding company	Executive Director/CEO	N	N
Agri Investment Fund cvba	Belgium	Holding company	Director	N	N
Acerta cvba	Belgium	Holding company	Director	N	N
Acerta Consult cvba	Belgium	HR services	Director	N	N
Acerta Public nv	Belgium	IT services & software	Director	N	N
Acerta Verzekeringen cvba	Belgium	Insurance	Director	N	N
Shéhérazade développement cvba	Belgium	IT services & software	Director	N	N
Aveve NV	Belgium	Agricultural & horticultural	Director	N	N

Consolidated financial statements

Abbreviations used

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

Consolidated income statement

(in millions of EUR)	Note	2019	2018
Net interest income	3.1	4 153	4 033
Interest income	*3.1*	*6 792*	*6 485*
Interest expense	*3.1*	*- 2 639*	*- 2 452*
Dividend income	3.2	35	29
Net result from financial instruments at fair value through profit or loss	3.3	70	161
Net realised result from debt instruments at fair value through OCI	-	6	8
Net fee and commission income	3.5	2 085	2 062
Fee and commission income	*3.5*	*2 605*	*2 572*
Fee and commission expense	*3.5*	*- 520*	*- 509*
Net other income	3.6	200	167
TOTAL INCOME		6 548	6 460
Operating expenses	3.8	- 3 797	- 3 712
Staff expenses	*3.8*	*- 1 738*	*- 1 735*
General administrative expenses	*3.8*	*- 1 836*	*- 1 808*
Depreciation and amortisation of fixed assets	*3.8*	*- 223*	*- 168*
Impairment	3.10	- 213	19
on financial assets at AC and at FVOCI	*3.10*	*- 204*	*59*
on goodwill	*3.10*	*0*	*0*
other	*3.10*	*- 10*	*- 41*
Share in results of associated companies and joint ventures	3.11	3	12
RESULT BEFORE TAX		2 541	2 779
Income tax expense	3.12	- 501	- 598
RESULT AFTER TAX		2 040	2 181
attributable to minority interests	-	35	171
attributable to equity holders of the parent	-	2 005	2 010

- 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 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.
- As a result of the acquisition of the remaining 45% stake in the Czech building savings bank Českomoravská stavební spořitelna (ČMSS), now fully owned by KBC through ČSOB, the results of ČMSS have been fully consolidated since June 2019 (before then, it had been recorded according to the equity method). More details are provided in Note 6.6.

Consolidated statement of comprehensive income

(in millions of EUR)	2019	2018
RESULT AFTER TAX	2 040	2 181
attributable to minority interests	35	171
attributable to equity holders of the parent	2 005	2 010
OCI THAT MAY BE RECYCLED TO PROFIT OR LOSS	- 46	- 29
Net change in revaluation reserve (FVOCI debt instruments)	46	- 82
Fair value adjustments before tax	60	- 99
Deferred tax on fair value changes	- 11	22
Transfer from reserve to net result	- 3	- 5
Impairment	0	0
Net gains/losses on disposal	1	- 6
Deferred taxes on income	- 3	2
Net change in revaluation reserve (FVPL equity instruments) - overlay	0	0
Fair value adjustments before tax	0	0
Deferred tax on fair value changes	0	0
Transfer from reserve to net result	0	0
Impairment	0	0
Net gains/losses on disposal	0	0
Deferred taxes on income	0	0
Net change in hedging reserve (cashflow hedges)	- 68	76
Fair value adjustments before tax	- 157	46
Deferred tax on fair value changes	36	- 9
Transfer from reserve to net result	53	39
Gross amount	71	60
Deferred taxes on income	- 17	- 21
Net change in translation differences	- 21	- 57
Gross amount	- 21	- 57
Deferred taxes on income	0	0
Hedge of net investments in foreign operations	4	37
Fair value adjustments before tax	- 13	40
Deferred tax on fair value changes	- 15	- 11
Transfer from reserve to net result	32	9
Gross amount	45	13
Deferred taxes on income	- 13	- 4
Net change in respect of associated companies and joint ventures	0	- 4
Gross amount	0	- 4
Deferred taxes on income	0	1
Other movements	- 6	0

(in millions of EUR)	2019	2018
OCI THAT WILL NOT BE RECYCLED TO PROFIT OR LOSS	57	- 25
Net change in revaluation reserve (FVOCI equity instruments)	7	- 6
Fair value adjustments before tax	10	- 17
Deferred tax on fair value changes	- 3	- 1
Transfer to retained earnings on realisation of assets	0	12
Gross amount	0	12
Deferred taxes on income	0	0
Net change in defined benefit plans	51	- 26
Remeasurements	66	- 35
Deferred tax on remeasurements	- 15	9
Net change in own credit risk	- 1	7
Fair value adjustments before tax	- 1	9
Deferred tax on fair value changes	0	- 2
Transfer to retained earnings on realisation of assets	0	0
Gross amount	0	0
Deferred taxes on income	0	0
Net change in respect of associated companies and joint ventures	0	0
Remeasurements	0	0
Deferred tax on remeasurements	0	0
TOTAL COMPREHENSIVE INCOME	2 051	2 126
attributable to minority interests	34	171
attributable to equity holders of the parent	2 017	1 955

- Revaluation reserves in 2019: the ‘revaluation reserve (FVOCI debt instruments)’ rose by 46 million euros, boosted by a general decrease in interest rates, which also accounted for the negative net change in the hedging reserve (cashflow hedge) of -68 million euros, partly offset by unwinding operations. The net change in defined benefit plans (+51 million euros) related mainly to the positive returns on plan assets, partly offset by the lower discount rate. The net change in translation differences (-21 million euros) was limited on account of relatively stable exchange rates (Czech koruna and Hungarian forint).
- Revaluation reserves in 2018: the ‘revaluation reserve (FVOCI debt instruments)’ fell by 82 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 (-26 million euros) related mainly to the negative returns on plan assets (weak stock markets in the last quarter). The net change in translation differences (-57 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 (+37 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).

Consolidated balance sheet

(in millions of EUR)	Note	31-12-2019	31-12-2018
ASSETS			
Cash, cash balances with central banks and other demand deposits with credit institutions	-	8 328	18 804
Financial assets	4.0	238 226	223 552
Amortised cost	*4.0*	*224 617*	*210 870*
Fair value through OCI	*4.0*	*5 890*	*5 908*
Fair value through profit or loss	*4.0*	*7 560*	*6 591*
of which held for trading	*4.0*	*7 307*	*6 467*
Hedging derivatives	*4.0*	*158*	*183*
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	-	478	64
Tax assets	5.2	1 335	1 474
Current tax assets	*5.2*	*58*	*52*
Deferred tax assets	*5.2*	*1 276*	*1 422*
Non-current assets held for sale and disposal groups	5.11	1	14
Investments in associated companies and joint ventures	5.3	25	185
Property, equipment and investment property	5.4	3 411	2 904
Goodwill and other intangible assets	5.5	1 305	1 050
Other assets	5.1	858	892
TOTAL ASSETS		253 967	248 940
LIABILITIES AND EQUITY			
Financial liabilities	4.0	235 274	230 239
Amortised cost	*4.0*	*224 560*	*221 224*
Fair value through profit or loss	*4.0*	*9 543*	*7 903*
of which held for trading	*4.0*	*7 004*	*5 842*
Hedging derivatives	*4.0*	*1 170*	*1 111*
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	-	- 122	- 79
Tax liabilities	5.2	109	95
Current tax liabilities	*5.2*	*62*	*50*
Deferred tax liabilies	*5.2*	*47*	*45*
Liabilities associated with disposal groups	5.11	0	0
Provisions for risks and charges	5.7	222	211
Other liabilities	5.8	1 890	1 766
TOTAL LIABILITIES		237 373	232 231
Total equity	5.10	16 594	16 709
Parent shareholders' equity	5.10	15 091	14 150
Additional tier-1 instruments included in equity	5.10	1 500	2 400
Minority interests	-	3	159
TOTAL LIABILITIES AND EQUITY		**253 967**	**248 940**

- As a result of the acquisition of the remaining 45% stake in ČMSS, now fully owned by KBC through ČSOB, this company was included on the balance sheet on 31 December 2019 (previously recorded according to the equity method). More details are provided in Note 6.6.

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 (FVOCI equity instruments)*	*Hedging reserve (cash-flow 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**
2019																	
Balance at the end of the previous period	**8 948**	**895**	**0**	**5 473**	*-*	*170*	*12*	*- 1 263*	*- 69*	*85*	*- 99*	*- 3*	**- 1 167**	**14 150**	2 400	159	**16 709**
Net result for the period	**0**	**0**	**0**	**2 005**	*-*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**2 005**	0	35	**2 040**
Other comprehensive income for the period	**0**	**0**	**0**	**- 6**	*-*	*46*	*7*	*- 68*	*- 21*	*4*	*51*	*- 1*	***18***	***12***	0	- 1	**11**
Subtotal	**0**	**0**	**0**	**1 999**	*-*	*46*	*7*	*- 68*	*- 21*	*4*	*51*	*- 1*	**18**	**2 017**	0	34	**2 051**
Dividends	**0**	**0**	**0**	**- 906**	*-*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 906**	0	0	**- 906**
Coupon on AT1	**0**	**0**	**0**	**- 54**	*-*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 54**	0	0	**- 54**
Issue or call of AT1 included in equity	**0**	**0**	**0**	**- 2**	*-*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 2**	- 900	0	**- 902**
Capital increase	**784**	**1 171**	**0**	**0**	*-*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**1 955**	0	0	**1 955**
Transfer from revaluation reserves to retained earnings on realisation	**0**	**0**	**0**	**- 1**	*-*	*0*	*1*	*0*	*0*	*0*	*0*	*0*	**1**	**0**	0	0	**0**
Impact business combinations	**0**	**0**	**0**	**- 2 068**	*-*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 2 068**	0	- 190	**- 2 258**
Change in minorities interests	**0**	**0**	**0**	**0**	*-*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**0**	0	0	**0**
Total change	**784**	**1 171**	**0**	**- 1 033**	*0*	*46*	*8*	*- 68*	*- 21*	*4*	*51*	*- 1*	**20**	**941**	- 900	- 156	**- 115**
Balance at the end of the period	**9 732**	**2 066**	**0**	**4 440**	*-*	*216*	*21*	*- 1 331*	*- 89*	*88*	*- 49*	*- 4*	***- 1 147***	***15 091***	1 500	*3*	***16 594***
of which relating to the equity method	*-*	*-*	*-*	*-*	*-*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	***0***	***0***	*0*	*0*	***0***
2018																	
Balance at the end of the previous period	**8 948**	**895**	**0**	**4 974**	*651*	*0*	*0*	*- 1 339*	*- 10*	*47*	*- 73*	*- 10*	**- 735**	**14 083**	1 400	173	**15 656**
Impact of the first-time adoption of IFRS 9	**0**	**0**	**0**	**- 222**	*- 651*	*254*	*19*	*0*		*0*		*0*	**- 378**	**- 600**	0	0	**- 600**
Balance at the beginning of the period after impact IFRS 9	**8 948**	**895**	**0**	**4 752**	*0*	*254*	*19*	*- 1 339*	*- 10*	*47*	*- 73*	*- 10*	**- 1 113**	**13 483**	1 400	173	**15 057**
Net result for the period	**0**	**0**	**0**	**2 010**	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**2 010**	0	171	**2 181**
Other comprehensive income for the period	**0**	**0**	**0**	**0**	*0*	*- 84*	*- 6*	*76*	*- 58*	*38*	*- 26*	*7*	**- 55**	**- 54**	0	0	**- 55**
Subtotal	**0**	**0**	**0**	**2 010**	*0*	*- 84*	*- 6*	*76*	*- 58*	*38*	*- 26*	*7*	**- 55**	**1 955**	0	171	**2 126**
Dividends	**0**	**0**	**0**	**- 1 199**	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 1 199**	0	0	**- 1 199**
Coupon on AT1	**0**	**0**	**0**	**- 73**	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 73**	0	0	**- 73**
Issue of AT1 included in equity	**0**	**0**	**0**	**- 5**	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 5**	1 000	0	**995**
Capital increase	**0**	**0**	**0**	**0**	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**0**	0	0	**0**
Transfer from revaluation reserves to retained earnings on realisation	**0**	**0**	**0**	**- 12**	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**- 12**	0	0	**- 12**
Change in minorities interests	**0**	**0**	**0**	**0**	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	**0**	**0**	0	- 186	**- 186**
Total change	**0**	**0**	**0**	**721**	*0*	*- 84*	*- 6*	*76*	*- 58*	*38*	*- 26*	*7*	**- 55**	**666**	1 000	- 15	**1 652**
Balance at the end of the period	**8 948**	**895**	**0**	**5 473**	*0*	*170*	*12*	*- 1 263*	*- 69*	*85*	*- 99*	*- 3*	**- 1 167**	**14 150**	2 400	159	**16 709**
of which relating to the equity method	*-*	*-*	*-*	*-*	*-*	*0*	*0*	*0*	*14*	*0*	*0*	*0*	***13***	***13***	*0*	*0*	***13***

- For information on capital increases, additional tier-1 instruments and the number of shares, see Note 5.10.
- The 'Dividends' item in 2019 (906 million euros) includes the final dividend for 2018 (paid in May 2019). The 'Dividends' item in 2018 (1 199 million euros) includes the final dividend for 2017 (paid in May 2018). Please note that, subject to the approval of the General Meeting of Shareholders, a final dividend of 1 145 million euros will be paid in May 2020 to KBC Group NV for financial year 2019.
- Changes in the revaluation reserves: see 'Consolidated statement of comprehensive income'.

Consolidated cash flow statement

(in millions of EUR)	Note (1)	2019	2018
OPERATING ACTIVITIES			
Result before tax	Consolidated income statement	2 541	2 779
Adjustments for:	-	- 108	150
Result before tax from discontinued operations	Consolidated income statement	0	0
Depreciation, impairment and amortisation of property, plant and equipment, intangible fixed assets, investment property and securities	3.10, 4.2, 5.4, 5.5	248	226
Profit/Loss on the disposal of investments	-	- 101	- 16
Change in impairment on loans and advances	3.10	204	- 59
Change in technical provisions (before reinsurance)	5.6	0	0
Change in the reinsurers' share in the technical provisions	5.6	0	0
Change in other provisions	5.7	24	- 56
Other unrealised gains/losses	-	- 479	67
Income from associated companies and joint ventures	3.11	- 3	- 12
Cashflows from operating profit before tax and before changes in operating assets and liabilities	-	2 433	2 929
Changes in operating assets (excluding cash and cash equivalents)	-	- 5 113	- 5 389
Financial assets at amortised cost (excluding debt securities)	4.1	- 4 243	- 6 589
Financial assets at fair value through OCI	4.1	191	369
Financial assets at fair value through profit or loss	4.1	- 969	833
of which financial assets held for trading	*4.1*	*- 840*	*756*
Hedging derivatives	4.1	- 133	109
Operating assets associated with disposal groups, and other assets	-	40	- 110
Changes in operating liabilities (excluding cash and cash equivalents)	-	- 124	- 5 184
Financial liabilities at amortised cost	4.1	- 1 364	- 3 587
Financial liabilities at fair value through profit or loss	4.1	1 044	- 1 259
of which financial liabilities held for trading	*4.1*	*1 155*	*- 1 124*
Hedging derivatives	4.1	38	- 173
Technical provisions, before reinsurance	5.6	0	0
Operating liabilities associated with disposal groups and other liabilities	-	158	- 164
Income taxes paid	3.12	- 371	- 414
Net cash from or used in operating activities		- 3 175	- 8 057
INVESTING ACTIVITIES			
Purchase of debt securities at amortised cost	4.1	- 6 516	- 2 503
Proceeds from the repayment of debt securities at amortised cost	4.1	5 153	5 009
Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held)	6.6	439	- 12
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed of (including decreases in percentage interest held)	-	0	0
Purchase of shares in associated companies and joint ventures	-	- 12	- 10
Proceeds from the disposal of shares in associated companies and joint ventures	-	0	17
Dividends received from associated companies and joint ventures	-	0	22
Purchase of investment property	5.4	- 29	- 30
Proceeds from the sale of investment property	5.4	55	23
Purchase of intangible fixed assets (excluding goodwill)	5.5	- 133	- 102
Proceeds from the sale of intangible fixed assets (excluding goodwill)	5.5	5	7
Purchase of property, plant and equipment	5.4	- 843	- 626
Proceeds from the sale of property, plant and equipment	5.4	334	273
Net cash from or used in investing activities		- 1 548	2 068

(in millions of EUR)	Note (1)	2019	2018
FINANCING ACTIVITIES			
Purchase or sale of treasury shares	Consolidated statement of changes	0	0
Issue or repayment of promissory notes and other debt securities	4.1	- 168	878
Proceeds from or repayment of subordinated liabilities	4.1	1 398	- 427
Principal payments under finance lease obligations	-	0	0
Cashflows related to equity transactions	-	- 2 205	0
Proceeds from the issuance of share capital	Consolidated statement of changes	1 955	0
Issue of additional tier-1 instruments	Consolidated statement of changes	- 902	995
Proceeds from the issuance of preference shares	Consolidated statement of changes	0	0
Dividends paid	Consolidated statement of changes	- 906	- 1 199
Coupon additional Tier-1 instruments	Consolidated statement of changes	- 54	- 73
Net cash from or used in financing activities		- 883	174
CHANGE IN CASH AND CASH EQUIVALENTS			
Net increase or decrease in cash and cash equivalents	-	- 5 606	- 5 815
Cash and cash equivalents at the beginning of the period	-	34 467	40 447
Effects of exchange rate changes on opening cash and cash equivalents	-	228	- 165
Cash and cash equivalents at the end of the period	-	29 089	34 467
ADDITIONAL INFORMATION			
Interest paid (2)	3.1	- 2 639	- 2 452
Interest received (2)	3.1	6 792	6 485
Dividends received (including equity method)	3.2, 5.3	35	51
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash and cash balances with central banks and other demand deposits with credit institutions	Consolidated balance sheet	8 328	18 804
Term loans to banks at not more than three months (excl. reverse repos)	4.1	467	674
Reverse repos with credit institutions and investment firms at not more than three months	4.1	24 963	20 955
Deposits from banks repayable on demand	4.1	- 4 669	- 5 966
Cash and cash equivalents belonging to disposal groups	-	0	0
Total	-	29 089	34 467
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 do not differ much from the accrued interest expense and accrued interest income, as most rate products pay interest regularly within the year.

- KBC uses the indirect method to report on cashflows from operating activities.
- Net cash from or used in operating activities:
  - In 2019, this item included repayment of the amount borrowed under TLTRO II (6.5 billion euros), offset in part by new borrowing under TLTRO III (-2.5 billion euros) and the realised result.
  - In 2018, this item included higher term loans and lower certificates of deposit, partly offset by the realised result.
- Net cash from or used in investing activities:
  - In 2019, this item included additional investments in debt securities at amortised cost, partly offset by 439 million euros related to the acquisition of the remaining 45% stake in ČMSS (the acquisition price of 240 million euros was more than offset by the available cash and cash equivalents on the ČMSS balance sheet – more details are provided in Note 6.6).
  - In 2018, this item included matured investments in debt securities. There were no material acquisitions in 2018.

- Net cash from financing activities:
  - In 2019, this item included:
    - the dividend payout (-0.9 billion euros);
    - the issue and repayment of additional tier-1 (AT1) instruments (on balance, -0.9 billion euros; see Note 5.10);
    - -2.2 billion euros relating to the acquisition of the remaining KBC Asset Management shares held by KBC Group;
    - a 2-billion-euro capital increase carried out at KBC Bank (by KBC Group);
    - the issue or repayment of promissory notes and other debt securities (KBC IFIMA, ČSOB (Czech Republic) and KBC Bank NV accounted for the bulk of the figure for 2019, which related primarily to 0.7 billion euros' worth of these instruments being issued and 0.9 billion euros being redeemed (primarily covered bonds));
    - the proceeds from or repayment of subordinated liabilities (KBC IFIMA and KBC Bank NV accounted for the bulk of the figure for 2019, which related primarily to 2.3 billion euros’ worth of instruments issued and 0.8 billion euros in redemptions).
  - In 2018, this item included:
    - the dividend payout (-1.2 billion euros);
    - the issue of AT1 instruments (+1 billion euros);
    - the issue or repayment of promissory notes and other debt securities (KBC IFIMA, ČSOB (Czech Republic) and KBC Bank NV accounted for the bulk of the figure for 2018, which related primarily to 1.8 billion euros’ worth of instruments issued (including the issue of covered bonds for 0.8 billion euros) and 1 billion euros in redemptions);
    - the proceeds from or repayment of subordinated liabilities (KBC IFIMA and KBC Bank NV accounted for the bulk of the figure for 2018, which related primarily to 0.5 billion euros’ worth of instruments issued (including a 0.5-billion-euro green bond) and 0.9 billion euros in redemptions (including the call by KBC Bank of the 1-billion-US-dollar contingent capital note in January 2013)).

1.0 Notes on the accounting policies

Note 1.1: Statement of compliance

The consolidated financial statements of KBC Bank NV, including all the notes, were authorised for issue on 29 March 2020 by the Board of Directors. They have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ('endorsed IFRS') and present one year of comparative information. All amounts are shown in millions of euros and rounded to the million (unless otherwise stated).

The following changes in presentation and accounting policies were applied in 2019:

- In January 2016, the IASB issued IFRS 16 (Leases), which became effective on 1 January 2019. The new standard does not significantly change the accounting treatment of leases for lessors and, therefore, its impact is limited for KBC (given that it is mainly a lessor and not a lessee). The impact of first-time adoption of IFRS 16 is limited to a balance sheet increase of EUR 322 million. See note 5.4.
- The amendments to IAS 39 with regard to IBOR were applied in our hedge accounting, without having any impact. The largest proportion of hedging derivatives is based on EURIBOR. We refer to note 4.8.2 for the positions in hedging derivatives. As part of the IBOR reform, the IASB made a number of amendments to IAS 39, which provide temporary relief from adopting specific hedge accounting requirements for hedging relationships directly affected by this reform. KBC elected to early apply these amendments. For more information regarding the IBOR reform, see 'Market risk in non-trading activities' in the 'How do we manage our risks?' section.

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

- 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.

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 in the 'How do we manage our risks?' section (under 'Credit risk'). All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.

Note 1.2: Summary of significant accounting policies

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, with the exception of derivatives.

Classification and measurement – debt instruments

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

- Measured at fair value through profit or loss (FVPL);
  - Mandatorily measured at fair value through profit or loss (MFVPL) – this category includes held-for-trading instruments (HFT);
  - Designated upon initial recognition at fair value through profit or loss (FVO);
- Measured at fair value through 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.

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);

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 (including interest) on such derivatives are recognised under 'Net result from financial instruments at fair value through profit or loss'.

Hedging derivatives

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

Financial assets – impairment

Definition of default

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

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

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

Expected credit loss model (ECL model) – general

The model for impairment of financial assets is called 'the model of expected credit losses'.

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

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

No ECLs are calculated for investments in equity instruments.

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

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

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

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

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

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

Significant increase in credit risk since initial recognition

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

Multi-tier approach (MTA) – bond portfolio

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

- Low-credit exception: 12-month ECL is always recognised for bonds if they have a low credit risk on the reporting date (i.e. ‘Stage 1’). KBC uses this exception for investment grade bonds.
- Internal rating: [only applicable if the first tier criterion is not met] this is a relative assessment that compares the probability of default (PD) upon initial recognition to that on the reporting date. KBC does the assessment at facility level for each reporting period. The relative change in PD that triggers staging is an increase of two PD notches.
- Management assessment: lastly, management review and assess the significant increase in credit risk for financial assets at an individual (i.e. counterparty) and portfolio level, when it is concluded that idiosyncratic events are not adequately captured in the first two tiers of the MTA. Examples of idiosyncratic events are unexpected developments in the macroeconomic environment, uncertainties about geopolitical events and the secondary impact of material defaults (e.g., on the suppliers, clients and employees of a defaulted company).

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

Loan portfolio

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

- Internal rating: this rating is used as the main criterion for assessing an increase in credit risk. It is a relative assessment that compares the PD upon initial recognition to that on the reporting date. KBC does the assessment at the level of the facility (i.e. contract) for each reporting period. The relative change in PD that triggers staging is an increase of two PD notches.
- Forbearance: forborne financial assets are always considered as 'Stage 2' unless they are already defaulted, in which case they are moved into 'Stage 3'.
- Days past due: KBC uses the backstop defined in the standard. A financial asset that is more than 30 days past due is moved into 'Stage 2'.
- Internal rating backstop: KBC uses an absolute level of PD as a backstop for financial assets that have to be moved into 'Stage 2'. This backstop corresponds to the highest PD (i.e. PD 9 based on KBC's internal rating) before a financial asset is considered defaulted.
- Management assessment: lastly, management review and assess the significant increase in credit risk for financial assets at an individual (i.e. counterparty) and portfolio level, when it is concluded that idiosyncratic events are not adequately captured in the first four tiers of the MTA (see above for a number of examples).

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

Measurement of ECL

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

ECL is calculated to reflect:

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

Lifetime ECL represents the sum of ECL over the lifetime of the financial asset discounted at the original effective interest rate.
The 12-month ECL represents the portion of lifetime ECL resulting from a default in the 12-month period after the reporting date.

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

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

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

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

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

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

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

Purchased or originated credit impaired (POCI) assets

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

Significant judgements and uncertainties

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

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

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

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

Financial liabilities

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

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

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

Financial liabilities – recognition and derecognition

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

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

Financial liabilities – classification and measurement

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

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

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

Financial liabilities – own credit risk

For financial liabilities designated at fair value, IFRS 9 requires the financial liability to be measured at fair value upon initial recognition. Any changes in fair value are subsequently recognised in the income statement, except for those relative to changes in own credit risk, which are presented separately in OCI.

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

Financial liabilities – financial guarantee contract

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

Reverse repos and repos

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

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

Offsetting

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

Fair value

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

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

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

Hedge accounting

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

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

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

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

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

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

Leasing

All leases are required to be classified as either finance leases or operating leases. The classification under IFRS 16 is based on the extent to which risk and rewards incidental to ownership of leased assets lie with the lessor or the lessee. A finance lease transfers substantially all the risks and rewards incidental to ownership of an asset.

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

Equity

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

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

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

Employee benefits

Short-term employee benefits

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

Post-employment benefits

KBC offers its employees’ pension schemes in the form of defined contribution or defined benefit plans. Under the defined contribution plans, KBC’s statutory or constructive obligation is limited to the amount that it agrees to contribute to the fund. The amount of the post-employment benefit to be received by the employee is determined by the amount of the contributions paid by KBC and the employee him or herself into the post-employment benefit plan, as well as by the investment returns arising from those contributions. The actuarial risk is borne by the employee.

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

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

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

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

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

Changes in the net defined benefit liability/asset, apart from cash movements, are grouped into three main categories and recognised in operating expenses (service costs), interest expenses (net interest costs) and other comprehensive income (remeasurements).

Net fee and commission income

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

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

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

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

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

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

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

Business combinations and goodwill

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

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

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

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

Effects of changes in foreign exchange rates

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

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

Related-party transactions

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

- KBC subsidiaries and KBC group entities (primarily KBC Insurance NV and KBC Group NV);
- 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 Bank NV).

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

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

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

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

Discontinued operations

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

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

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

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

Events after the reporting period

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

- those which provide evidence of conditions that existed on the reporting date (adjusting events);
- those that are indicative of conditions that arose after the reporting date (non-adjusting events).

The impact of adjusting events has already been reflected in the financial position and financial performance for the current year. The impact and consequences of non-adjusting events are disclosed in the notes to the financial statements.

Exchange rates used*

	Exchange rate at 31-12-2019		Exchange rate average in 2019	
	1 EUR = … … currency	Change from 31-12-2018 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … … currency	Change relative to average in 2018 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
BGN	1.9558	0%	1.9558	0%
CZK	25.408	1%	25.672	0%
GBP	0.85080	5%	0.87769	1%
HUF	330.53	-3%	325.35	-2%
USD	1.1234	2%	1.1204	5%

* Rounded figures.

Note 1.3: Critical estimates and significant judgements

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

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

2.0 Notes on segment reporting

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.
- 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.

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	Total
2019									
Net interest income	2 104	1 247	845	*246*	*199*	*136*	*263*	- 42	4 153
Non-life insurance (before reinsurance)	0	0	0	*0*	*0*	*0*	*0*	0	0
Earned premiums	0	0	0	*0*	*0*	*0*	*0*	0	0
Technical charges	0	0	0	*0*	*0*	*0*	*0*	0	0
Life insurance (before reinsurance)	0	0	0	*0*	*0*	*0*	*0*	0	0
Earned premiums	0	0	0	*0*	*0*	*0*	*0*	0	0
Technical charges	0	0	0	*0*	*0*	*0*	*0*	0	0
Ceded reinsurance result	0	0	0	*0*	*0*	*0*	*0*	0	0
Dividend income	34	0	0	*0*	*0*	*0*	*0*	0	35
Net result from financial instruments at fair value through profit or loss	78	- 86	47	*33*	*4*	*14*	*- 4*	31	70
Net realised result from debt instruments at fair value through OCI	4	0	2	*1*	*1*	*0*	*0*	0	6
Net fee and commission income	1 388	332	366	*234*	*76*	*58*	*- 2*	- 2	2 085
Net other income	108	100	- 11	*2*	*9*	*1*	*- 23*	2	200
TOTAL INCOME	3 716	1 593	1 250	*516*	*289*	*210*	*235*	- 11	6 548
Operating expenses (a)	- 2 151	- 707	- 871	*- 333*	*- 191*	*- 118*	*- 229*	- 68	- 3 797
Impairment	- 244	- 16	15	*0*	*- 10*	*- 7*	*33*	32	- 213
on financial assets at amortised cost and at fair value through OCI	- 241	- 12	18	*1*	*- 11*	*- 5*	*33*	32	- 204
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
other	- 3	- 4	- 4	*- 2*	*1*	*- 3*	*0*	0	- 10
Share in results of associated companies and joint ventures	- 6	8	0	*0*	*0*	*0*	*0*	0	3
RESULT BEFORE TAX	1 316	879	394	*183*	*87*	*85*	*39*	- 48	2 541
Income tax expense	- 348	- 136	- 64	*- 27*	*- 18*	*- 9*	*- 10*	48	- 501
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	967	743	329	*156*	*69*	*76*	*29*	0	2 040
attributable to minority interests	35	0	0	*0*	*0*	*0*	*0*	0	35
attributable to equity holders of the parent	932	743	329	*156*	*69*	*76*	*29*	0	2 005
(a) Of which non-cash expenses	- 45	- 86	- 90	*- 36*	*- 16*	*- 13*	*- 26*	1	- 220
Depreciation and amortisation of fixed assets	- 46	- 88	- 90	*- 35*	*- 16*	*- 13*	*- 26*	0	- 223
Other	1	2	- 1	- 1	0	0	0	1	3
Acquisitions of non-current assets (*)	539	174	292	76	65	98	53	0	1 005
2018									
Net interest income	2 118	1 014	878	*236*	*205*	*146*	*291*	23	4 033
Non-life insurance (before reinsurance)	0	0	0	*0*	*0*	*0*	*0*	0	0
Earned premiums	0	0	0	*0*	*0*	*0*	*0*	0	0
Technical charges	0	0	0	*0*	*0*	*0*	*0*	0	0
Life insurance (before reinsurance)	0	0	0	*0*	*0*	*0*	*0*	0	0
Earned premiums	0	0	0	*0*	*0*	*0*	*0*	0	0
Technical charges	0	0	0	*0*	*0*	*0*	*0*	0	0
Ceded reinsurance result	0	0	0	*0*	*0*	*0*	*0*	0	0
Dividend income	26	0	0	*0*	*0*	*0*	*0*	2	29
Net result from financial instruments at fair value through profit or loss	28	72	76	*63*	*6*	*13*	*- 5*	- 16	161
Net realised result from debt instruments at fair value through OCI	0	0	- 1	*- 1*	*0*	*0*	*0*	9	8
Net fee and commission income	1 391	329	342	*215*	*69*	*59*	*- 1*	0	2 062
Net other income	133	14	17	*15*	*4*	*- 1*	*- 1*	3	167
TOTAL INCOME	3 696	1 429	1 313	*528*	*285*	*217*	*284*	22	6 460
Operating expenses (a)	- 2 136	- 666	- 850	*- 325*	*- 186*	*- 123*	*- 216*	- 59	- 3 712
Impairment	- 95	- 38	118	*9*	*- 3*	*2*	*111*	34	19
on financial assets at amortised cost and at fair value through OCI	- 94	- 8	127	*9*	*- 4*	*10*	*112*	34	59
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
other	- 1	- 30	- 9	*- 1*	*1*	*- 9*	*0*	0	- 41
Share in results of associated companies and joint ventures	- 8	19	1	*0*	*0*	*1*	*0*	0	12
RESULT BEFORE TAX	1 456	744	582	*212*	*95*	*96*	*180*	- 3	2 779
Income tax expense	- 382	- 126	- 86	*- 30*	*- 22*	*- 10*	*- 24*	- 5	- 598
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	1 074	619	496	*182*	*73*	*86*	*155*	- 8	2 181
attributable to minority interests	171	0	0	*0*	*0*	*0*	*0*	0	171
attributable to equity holders of the parent	903	619	496	*182*	*73*	*86*	*155*	- 8	2 010
(a) Of which non-cash expenses	- 54	- 59	- 63	*- 28*	*- 14*	*- 5*	*- 17*	8	- 168
Depreciation and amortisation of fixed assets	- 45	- 57	- 66	*- 28*	*- 14*	*- 7*	*- 17*	0	- 168
Other	- 9	- 3	2	0	0	2	0	8	- 1
Acquisitions of non-current assets (*)	451	123	183	46	47	62	28	0	758

(*) Non-current assets held for sale and disposal groups, investment property, property, plant and equipment, investments in associated companies, and goodwill and other intangible assets.

How do the business units contribute to the group result?

Preliminary remark

The growth figures for the volume of loans and deposits have been systematically adjusted for exchange rate effects. ‘Unchanged scope’ means that no account has been taken of significant changes in the scope of consolidation, namely the inclusion of the Czech building society ČMSS since June 2019 and the sale of parts of the Irish legacy portfolio in recent years. The growth figures for loans and deposits do not include intragroup transactions (between bank and group, and between bank and insurer).

Contribution of the Belgium Business Unit

In 2019, the Belgium Business Unit recorded a net result of 932 million euros, compared with 903 million euros a year earlier.

Net interest income (1 104 million euros) declined by 2%. This reflected a number of negative items, including pressure on credit margins, low reinvestment yields and the lower net positive effect of forex swaps used for asset/liability management purposes, but these were partially offset by factors including the positive impact of lower funding costs and growth in the volume of credit. Our net interest margin in Belgium narrowed slightly from 1.72% in 2018 to 1.69% in 2019. The volume of loans and advances to customers (99 billion euros, excluding reverse repos) rose by 2% and deposits from customers and debt securities (139 billion euros, excluding repos) remained virtually unchanged from their 2018 level.

At 1 388 million euros, our net fee and commission income was near enough stable year-on-year. Higher fees received for banking services (mainly payments and securities trading) were cancelled out by a lower contribution from our asset management activities (i.e. lower management fees).

The other income items chiefly comprised the dividends we received on securities held in our portfolios (34 million euros), trading and fair-value income (78 million euros; up on 2018 due primarily to a higher contribution from the dealing room and various market value adjustments) and other income (108 million euros). Besides mainly the usual items (including the results from KBC Autolease, VAB, etc.), ‘other income’ also included a number of smaller one-off items.

At 2 151 million euros, our costs in Belgium were up by 1%, which reflected a number of items, the most important of which were higher bank taxes, wage drift, lower FTE numbers, higher ICT costs and several one-off items. As a result, the cost-income ratio was 58%, the same as in the previous year.

We recorded 241 million euros in loan loss impairment charges, as opposed to 94 million in 2018 (the increase occurred primarily in the corporate segment). In terms of our overall loan portfolio, they amounted to 22 basis points, compared with 9 basis points in 2018. Loan quality improved once again. Approximately 2.4% of the business unit’s loan portfolio at year-end 2019 was impaired (see ‘Ratios used’ for definition), compared with 2.6% a year earlier. Impaired loans that were more than 90 days past due accounted for 1.1% of the portfolio (1.2% in 2018).

Contribution of the Czech Republic Business Unit

In 2019, the Czech Republic Business Unit recorded a net profit of 743 million euros, compared with 619 million euros a year earlier. The average exchange rate of the Czech koruna against the euro was roughly the same as in the previous year.

Net interest income (1 247 million euros) rose by 23%, reflecting a number of factors, including pressure on the commercial margins for various products, volume growth, higher interest rates and the positive impact of the full consolidation of ČMSS with effect from June 2019 (the ‘ČMSS effect’). As regards volumes, our loans and advances to customers (30 billion euros, excluding reverse repos) rose by 28% in 2019. Adjusted for the ČMSS effect, growth was still 5%. Deposits from customers and debt securities (40 billion euros, excluding repos) grew by 22% year-on-year, or 3% adjusted for the ČMSS effect. The net interest margin in the Czech Republic fell a little from 3.07% in 2018 to 3.04% in 2019.

Our net fee and commission income (332 million euros) edged up by 1%. The positive impact of the consolidation of ČMSS from June 2019 was almost entirely offset by the lower contribution from our asset management activities and banking services.

The other income items chiefly comprised trading and fair value income and other income (a combined 14 million euros). While the former was negatively impacted by lower dealing-room results, other net income was positively influenced by the one-off effect of 82 million euros resulting from the revaluation of the existing 55% stake in ČMSS when the remaining 45% stake was acquired.

Costs rose by 6% to 707 million euros in 2019, due primarily to the ČMSS effect and higher bank taxes (adjusted for these items, costs rose by less than 1%). Consequently, the cost/income ratio for our banking activities amounted to a very solid 44%, compared with 47% in 2018.

Once again, loan loss impairment charges were very limited in 2019 (12 million euros, as opposed to 8 million euros in 2018). In terms of our overall loan portfolio, they amounted to 4 basis points, compared with 3 basis points in 2018. Loan quality remained excellent. Approximately 2.3% of the business unit's loan portfolio was impaired at year-end 2019, compared with 2.4% a year earlier. Impaired loans that were more than 90 days past due accounted for 1.3% of the portfolio (the same as in 2018).

Contribution of the International Market Business Unit

In 2019, the net result at our International Markets Business Unit amounted to 329 million euros, as opposed to 496 million euros a year earlier. Hungary accounted for 156 million euros of this figure, Slovakia for 69 million euros, Bulgaria for 76 million euros and Ireland for 29 million euros.

Net interest income for the business unit as a whole came to 845 million euros in 2019, down 4% on 2018. The decline was accounted for primarily by Ireland (due in part to the sale of parts of the portfolio). As regards volumes, loans and advances to customers for the business unit as a whole (25 billion euros, excluding reverse repos) were up 6% on their year-earlier level. The figures broken down by country were 3% for Ireland, 6% for Slovakia, 9% for Hungary and 13% for Bulgaria. Deposits from customers and debt securities at the business unit (24 billion euros, excluding repos) went up by 6%. Deposits grew by 5% in Ireland, 2% in Slovakia, 9% in Hungary and 8% in Bulgaria. The business unit's average net interest margin narrowed from 2.80% to 2.64%.

Net fee and commission income (366 million euros) went up by 7%, due primarily to higher fees for our banking services (mainly for payments in Hungary).

The other income items chiefly comprised trading and fair value income (47 million euros), and other income (-11 million euros, which was negatively influenced by, amongst other things, 23 million euros at KBC Ireland in relation to the tracker mortgage review (see Note 3.6 in the 'Consolidated financial statements' section)).

Costs rose by 2% to 871 million euros in 2019, due chiefly to higher bank taxes in Ireland. Adjusted for those taxes, costs went up by roughly 1%. Consequently, the cost/income ratio for the banking activities came to 69.7%, as opposed to 64.7% in 2018.

There was an 18-million-euro net reversal of loan loss impairment charges again in 2019 (with a positive impact on the results), compared to a net reversal of 127 million euros in 2018. The 2019 figure includes a net reversal for Ireland (33 million euros, compared to a net reversal of 112 million euros the previous year), a net reversal of 1 million euros in Hungary and a net increase of 11 million euros in Slovakia and 5 million euros in Bulgaria. In terms of our overall loan portfolio, loan loss impairment charges for the business unit as a whole amounted to -7 basis points compared with -46 basis points in 2018 (a negative figure indicates a net reversal of impairment and hence a positive impact on the results). The figures per country were -32 basis points for Ireland, -2 basis points for Hungary, 14 basis points for Slovakia and 14 basis points for Bulgaria. Loan quality improved once again. Approximately 8.5% of the business unit's loan portfolio was impaired at year-end 2019, compared with 12.2% a year earlier. Impaired loans that were more than 90 days past due accounted for 5.1% of the business unit's portfolio (8% in 2018). The improvement in impaired loans in 2019 partly reflected the write-down of fully provisioned legacy loans in Ireland.

Group Centre

Besides financial reporting for three business units, we also report on a separate Group Centre. In 2019, it generated a net result of 0 million euros, compared with -8 million euros a year earlier.

Included in this 2018 figure are certain costs related to capital and liquidity management, (funding) costs related to the holding of participating interests and the results of the remaining companies scheduled for run-down (including the former Antwerp Diamond Bank and KBC Finance Ireland).

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	Interna-tional Markets Business	*Of which: Hungary*	*Slovakia*	*Bulgaria*	*Ireland*	Group Centre	Total
31-12-2019									
Deposits from customers and debt securities (excl. repos)	138 824	39 624	24 131	*7 979*	*6 513*	*4 469*	*5 169*	1 260	203 839
Demand deposits	50 480	21 828	13 639	*6 289*	*3 786*	*2 556*	*1 007*	0	85 947
Savings accounts	51 686	12 673	4 699	*875*	*1 353*	*754*	*1 718*	0	69 058
Time deposits	8 833	1 900	5 242	*637*	*1 001*	*1 160*	*2 445*	0	15 974
Debt securities	25 491	2 738	340	*178*	*162*	*0*	*0*	1 260	29 829
Other	2 334	485	212	0	212	0	0	0	3 031
Loans and advances to customers (excl. reverse repos)	98 883	29 857	25 041	*4 621*	*7 506*	*3 155*	*9 760*	1	153 781
Term loans	53 247	9 068	5 584	*2 033*	*2 355*	*1 155*	*41*	0	67 899
Mortgage loans	35 246	15 768	15 584	*1 596*	*3 641*	*693*	*9 654*	0	66 597
Other	10 390	5 021	3 873	992	1 509	1 308	65	1	19 285
31-12-2018									
Deposits from customers and debt securities (excl. repos)	138 000	32 485	23 017	*7 530*	*6 390*	*4 167*	*4 930*	1 335	194 837
Demand deposits	47 276	20 838	12 263	*5 769*	*3 487*	*2 266*	*742*	0	80 377
Savings accounts	47 789	7 536	4 743	*944*	*1 293*	*810*	*1 696*	0	60 067
Time deposits	10 502	1 393	5 445	*633*	*1 228*	*1 092*	*2 492*	0	17 340
Debt securities	30 315	2 217	342	*184*	*158*	*0*	*0*	1 335	34 209
Other	2 118	502	224	0	224	0	0	0	2 844
Loans and advances to customers (excl. reverse repos)	97 417	23 387	24 006	*4 371*	*7 107*	*2 799*	*9 729*	0	144 810
Term loans	50 753	8 304	5 669	*1 969*	*2 314*	*1 033*	*353*	0	64 726
Mortgage loans	33 865	11 317	14 471	*1 260*	*3 248*	*642*	*9 320*	0	59 653
Other	12 799	3 766	3 866	1 142	1 545	1 123	55	0	20 431

3.0 Notes to the income statement

Note 3.1: Net interest income

(in millions of EUR)	2019	2018
Total	**4 153**	**4 033**
Interest income	**6 792**	**6 485**
Interest income on financial instruments calculated using the effective interest rate method		
Financial assets at AC	5 334	5 049
Financial assets at FVOCI	95	114
Hedging derivatives	483	378
Financial liabilities (negative interest)	52	53
Other	15	9
Interest income on other financial instruments		
Financial assets MFVPL other than held for trading	8	8
Financial assets held for trading	804	875
Of which economic hedges	*778*	*847*
Other financial assets at FVPL	0	0
Interest expense	**-2 639**	**-2 452**
Interest expense on financial instruments calculated using the effective interest rate method		
Financial liabilities at AC	-1 323	-1 200
Financial assets (negative interest)	- 70	- 123
Hedging derivatives	- 651	- 573
Other	- 4	- 1
Interest expense on other financial instruments		
Financial liabilities held for trading	- 544	- 522
Of which economic hedges	*- 506*	*- 494*
Other financial liabilities at FVPL	- 40	- 29
Net interest expense relating to defined benefit plans	- 7	- 5

- To enhance transparency, negative interest rates on financial liabilities and on financial assets have now been shown separately in the table. These rates related mainly to transactions with central banks, interbank and professional counterparties, and targeted long-term refinancing operations (TLTRO).

Note 3.2: Dividend income

(in millions of EUR)	2019	2018
Total	35	29
Equity instruments MFVPL other than held for trading	0	0
Equity instruments held for trading	26	17
Equity instruments at FVOCI	9	11

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

(in millions of EUR)	2019	2018
Total	70	161
Financial instruments MFVPL other than held for trading and overlay	2	1
Trading instruments (including interest on non-ALM trading derivatives and fair value changes on all trading instruments)	15	157
Financial instruments to which the overlay is applied	0	0
Gains or losses on sale	0	0
Impairment	0	0
Other financial instruments at FVPL	- 35	48
Foreign exchange trading	137	49
Fair value adjustments in hedge accounting	- 50	- 95
Hedge accounting broken down by type of hedge		
Fair value micro hedges	- 5	- 13
Changes in the fair value of the hedged items	- 3	- 122
Changes in the fair value of the hedging derivatives	- 3	110
Cashflow hedges	- 3	- 2
Changes in the fair value of the hedging derivatives, ineffective portion	- 3	- 2
Hedges of net investments in foreign operations, ineffective portion	0	0
Portfolio hedge of interest rate risk	37	- 14
Changes in the fair value of the hedged items	479	144
Changes in the fair value of the hedging derivatives	- 443	- 158
Discontinuation of hedge accounting for fair value hedges	- 11	- 15
Discontinuation of hedge accounting in the event of cashflow hedges	- 67	- 51

- 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, if significant. The impact of this is negligible for KBC.
- Foreign exchange trading includes all realised and unrealised foreign exchange results (when the monetary assets and liabilities are revalued), regardless of the IFRS portfolio, except for financial assets and liabilities measured through profit or loss, for which the revaluation is included in the fair value correction.
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, we use the dollar offset method on a quarterly basis, with changes in the fair value of the hedged item offsetting changes in the fair value of the hedging instrument within a range of 80%–125%.
  - For cashflow hedges, we compare the designated hedging instrument with a perfect hedge of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the perfect hedge). The effectiveness of both tests must fall within a range of 80%–125%.
  - We use the rules set out in the European version of IAS 39 (carve-out) to assess the effectiveness of fair value hedges for a portfolio of interest rate risk. IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, we make sure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- Most significant fluctuations between 2018 and 2019: the result from financial instruments measured at fair value through profit or loss in 2019 was 91 million euros lower than in 2018, owing primarily to the lower value of derivatives used for asset/liability management purposes, and the lower level of income generated by the dealing rooms (in the Czech Republic) and the impact of various market value adjustments

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

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

Note 3.5: Net fee and commission income

(in millions of EUR)	2019	2018
Total	2 085	2 062
Fee and commission income	2 605	2 572
Fee and commission expense	- 520	- 509
Breakdown by type		
Asset Management Services	1 058	1 084
Fee and commission income	1 110	1 137
Fee and commission expense	- 52	- 53
Banking Services	936	888
Fee and commission income	1 273	1 231
Fee and commission expense	- 337	- 343
Distribution	91	91
Fee and commission income	222	204
Fee and commission expense	- 132	- 113

The lion’s share of the fees and commissions related to lending is recognised under ‘Net interest income’ (effective interest rate calculations).

Note 3.6: Other net income

(in millions of EUR)	2019	2018
Total	200	167
of which gains or losses on		
Sale of financial assets measured at amortised cost	14	15
Repurchase of financial liabilities measured at amortised cost	9	0
of which other, including:	178	152
Income from (mainly operational) leasing activities, KBC Lease Group	52	54
One-off effect revaluation of 55% share in CMSS	82	0
Settlement of legacy legal cases	9	56
Provisioning for tracker mortgage review	- 23	0

- 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 affected duly received redress and compensation payments. In 2019, a provision of 23 million euros was recorded (including 14 million euros for a provision related to a potential sanction).
- Settlement of legal cases in 2019 relates to cases in the Czech Republic (6 million euros) and Group Centre (3 million euros). In 2018, it related to cases in the Group Centre (5 million euros) and Belgium (18 million euros and 33 million euros).
- Revaluation of existing shareholding in ČMSS concerns one-off earnings of 82 million euros in the Czech Republic resulting from the revaluation of KBC's 55% stake in ČMSS, following the acquisition of the remaining 45% stake in that company in the second quarter of 2019 (for more details, see Note 6.6).

Note 3.7: Insurance results

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

Note 3.8:

(in millions of EUR)	FY 2019	FY 2018
Total	- 3 797	- 3 712
Staff expenses	- 1 738	- 1 735
General administrative expenses	- 1 836	- 1 808
of which bank taxes	*- 475*	*- 444*
Depreciation and amortisation of fixed assets	- 223	- 168

- 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 444 million euros in 2018 and 475 million euros in 2019). The latter figure comprises 261 million euros in the Belgium Business Unit, 37 million euros in the Czech Republic Business Unit, 20 million euros in Slovakia, 15 million euros in Bulgaria, 111 million euros in Hungary and 31 million euros in Ireland.
- Share-based payments are included under staff expenses.

Note 3.9: Personnel

(in aantal)	2019	2018
Total average number of persons employed (in full-time equivalents)	29 530	29 937
By employee classification		
Blue-collar staff	57	57
White-collar staff	29 308	29 699
Senior management	165	181

- The figures in the table are annual averages, which – in terms of scope – may differ from year-end figures that are provided elsewhere.
- The staff numbers for ČMSS (which was fully consolidated from June 2019 following the acquisition of the remaining 45% stake in that company) are included in the 2019 figures for seven-twelfths of the year (i.e. for the June-December period).
- In May 2019, we began optimising our group-wide governance model, aimed at further improving our operational efficiency This exercise is designed to help our organisation become more agile, with fewer management layers and a more rapid decision-making process, so that client solutions can be delivered faster and our employees become more involved. This optimisation exercise will affect some of our employees. The changes are being implemented in Belgium between September 2019 and the end of 2022, during which period they will result in a reduction in the workforce of approximately 1 400 at KBC Group consolidated level (including 300 positions that will be transferred to KBC's internal Shared Service Centres in the Czech Republic and Bulgaria). In addition, the contracts of 400 external contracted workers will be terminated. The reduction in FTEs will be absorbed through natural attrition. In ČSOB in the Czech Republic, the workforce was reduced by more than 400 employees (in net terms) in the 12 months to 30 June 2019 and we expect this trend to continue over the next three years at a rate of at least 250 employees per year. We aim to keep compulsory redundancies there to a minimum thanks to normal staff turnover and measures to promote the internal redeployment of staff. A provision of 5 million euros was set aside for this purpose. In the other core countries, operational efficiency exercises have already been performed in recent years or are still ongoing.

Note 3.10: Impairment (income statement)

(in millions of EUR)	2019	2018
Total	- 213	19
Impairment on financial assets at AC and at FVOCI (*)	- 204	59
Of which impairment on financial assets at AC	- 204	59
By product		
Loans and advances	- 182	43
Debt securities	- 1	1
Off-balance-sheet commitments and financial guarantees	- 21	15
By type		
Stage 1 (12-month ECL)	- 20	- 22
Stage 2 (lifetime ECL)	47	38
Stage 3 (non-performing; lifetime ECL)	- 237	56
Purchased or originated credit impaired assets	6	- 13
Of which impairment on financial assets at FVOCI	0	0
Debt securities	0	0
Stage 1 (12-month ECL)	0	0
Stage 2 (lifetime ECL)	0	0
Stage 3 (non-performing; lifetime ECL)	0	0
Impairment on goodwill	0	0
Impairment on other	- 10	- 41
Intangible fixed assets (other than goodwill)	- 5	0
Property, plant and equipment (including investment property)	- 3	- 42
Associated companies and joint ventures	0	0
Other	- 2	1

(*) Modification gains/losses are also included in impairments, but were limited in 2018.

- Impairment on financial assets at AC and at FVOCI is also referred to as 'Impairment on loans'. In 2019, it comprised the following (+ denotes an increase, – indicates a decrease in impairment):
  - Belgium Business Unit: +241 million euros in 2019, +94 million euros in 2018
  - Czech Republic Business Unit: +12 million euros in 2019, +8 million euros in 2018
  - International Markets Business Unit: -18 million euros in 2019, -127 million euros in 2018 (Ireland: -33 million euros in 2019 and -112 million euros in 2018; Hungary -1 million euros in 2019 and -9 million euros in 2018; Slovakia +11 million euros in 2019 and +4 million euros in 2018; Bulgaria +5 million euros in 2019 and -10 million euros in 2018)
  - Group Centre: -32 million euros in 2019, -34 million euros in 2018
- 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 in the 'How do we manage our risks?' section (under 'Credit risk'). All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section. Among other things, this section provides more information on impaired loans. These loans fell from 4.3% of the loan portfolio at the end of 2018 to 3.5% at the end of 2019. This decline was largely attributable to Ireland (impaired loans ratio of 23% at year-end 2018 and 16% at year-end 2019) and was partly related to the accounting write-off of fully provisioned legacy loans worth 0.5 billion euros there.
- For information on total impairment recognised in the balance sheet, see Note 4.2.
- More background information and methodology for KBC's ECL model is provided in the accounting policies under 'Financial assets – impairment' in Note 1.2.
- KBC uses specific models for PD, EAD and LGD in order to calculate ECL. It is essential to take account of historical observations and forward-looking projections in this respect.
  - PD represents the probability of a counterparty defaulting in the next 12 months or during the entire term of the facility (depending on which IFRS 9 'Stage' the facility is in). The PD is driven by the counterparty's internal (and, if applicable, external) credit rating. Variables used in PD models include financial ratios and behavioural parameters (arrears).
  - EAD represents the estimated outstanding debt at the time of default and depends on the existing outstanding debt and any changes permitted under the contract and normal repayments. Variables used in these models include product types and repayment schedules.
  - LGD is the estimated size of the loss relative to the outstanding debt at the time of default. LGD is presented as a percentage of the outstanding debt and is determined by historical amounts recovered on similar claims. Variables used in these models include collateral types and financial ratios.
- On 31 December 2019, there were over 100 different IFRS 9 models. In addition to several group-wide models, we have separate PD, EAD and LGD models for each of our core countries. In accordance with the Basel grouping approach, we use the type of counterparty (private individuals, SMEs, companies, governments, etc.) to determine the scope of an IFRS 9 model. Each model allows for differentiation in terms of facility type (term loans, revolving facilities, etc.) and collateral type (mortgages, pledges on business assets, guarantees, etc.). Examples of IFRS 9 models include 'Banks', 'Belgian private persons – home loans', 'Czech corporates', 'Bulgarian corporates and SMEs' and 'Central governments'. Detailed documentation is available for each PD, EAD and LGD model. The main models are subject to review by external auditors. The Basel models, which the IFRS 9 models are based on, are subject to external control performed by the supervisory authorities.
- We create the models for the various portfolios using typical PD, EAD and LGD inputs, as well as macroeconomic variables to the extent that there is a statistical relationship. The macroeconomic variables are GDP growth, the unemployment rate, policy interest rates, the exchange rate, government bond yields, house prices and inflation. As a result of regular back-testing, models may change and macroeconomic variables may be reassessed. The following table shows the base scenario for the three key indicators (prior to any adjustments made as a result of a management assessment) for each of our core countries (GDP growth, unemployment rate and house price index) for the next three years. After that, we take into account a gradual linear transition towards a steady state.

Macroeconomic base scenario – key indicators (situation at the end of 2019 (*))	2020	2021	2022
Real GDP growth			
Belgium	0.8%	1.2%	1.3%
Czech Republic	2.2%	2.0%	2.2%
Hungary	3.5%	2.7%	3.0%
Slovakia	2.2%	2.5%	2.6%
Bulgaria	3.1%	3.0%	2.8%
Ireland	3.0%	2.2%	2.2%
Unemployment			
Belgium	5.9%	5.8%	5.7%
Czech Republic	2.1%	2.2%	2.2%
Hungary	3.5%	3.7%	3.7%
Slovakia	6.3%	6.3%	6.5%
Bulgaria	4.6%	4.5%	4.4%
Ireland	4.9%	5.1%	5.1%
House price index			
Belgium	2.1%	2.0%	2.0%
Czech Republic	2.0%	2.0%	2.0%
Hungary	9.0%	5.0%	3.0%
Slovakia	4.0%	3.0%	2.0%
Bulgaria	4.0%	3.0%	3.0%
Ireland	2.5%	2.0%	2.0%

(*) In line with the KBC Group Chief Economist's forecasts (on 31 December 2019).

- We use three different forward-looking macroeconomic scenarios (with different probability weightings) to measure ECL. The weightings at year-end 2019 were 60% for the 'base' scenario, 20% for the 'up' scenario and 20% for the 'down' scenario. The forecast horizon is 30 years. 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 2019 that is 0.1% to 1.4% 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 0.4%-2.5%. In 2018, the sensitivity analysis generated figures of 0–0.3% and 0.2–2.6%, respectively.

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

(in millions of EUR)	2019	2018
Total	3	12
Of which:		
ČMSS	9	19
Isabel NV	1	3
Payconiq International S.A.	-4	-7
Joyn International NV	-2	-6
Bancontact Payconiq Company NV	-1	0

- The share in results of associated companies and joint ventures in 2018 is accounted for primarily by ČMSS, a joint venture of ČSOB in the Czech Republic. KBC became the sole owner of ČMSS in June 2019 following the acquisition of the remaining 45% stake in that company, which has been fully consolidated since then. More details are provided in Note 5.3 and Note 6.6.
- Impairment on (goodwill on) associated companies and joint ventures is included in 'Impairment' (see Note 3.10). The share in results of associated companies and joint ventures

Note 3.12: Income tax expense

(in millions of EUR)	2019	2018
Total	- 501	- 598
By type		
Current taxes on income	- 371	- 414
Deferred taxes on income	- 130	- 184
Tax components		
Result before tax	2 541	2 779
Income tax at the Belgian statutory rate	29.58%	29.58%
Income tax calculated	- 752	- 822
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	205	217
tax-free income	58	55
adjustments related to prior years	5	9
adjustments to deferred taxes due to change in tax rate	- 2	- 24
unused tax losses and unused tax credits to reduce current tax expense	7	16
unused tax losses and unused tax credits to reduce deferred tax expense	0	0
reversal of previously recognised deferred tax assets due to tax losses	- 7	0
other (amongst others non-deductible expenses)	- 15	- 49

- For information on tax assets and tax liabilities, see Note 5.2.
- ‘Income tax expense’ in 2019 includes the positive impact of 36 million euros linked to the new hedging policy of foreign exchange participations (see ‘other’ in the table). The new policy is aimed at stabilising the group capital ratio, whereby the hedging amount synchronises the sensitivity of available capital (numerator of the common equity ratio) and the risk-weighted assets (denominator of the common equity ratio) to foreign exchange shocks in relative terms. The old policy was aimed at stabilising parent shareholders’ equity. As a result of this new hedging policy, a substantial part of the existing hedges has been terminated. While the foreign exchange result on the termination of these hedges remains in OCI, the income tax impact is included in the income statement.
- Change in tax rate in 2020: the reform of the Belgian corporation tax regime in 2017 includes a further decrease in the tax rate from 29.58% to 25% starting in financial year 2020. This will have a recurring positive impact on the income statement from then on, because of the lower tax rate applying to the Belgian group companies. The decrease will not affect outstanding deferred tax assets and liabilities (and, consequently, total equity), as they already take account of the reduced tax rate.
- Breakdown of activities by country:

  The table below provides a better insight into the activities of KBC Bank at the consolidated level, broken down by country, and complies with 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).

  The names of the different entities and the nature of their activities in each of the countries in this table can be found in the information included in the scope of consolidation (see Note 6.5).

in million euros	Turnover (1)	Average number of employees in FTE	Result before tax	Income tax expense	Current tax on income	Deferred tax	Received government funding	Turnover (1)	Average number of employees in FTE	Result before tax	Income tax expense	Current tax on income	Deferred tax	Received government funding
KBC home Countries (incl. Ireland)														
Belgium	3 216	10 203	921	- 241	- 128	- 112	0	3 218	10 427	1 052	- 341	- 165	- 175	0
Czech Republic	1 615	8 562	887	- 138	- 134	- 4	0	1 438	8 532	744	- 126	- 139	13	0
Hungary	514	3 499	183	- 27	- 26	- 2	0	527	3 554	212	- 30	- 27	- 3	0
Slovakia	280	2 537	90	- 19	- 18	- 1	0	273	2 541	97	- 23	- 17	- 6	0
Bulgaria	205	2 993	85	- 9	- 8	- 1	0	211	3 195	96	- 10	- 2	- 8	0
Ireland (2)	416	1 338	215	- 32	- 22	- 10	0	484	1 312	376	- 50	- 24	- 26	0
Other countries														
Great Britain	75	50	22	- 8	- 2	- 6	0	75	40	57	- 3	- 3	0	0
USA (2)	29	52	14	- 1	- 1	0	0	27	55	4	5	- 5	10	0
France (2)	47	58	19	- 6	- 6	0	0	41	55	22	- 8	- 8	0	0
Netherlands (2)	35	26	29	- 7	- 7	0	0	29	26	24	- 6	- 7	1	0
Luxembourg	56	46	47	- 6	- 12	7	0	73	49	64	- 4	- 13	9	0
Romania	4	0	4	0	0	0	0	6	0	6	0	0	0	0
Germany (2)	11	21	5	- 1	0	- 1	0	8	21	2	- 1	0	- 1	0
Hong Kong (2)	13	42	7	- 1	- 1	0	0	14	58	7	- 1	- 1	0	0
Singapore (2)	18	55	9	- 1	- 1	0	0	19	43	9	- 1	- 1	0	0
Poland (2)	0	0	0	0	0	0	0	1	0	0	0	0	0	0
China (2)	15	43	6	- 2	- 3	1	0	15	29	7	- 1	- 1	0	0
Italy	0	6	- 1	0	0	0	0	0	0	- 1	0	0	0	0
India	0	0	0	0	0	0	0	1	0	1	0	0	0	0
Total	6 548	29 530	2 541	- 501	- 371	- 130	0	6 460	29 937	2 779	- 598	- 414	- 184	0

(1) Based on 'Total income'

(2) Including branches KBC Bank

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

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

(in millions of EUR)	AC	FVOCI	MFVPL excl. HFT	HFT	FVO (1)	Hedging deriva-tives	Total	*Pro Forma excl. CMSS*
FINANCIAL ASSETS, 31-12-2019								
Loans and advances to credit institutions and investment firms (excl. reverse repos)	5 397	0	0	0	0	0	**5 397**	*5 397*
of which repayable on demand and term loans to banks at not more than three months							**467**	
Loans and advances to customers (excl. reverse repos)	153 563	0	218	0	0	0	**153 781**	*149 136*
Trade receivables	1 884	0	0	0	0	0	**1 884**	*1 884*
Consumer credit	5 383	0	122	0	0	0	**5 505**	*4 537*
Mortgage loans	66 512	0	85	0	0	0	**66 597**	*62 942*
Term loans	67 888	0	10	0	0	0	**67 899**	*67 877*
Finance lease	5 926	0	0	0	0	0	**5 926**	*5 926*
Current account advances	4 986	0	0	0	0	0	**4 986**	*4 986*
Other	984	0	0	0	0	0	**984**	*984*
Reverse repos (2)	26 393	0	0	0	0	0	**26 393**	*25 737*
with credit institutions and investment firms	25 445	0	0	0	0	0	**25 445**	*24 789*
with customers	948	0	0	0	0	0	**948**	*948*
Equity instruments	0	176	7	832	0	0	**1 015**	*1 015*
Debt securities issued by	38 239	5 714	28	1 264	0	0	**45 245**	*44 981*
Public bodies	33 236	4 851	0	1 148	0	0	**39 234**	*38 970*
Credit institutions and investment firms	3 238	805	0	20	0	0	**4 062**	*4 062*
Corporates	1 766	58	28	96	0	0	**1 948**	*1 948*
Derivatives	0	0	0	5 211	0	158	**5 370**	*5 370*
Other (3)	1 025	0	0	0	0	0	**1 025**	*1 025*
Total	224 617	5 890	252	7 307	0	158	**238 226**	*232 660*
FINANCIAL ASSETS, 31-12-2018								
Loans and advances to credit institutions and investment firms (excl. reverse repos)	5 068	0	0	0	0	0	**5 068**	
of which repayable on demand and term loans to banks at not more than three months							**674**	
Loans and advances to customers (excl. reverse repos)	144 712	0	85	0	13	0	**144 810**	
Trade receivables	4 196	0	0	0	0	0	**4 196**	
Consumer credit	4 520	0	0	0	0	0	**4 520**	
Mortgage loans	59 582	0	71	0	0	0	**59 653**	
Term loans	64 699	0	14	0	13	0	**64 726**	
Finance lease	5 618	0	0	0	0	0	**5 618**	
Current account advances	5 527	0	0	0	0	0	**5 527**	
Other	570	0	0	0	0	0	**570**	
Reverse repos (2)	22 117	0	0	0	0	0	**22 117**	
with credit institutions and investment firms	20 976	0	0	0	0	0	**20 977**	
with customers	1 141	0	0	0	0	0	**1 141**	
Equity instruments	0	189	0	762	0	0	**951**	
Debt securities issued by	36 979	5 719	26	712	0	0	**43 436**	
Public bodies	32 091	4 883	0	556	0	0	**37 530**	
Credit institutions and investment firms	2 487	780	0	76	0	0	**3 343**	
Corporates	2 400	56	26	79	0	0	**2 562**	
Derivatives	0	0	0	4 988	0	183	**5 170**	
Other (3)	1 994	0	0	6	0	0	**2 000**	
Total	210 870	5 908	111	6 467	13	183	**223 552**	

(in millions of EUR)	AC	HFT	FVO	Hedging deriva-tives	Total	*Pro Forma excl. CMSS*
FINANCIAL LIABILITIES, 31-12-2019						
Deposits from credit institutions and investment firms (excl. repos)	18 731	0	0	0	**18 731**	*18 731*
of which repayable on demand					**4 669**	
Deposits from customers and debt securities (excl. repos)	201 077	223	2 539	0	**203 839**	*198 397*
Demand deposits	85 947	0	0	0	**85 947**	*85 947*
Time deposits	15 751	39	184	0	**15 974**	*15 972*
Savings accounts	69 058	0	0	0	**69 058**	*63 620*
Special deposits	2 465	0	0	0	**2 465**	*2 465*
Other deposits	566	0	0	0	**566**	*565*
Certificates of deposit	10 638	0	8	0	**10 646**	*10 646*
Savings certificates	1 027	0	0	0	**1 027**	*1 027*
Non-convertible bonds	8 251	183	2 200	0	**10 635**	*10 635*
Non-convertible subordinated liabilities	7 374	0	147	0	**7 521**	*7 521*
Repos (4)	2 566	0	0	0	**2 566**	*2 566*
with credit institutions and investment firms	2 262	0	0	0	**2 262**	*2 262*
with customers	304	0	0	0	**304**	*304*
Derivatives	0	5 073	0	1 170	**6 243**	*6 243*
Short positions	0	1 708	0	0	**1 708**	*1 708*
In equity instruments	0	14	0	0	**14**	*14*
In debt securities	0	1 693	0	0	**1 693**	*1 693*
Other (5)	2 187	0	0	0	**2 187**	*2 157*
Total	224 560	7 004	2 539	1 170	**235 274**	*229 802*
FINANCIAL LIABILITIES, 31-12-2018						
Deposits from credit institutions and investment firms (excl. repos)	23 684	0	0	0	**23 684**	
of which repayable on demand					**5 966**	
Deposits from customers and debt securities (excl. repos)	192 549	226	2 061	0	**194 837**	
Demand deposits	80 377	0	0	0	**80 377**	
Time deposits	16 995	49	296	0	**17 340**	
Savings accounts	60 067	0	0	0	**60 067**	
Special deposits	2 629	0	0	0	**2 629**	
Other deposits	215	0	0	0	**215**	
Certificates of deposit	15 575	0	8	0	**15 583**	
Savings certificates	1 700	0	0	0	**1 700**	
Non-convertible bonds	9 058	176	1 572	0	**10 806**	
Non-convertible subordinated liabilities	5 933	0	186	0	**6 119**	
Repos (4)	1 001	0	0	0	**1 001**	
with credit institutions and investment firms	932	0	0	0	**932**	
with customers	69	0	0	0	**69**	
Derivatives	-	4 680	0	1 111	**5 791**	
Short positions	-	935	0	0	**935**	
In equity instruments	-	16	0	0	**16**	
In debt securities	-	919	0	0	**919**	
Other (5)	3 990	0	0	0	**3 990**	
Total	221 224	5 842	2 062	1 111	**230 239**	

(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.

- As a result of the acquisition of the remaining 45% stake in ČMSS, now fully owned by KBC through ČSOB, this company was included on the balance sheet on 31 December 2019 (previously recorded according to the equity method). For the sake of comparison, we have added the column 'Total excluding ČMSS' for 2019. More details are provided in Note 6.6 of this report.
- 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.
- 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 obtained from the ECB's TLTRO programme (in 2019, 6.5 billion euros was repaid under TLTRO II and 2.5 billion euros drawn down under TLTRO III). KBC's management has reasonable assurance that KBC will comply with the conditions attached and hence the interest has accordingly been recognised.
- 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 2019, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 8 966 million euros (debt instruments classified as 'Held for trading' (539 million euros), as 'Measured at fair value through OCI' (351 million euros) and as 'Measured at amortised cost' (8 077 million euros)); and an associated financial liability with a carrying value of 2 566 million euros (547 million euros classified as 'Held for trading', 344 million euros as 'Measured at fair value through OCI' and 1 675 million euros as 'Measured at amortised cost'). At year-end 2018, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 3 412 million euros (debt instruments classified as 'Held for trading' (113 million euros) and as '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'). It should be noted that KBC has more transferred financial assets on its balance sheet than repo transactions, due to the fact certain repo transactions are offset against reverse repo transactions if they are carried out with the same counterparty, in the same currency and with the same maturity date.
- For information about the sale of parts of Ireland's legacy loan portfolio, see Note 3.10.
- In 2019, the accounting treatment of factoring was reassessed under IFRS. A change was implemented, which resulted in a reduction of 834 million euros in trade receivables and time deposits, and a reclassification of 1 683 million euros from 'Trade receivables' to 'Term loans'.

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

Note 4.2.1: Impaired financial assets

(in millions of EUR)	31-12-2019			31-12-2018		
	Carrying value before impairment	Impairment	Carrying value after impairment	Carrying value before impairment	Impairment	Carrying value after impairment
FINANCIAL ASSETS AT AMORTISED COST						
Loans and advances (*)	188 207	- 2 854	185 353	175 419	- 3 522	171 897
Stage 1 (12-month ECL)	164 151	- 130	164 021	151 879	- 112	151 767
Stage 2 (lifetime ECL)	18 495	- 254	18 241	16 925	- 305	16 620
Stage 3 (lifetime ECL)	5 380	- 2 444	2 936	6 461	- 3 062	3 398
Purchased or originated credit impaired assets (POCI)	182	- 26	155	154	- 42	112
Debt Securities	38 251	- 12	38 239	36 990	- 11	36 979
Stage 1 (12-month ECL)	38 175	- 4	38 171	36 825	- 5	36 821
Stage 2 (lifetime ECL)	69	- 2	67	157	- 1	156
Stage 3 (lifetime ECL)	7	- 6	1	7	- 6	2
Purchased or originated credit impaired assets (POCI)	0	0	0	0	0	0
FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI						
Debt Securities	5 715	- 1	5 714	5 720	- 1	5 719
Stage 1 (12-month ECL)	5 715	- 1	5 714	5 720	- 1	5 719
Stage 2 (lifetime ECL)	0	0	0	0	0	0
Stage 3 (lifetime ECL)	0	0	0	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0	0	0	0

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

- In 2019, ‘Stage 2’ and ‘Stage 3’ financial assets with a net carrying value of 213 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 712 million euros in 2019. The corresponding figures for 2018 were 375 million euros and 746 million euros, respectively. Modification gains or losses are recognised under impairment, but were limited in 2018 and 2019.
- In 2019, financial assets at amortised cost with a gross carrying value of 651 million euros were written off, but were still subject to enforcement activities (the corresponding figure in 2018 was 245 million euros).
- The decline in impairment was largely related to the accounting write-off of fully provisioned loans (worth 1.0 billion euros in 2019, 0.5 billion euros of which related to Ireland’s legacy portfolio) and the sale of parts of Ireland’s legacy portfolio in 2018 and 2019 (see Note 3.10).

Note 4.2.2: Impairment details

(in millions of EUR)	31-12-2019					31-12-2018				
	Stage 1 Subject to 12-month ECL	Stage 2 Subject to lifetime ECL	Stage 3 Subject to lifetime ECL (non-performing)	Subject to lifetime ECL (purchased or originated credit impaired)	Total	Stage 1 Subject to 12-month ECL	Stage 2 Subject to lifetime ECL	Stage 3 Subject to lifetime ECL (non-performing)	Subject to lifetime ECL (purchased or originated credit impaired)	Total
LOANS AND ADVANCES AT AMORTISED COST										
Impairment on 01-01-2019	112	305	3 062	42	3 522	97	356	4 495	58	5 006
Movements with an impact on results (1)	20	- 49	278	- 6	242	26	- 41	44	- 13	15
Transfer of financial assets										
Stage 1 (12-month ECL)	- 5	66	53	0	114	- 9	62	58	0	111
Stage 2 (lifetime ECL)	4	- 61	51	1	- 5	4	- 89	49	0	- 36
Stage 3 (lifetime ECL)	0	8	- 34	- 2	- 27	1	17	- 76	- 4	- 62
New financial assets (2)	34	18	25	0	77	66	83	159	5	312
Changes in risk parameters	- 2	- 55	200	- 3	140	- 27	- 99	124	3	1
Changes in the model or methodology	- 3	- 10	0	- 3	- 13	0	0	0	0	0
Derecognised financial assets (3)	- 8	- 14	- 36	- 3	- 60	- 9	- 14	- 278	- 18	- 318
Other	0	- 1	17	0	16	0	- 1	7	0	6
Movements without an impact on results	- 2	- 2	- 897	- 9	- 910	- 10	- 10	- 1 476	- 2	- 1 499
Derecognised financial assets	- 6	- 11	- 944	- 13	- 975	- 9	- 7	- 1 454	- 22	- 1 492
Changes in the scope of consolidation	4	10	84	0	98	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0	0	0	0	0	0
Other	1	- 1	- 37	4	- 33	- 1	- 3	- 23	20	- 7
Impairment on 31-12-2019	130	254	2 444	26	2 854	112	305	3 062	42	3 522
DEBT SECURITIES AT AMORTISED COST										
Impairment on 01-01-2019	5	1	6	0	11	5	1	9	0	15
Movements with an impact on results (1)	0	1	0	0	1	- 1	0	0	0	- 1
Transfer of financial assets										
Stage 1 (12-month ECL)	0	2	0	0	2	0	1	0	0	1
Stage 2 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
Stage 3 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
New financial assets (2)	0	0	0	0	0	0	0	0	0	0
Changes in risk parameters	0	- 1	0	0	- 1	- 1	- 1	0	0	- 1
Changes in the model or methodology	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0	0	0	- 4	0	- 4
Derecognised financial assets (3)	0	0	0	0	0	0	0	- 2	0	- 2
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	- 1	0	- 1
Impairment on 31-12-2019	4	2	6	0	12	5	1	6	0	11
DEBT SECURITIES AT FAIR VALUE THROUGH OCI										
Impairment on 01-01-2019	1	0	0	0	1	1	0	0	0	1
Movements with an impact on results (1)	0	0	0	0	0	0	0	0	0	0
Transfer of financial assets										
Stage 1 (12-month ECL)	0	0	0	0	0	0	0	0	0	0
Stage 2 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
Stage 3 (lifetime ECL)	0	0	0	0	0	0	0	0	0	0
New financial assets (2)	0	0	0	0	0	0	0	0	0	0
Changes in risk parameters	0	0	0	0	0	0	0	0	0	0
Changes in the model or methodology	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0	0	0	0	0	0
Derecognised financial assets (3)	0	0	0	0	0	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Impairment on 31-12-2019	1	0	0	0	1	1	0	0	0	1

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

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

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

- For information on provisions for commitments and financial guarantees, see Note 5.7.2.
- For information regarding the impact of changes in impairment on the income statement, see Note 3.10.
- The loan portfolio 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 in the 'How do we manage our risks?' section (under 'Credit risk'). All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.

Note 4.3: Maximum credit exposure and offsetting

(in millions of EUR)	31-12-2019 Maximum credit exposure (A)	Collateral and other credit enhancements received (B)	Net (A-B)	31-12-2018 Maximum credit exposure (A)	Collateral and other credit enhancements received (B)	Net (A-B)
Subject to impairment	263 788	128 066	135 722	250 196	96 128	154 068
of which Stage 3 'non-performing' (AC and FVOCI)	*3 188*	*2 737*	*451*	*3 732*	*2 476*	*1 256*
Debt securities	43 953	69	43 885	42 698	59	42 639
Loans and advances (excl. reverse repos)	158 961	91 810	67 150	149 780	69 596	80 184
Reverse repos	26 393	26 373	20	22 117	22 066	51
Other financial assets	1 025	0	1 025	1 994	0	1 994
Off-balance-sheet liabilities	33 456	9 814	23 642	33 607	4 407	29 200
Not subject to impairment	6 879	1 844	5 035	6 012	1 361	4 651
Debt securities	1 292	0	1 292	738	0	738
Loans and advances (excl. reverse repos)	218	171	47	98	53	44
of which FVO	0	0	0	13	13	0
Reverse repos	0	0	0	0	0	0
Derivatives	5 370	1 673	3 696	5 170	1 308	3 863
Other financial assets	0	0	0	6	0	6
Off-balance-sheet liabilities	0	0	0	0	0	0
Total	270 667	129 910	140 757	256 208	97 489	158 719

- 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 in the 'How do we manage our risks?' section (under 'Credit risk'). All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.
- Collateral and credit enhancements received: recognised at market value and limited to the outstanding amount of the relevant loans.

Financial instruments subject to offsetting, enforceable master netting agreements and similar arrangements (in millions of EUR)	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments set off	Net amounts of financial instruments presented in the balance sheet	Amounts not set off in the balance sheet			Net amount
				Financial instruments	Cash collateral	Securities collateral	
FINANCIAL ASSETS, 31-12-2019							
Derivatives	11 299	5 930	5 370	2 636	1 175	246	1 313
Derivatives (excluding central clearing houses)	5 323	0	5 323	2 636	1 175	246	1 266
Derivatives with central clearing houses (*)	5 977	5 930	47	0	0	0	47
Reverse repos, securities borrowing and similar arrangements	40 314	13 921	26 393	587	0	25 768	37
Reverse repos	40 314	13 921	26 393	587	0	25 768	37
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	51 613	19 851	31 763	3 223	1 175	26 014	1 351
FINANCIAL LIABILITIES, 31-12-2019							
Derivatives	12 173	5 930	6 243	2 612	1 762	619	1 250
Derivatives (excluding central clearing houses)	6 174	0	6 174	2 612	1 762	619	1 181
Derivatives with central clearing houses (*)	5 999	5 930	69	0	0	0	69
Repos, securities lending and similar arrangements	16 487	13 921	2 566	1 406	0	1 160	0
Repos	16 487	13 921	2 566	1 406	0	1 160	0
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	28 660	19 851	8 809	4 018	1 762	1 779	1 250
FINANCIAL ASSETS, 31-12-2018							
Derivatives	8 486	3 316	5 170	2 914	741	310	1 206
Derivatives (excluding central clearing houses)	5 159	0	5 159	2 914	741	310	1 194
Derivatives with central clearing houses (*)	3 327	3 316	11	0	0	0	11
Reverse repos, securities borrowing and similar arrangements	31 769	9 651	22 117	0	0	22 115	3
Reverse repos	31 769	9 651	22 117	0	0	22 115	3
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	40 255	12 967	27 287	2 914	741	22 424	1 208
FINANCIAL LIABILITIES, 31-12-2018							
Derivatives	9 107	3 316	5 791	2 914	1 581	330	967
Derivatives (excluding central clearing houses)	5 777	0	5 777	2 914	1 581	330	953
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	19 760	12 967	6 793	2 914	1 581	1 273	1 025

(*) 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. These amounts refer to situations in which offsetting can only be applied if one of the counterparties defaults, becomes insolvent or goes bankrupt. The same principle applies for financial instruments given or received as collateral. The value given in the table for non-cash collateral received (the 'Securities collateral' column under the 'Amounts not set off in the balance sheet' heading) corresponds with the market value. This is the value that is used if one of the counterparties defaults, becomes insolvent or goes bankrupt.

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

- All internal valuation models used at KBC are validated by an independent Risk Validation Unit. In addition, the Executive Committee has appointed a Group Valuation Committee (GVC) to ensure that KBC and its entities meet all the legal requirements for measuring financial assets and liabilities at fair value. The GVC monitors consistent implementation of the Group Parameter Review Policy.Group Market Value Adjustments Policy and the Group Valuation Policy, the KBC Valuation Framework, which consists of various guidelines, including the 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.
- As a result of the first-time adoption of IFRS 9 on 1 January 2018, debt instruments with a total carrying value of 15 060 million euros have been reclassified from ‘Available-for-sale assets’ to ‘Financial assets held at amortised cost’. Due to this reclassification, changes in fair value (before tax) totalling 107 million euros were not recorded in the revaluation reserve in 2019 (-203 million euros in 2018). The fair value of this reclassified portfolio after repayments amounted to 10 350 million euros at year-end 2019.

Fair value of financial assets and liabilities that are not measured at fair value in the balance sheet	Financial assets measured at amortised cost		Financial liabilities measured at amortised cost	
(in millions of EUR)	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS, 31-12-2019				
Loans and advances to credit institutions and investment firms (incl. reverse repos)	30 842	31 096	-	-
Loans and advances to customers (incl. reverse repos)	154 512	155 913	-	-
Debt securities	38 239	40 063	-	-
Other	1 025	1 025	-	-
Total	224 617	228 097	-	-
Level 1	-	35 575	-	-
Level 2	-	41 643	-	-
Level 3	-	150 879	-	-
FINANCIAL LIABILITIES, 31-12-2019				
Deposits from credit institutions and investment firms (incl. repos)	-	-	20 993	21 148
Deposits from customers and debt securities (incl. repos)	-	-	201 381	201 213
Liabilities under investment contracts	-	-	0	0
Other	-	-	2 187	2 173
Total	-	-	224 560	224 534
Level 1	-	-	-	10
Level 2	-	-	-	95 396
Level 3	-	-	-	129 128
FINANCIAL ASSETS, 31-12-2018				
Loans and advances to credit institutions and investment firms (incl. reverse repos)	26 044	26 217	-	-
Loans and advances to customers (incl. reverse repos)	145 853	144 743	-	-
Debt securities	36 979	38 698	-	-
Other	1 994	1 994	-	-
Total	210 870	211 652	-	-
Level 1	-	34 756	-	-
Level 2	-	41 667	-	-
Level 3	-	135 230	-	-
FINANCIAL LIABILITIES, 31-12-2018				
Deposits from credit institutions and investment firms (incl. repos)	-	-	24 616	24 230
Deposits from customers and debt securities (incl. repos)	-	-	192 618	193 304
Liabilities under investment contracts	-	-	0	0
Other	-	-	3 990	3 988
Total	-	-	221 224	221 522
Level 1	-	-	-	0
Level 2	-	-	-	105 454
Level 3	-	-	-	116 069

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

(in millions of EUR)			31-12-2019					31-12-2018
Fair value hierarchy	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS AT FAIR VALUE								
Mandatorily measured at fair value through profit or loss (other than held for trading)	22	0	231	252	18	3	89	111
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	0	0	0	0
Loans and advances to customers (incl. reverse repos)	0	0	218	218	0	0	85	85
Equity instruments	0	0	7	7	0	0	0	0
Investment contracts (insurance)	0	0	0	0	0	0	0	0
Debt securities	22	0	6	28	18	3	4	26
of which sovereign bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other	0	0	0	0	0	0	0	0
Held for trading	1 680	4 428	1 200	7 307	1 015	4 456	996	6 467
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	0	0	0	0
Loans and advances to customers (incl. reverse repos)	0	0	0	0	0	0	0	0
Equity instruments	573	258	0	832	562	200	0	762
Debt securities	1 107	156	1	1 264	453	181	77	712
of which sovereign bonds	*1 051*	*96*	*0*	*1 148*	*397*	*127*	*33*	*556*
Derivatives	0	4 013	1 199	5 211	0	4 069	918	4 988
Other	0	0	0	0	0	6	0	6
FVO	0	0	0	0	0	13	0	13
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	0	0	0	0
Loans and advances to customers (incl. reverse repos)	0	0	0	0	0	13	0	13
Debt securities	0	0	0	0	0	0	0	0
of which sovereign bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
At fair value through OCI	5 529	105	257	5 890	5 379	245	285	5 908
Equity instruments	10	6	160	176	9	4	177	189
Debt securities	5 519	99	96	5 714	5 370	241	108	5 719
of which sovereign bonds	*4 792*	*26*	*34*	*4 851*	*4 728*	*122*	*34*	*4 883*
Hedging derivatives	0	158	0	158	0	183	0	183
Derivatives	0	158	0	158	0	183	0	183
Total	7 231	4 691	1 687	13 609	6 412	4 900	1 370	12 682
FINANCIAL LIABILITIES AT FAIR VALUE								
Held for trading	1 708	3 275	2 021	7 004	831	3 465	1 545	5 842
Deposits from credit institutions and investment firms (incl. repos)	0	0	0	0	0	0	0	0
Deposits from customers and debt securities (incl. repos)	0	39	183	223	0	49	176	226
Derivatives	0	3 236	1 837	5 073	0	3 311	1 369	4 680
Short positions	1 708	0	0	1 708	831	104	0	935
Other	0	0	0	0	0	0	0	0
Designated at fair value	0	657	1 883	2 539	0	839	1 223	2 062
Deposits from credit institutions and investment firms (incl. repos)	0	0	0	0	0	0	0	0
Deposits from customers and debt securities (incl. repos)	0	657	1 883	2 539	0	838	1 223	2 061
Liabilities under investment contracts	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
Hedging derivatives	0	1 170	0	1 170	0	1 111	0	1 111
Derivatives	0	1 170	0	1 170	0	1 111	0	1 111
Total	1 708	5 102	3 903	10 714	831	5 414	2 768	9 014

- The fair value hierarchy prioritises the valuation techniques and the respective inputs into three levels.
  - The fair value hierarchy gives the highest priority to 'level 1 inputs'. This means that, when there is an active market, quoted prices have to be used to measure the financial assets or liabilities at fair value. Level 1 inputs are prices that are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency (and that are quoted in active markets accessible to KBC). They represent actual and regularly occurring market transactions on an arm's length basis. The fair value is then based on a mark-to-market valuation derived from currently available transaction prices. No valuation technique (model) is involved.
  - If there are no price quotations available, the reporting entity establishes fair value using a model based on observable or unobservable inputs. The use of observable inputs needs to be maximised, whereas the use of unobservable inputs has to be minimised. Observable inputs are also referred to as 'level 2 inputs' and reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Examples of observable inputs are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs include discounted cashflow analysis, or reference to the current or recent fair value of a similar instrument.
  - Unobservable inputs are also referred to as 'level 3 inputs' and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions regarding the risks involved). Unobservable inputs reflect a market that is not active. For example, proxies and correlation factors can be considered to be unobservable in the market.
- When the inputs used to measure the fair value of an asset or a liability can be categorised into different levels of the fair value hierarchy, the fair value measurement is classified in its entirety into the same level as the lowest level input that is significant to the entire fair value measurement. For example, if a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.
- The valuation methodology and the corresponding classification in the fair value hierarchy of the most commonly used financial instruments are summarised in the table. This table provides an overview of the level in which the instruments are generally classified, but exceptions are possible. In other words, whereas the majority of instruments of a certain type are within the level indicated in the table, a small portion may actually be classified in another level.
- KBC follows the principle that transfers into and out of levels of the fair value hierarchy are made at the end of the reporting period. Transfers between the various levels are dealt with in more detail in Note 4.6 and 4.7.

	Instrument type	Products	Valuation technique
Level 1	Liquid financial instruments for which quoted prices are regularly available	FX spots, exchange traded financial futures, exchange traded options, exchange traded stocks, exchange traded funds, liquid government bonds, other liquid bonds, liquid asset backed securities (ABS) in active markets	Mark-to-market (quoted prices in active markets), for bonds: BVAL.
Level 2	Plain vanilla/liquid derivatives	(Cross-currency) interest rate swaps (IRS), FX swaps, FX forwards, forward rate agreements (FRA), inflation swaps, dividend swaps and futures, commodity swaps, reverse floaters, bond future options, interest rate future options, overnight index swaps (OIS), FX resets	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
		Caps & floors, interest rate options, European & American FX options, forward starting options, digital FX options, FX strips of simple options, European swaptions, constant maturity swaps (CMS), European cancellable IRS, compound options, commodity options	Option pricing model based on observable inputs (e.g., volatilities)
	Linear financial assets (without optional features) – cash instruments	Deposits, simple cashflows, repo transactions	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
	Semi-liquid bonds/asset backed securities	Semi-liquid bonds/asset backed securities	BVAL, third-party pricing (e.g., lead manager); prices corroborated by alternative observable market data, or using comparable spread method
	Debt instruments	KBC IFIMA own issues (liabilities), mortgage bonds held by ČSOB	Discounted cashflow analysis and valuation of related derivatives based on observable inputs
	Linear financial liabilities (cash instruments)	Loans, commercial paper	Discounted cashflow analysis based on discount and estimation curves (derived from quoted deposit rates, FX swaps and (CC)IRS)
Level 3	Exotic derivatives	Target profit forwards, Bermudan swaptions, digital interest rate options, quanto interest rate options, European & American stock 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 2019, KBC transferred 129 million euros' worth of financial assets and liabilities out of level 1 and into level 2. Most of these reclassifications were carried out due to changes in the liquidity of government bonds and corporate bonds.
- In 2018, KBC transferred 227 million euros' worth of financial assets and liabilities out of level 1 and into level 2. It also reclassified approximately 110 million euros' worth of financial assets and liabilities from level 2 to level 1. Most of these reclassifications were carried out due to a change in the liquidity of government bonds and corporate bonds.

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

- In 2019, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - Financial assets held for trading: the fair value of derivatives rose by 280 million euros, due primarily to changes in fair value and new transactions, partly offset by instruments that had reached maturity. The fair value of debt instruments fell by 79 million euros, owing primarily to sales.
  - Financial assets measured at fair value through profit or loss (other than held for trading): the fair value of loans and advances increased by 133 million euros, primarily on account of new transactions, partly offset by instruments that had reached maturity.
  - Financial liabilities held for trading: the fair value of derivatives increased by 468 million euros, mainly attributable to changes in fair value and new transactions, partly offset by instruments that had reached maturity.
  - Financial liabilities measured at fair value through profit or loss: the fair value of debt instruments increased by 660 million euros, primarily on account of new issues and changes in fair value.
- 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 increase of 7 million euros): the fair value of debt instruments measured at fair value through OCI rose by 23 million euros, mainly on account of purchases. The fair value of equity instruments measured at fair value through OCI fell by 16 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.
- 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)	31-12-2019 Carrying value		Notional amount (*)		31-12-2018 Carrying value		Notional amount (*)	
	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
Total	5 211	5 073	403 895	396 911	4 988	4 680	365 187	362 453
Interest rate contracts	3 155	2 829	221 827	213 545	2 873	2 706	181 781	179 159
of which interest rate swaps and futures	*2 650*	*2 654*	*202 044*	*202 371*	*2 329*	*2 541*	*158 176*	*165 912*
of which options	*505*	*176*	*19 783*	*11 174*	*544*	*165*	*23 605*	*13 247*
Foreign exchange contracts	1 078	1 077	157 414	159 168	1 371	1 169	156 772	157 492
of which currency and interest rate swaps, FX swaps and futures	*1 032*	*1 037*	*153 711*	*153 556*	*1 312*	*1 119*	*151 784*	*151 780*
of which options	*46*	*39*	*3 703*	*5 611*	*60*	*50*	*4 988*	*5 712*
Equity contracts	968	1 158	24 283	23 826	724	785	26 296	25 463
of which equity swaps	*917*	*963*	*22 164*	*22 163*	*675*	*668*	*24 011*	*23 828*
of which options	*51*	*195*	*2 118*	*1 663*	*49*	*118*	*2 285*	*1 635*
Credit contracts	0	0	4	4	0	0	0	0
of which credit default swaps	*0*	*0*	*4*	*4*	*0*	*0*	*0*	*0*
Commodity and other contracts	10	9	368	369	20	20	338	340

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

Note 4.8.2 Hedging derivatives

31-12-2019

(in millions of EUR)	Hedging instrument					Hedged item				Impact on equity	
	Notional amount (1)		Carrying value		Change in fair value of hedging instruments as basis for recognising hedge ineffectiveness for the period (2)		Carrying value		Change in fair value of hedged items as basis for recognising hedge ineffectiveness for the period (2)		
Hedging strategy	Pur-chased	Sold	Assets	Liabilities		Type	Total (incl. fair value changes)	Of which accumulated fair value adjustments		Ineffective portion recognised in profit or loss	Effective portion recognised in OCI
Fair value micro hedge											
Interest rate swaps	19 848	19 848	16	445	- 3	Debt securities held at AC	4 561	197	34		
Currency and interest rate swaps	0	0	0	0	0	Loans and advances at AC	751	367	55		
						Debt securities held at FVOCI	2 687	89	13		
						Debt securities issued at AC	13 000	300	- 103		
						Deposits at AC	192	4	- 1		
Total	19 848	19 848	16	445	- 3	Total			- 3	- 5	-
Portfolio hedge of interest rate risk											
Interest rate swaps	42 730	42 730	67	70	- 417	Debt securities held at AC	23	1	- 7		
Currency and interest rate options	2 640	0	12	0	- 26	Loans and advances at AC	35 487	463	445		
						Debt securities held at FVOCI	21	1	1		
						Debt securities issued at AC	0	0	0		
						Deposits at AC	7 551	- 114	41		
Total	45 369	42 730	78	70	- 443	Total			479	37	-
Cashflow hedge (micro hedge and portfolio hedge)											
Interest rate swaps	20 845	20 845	47	653	- 154						
Currency and interest rate swaps	69	64	6	2	- 2						
Total	20 914	20 909	53	655	- 156	Total			153	- 3	- 1 405
Hedge of net investments in foreign operations											
Total (3)	1 328	1 357	11	418	114	Total			- 114	0	36

(1) In this table, both legs of the derivatives are reported in the notional amounts.
(2) Ineffectiveness is recognised in 'Net result from financial instruments at fair value through profit or loss' (also see Note 3.3).
(3) Carrying value liabilities: hedging instruments in the form of foreign currency deposits.

31-12-2018

(in millions of EUR)	Hedging instrument					Hedged item				Impact on equity	
	Notional amount (1)		Carrying value		Change in fair value of hedging instruments as basis for recognising hedge ineffectiveness for the period (2)		Carrying value		Change in fair value of hedged items as basis for recognising hedge ineffectiveness for the period (2)	Ineffective portion recognised in profit or loss	Effective portion recognised in OCI
Hedging strategy	Pur-chased	Sold	Assets	Liabilities		Type	Total (incl. fair value changes)	Of which accumulated fair value adjustments			
Fair value micro hedge											
Interest rate swaps	23 298	23 298	19	365	110	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	2 996	55	1		
						Debt securities issued at AC	14 569	202	- 59		
						Deposits at AC	1 891	6	1		
Total	23 298	23 298	19	365	110	Total			- 122	- 13	-
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			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 (3)	4 936	4 972	20	417	55	Total			- 55	0	4

(1) In this table, both legs of the derivatives are reported in the notional amounts.
(2) Ineffectiveness is recognised in 'Net result from financial instruments at fair value through profit or loss' (also see Note 3.3).
(3) Carrying value liabilities: hedging instruments in the form of foreign currency deposits.

- 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 -362 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 -64 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 and Note 3.3.
- The decrease in notional amounts for 'Hedge of net investments in foreign operations' between 2018 and 2019 was attributable to the modified foreign exchange hedging strategy. For more information, see Note 3.12.

Estimated cashflows from cashflow hedging derivatives per time bucket (in millions of EUR)	Inflow	Outflow
Not more than three months	9	- 13
More than three but not more than six months	21	- 37
More than six months but not more than one year	73	- 109
More than one but not more than two years	119	- 269
More than two but not more than five years	229	- 742
More than five years	390	- 1 438

5.0 Notes on other balance sheet items

Note 5.1: Other assets

(in millions of EUR)	31-12-2019	31-12-2018
Total	858	892
Income receivable (other than interest income from financial assets)	48	46
Other	810	846

Note 5.2: Tax assets and tax liabilities

(in millions of EUR)	31-12-2019	31-12-2018
CURRENT TAXES		
Current tax assets	58	52
Current tax liabilities	62	50
DEFERRED TAXES	1 229	1 377
Deferred tax assets by type of temporary difference	1 484	1 576
Employee benefits	110	126
Losses carried forward	491	596
Tangible and intangible fixed assets	40	31
Provisions for risks and charges	7	8
Impairment for losses on loans and advances	204	180
Financial instruments at fair value through profit or loss and fair value hedges	81	60
Fair value changes, financial assets at FVOCI, cashflow hedges and hedges of net investments in foreign operations	480	488
Technical provisions	0	0
Other	71	86
Deferred tax liabilities by type of temporary difference	255	199
Employee benefits	12	12
Losses carried forward	0	0
Tangible and intangible fixed assets	40	40
Provisions for risks and charges	0	0
Impairment for losses on loans and advances	4	3
Financial instruments at fair value through profit or loss and fair value hedges	102	63
Fair value changes, financial assets at FVOCI, cashflow hedges and hedges of net investments in foreign operations	69	50
Technical provisions	0	0
Other	28	30
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	1 276	1 422
Deferred tax liabilities	47	45
Unused tax losses and unused tax credits	131	173

- 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 (-148 million euros in 2019) breaks down as follows:
  - a decrease in deferred tax assets: -92 million euros;
  - an increase in deferred tax liabilities: +56 million euros;
- The change in deferred tax assets was accounted for chiefly by:
  - the decrease in deferred tax assets via the income statement: -99 million euros (owing primarily to losses being carried forward).
- The change in deferred tax liabilities was accounted for chiefly by:
  - the increase in deferred tax liabilities via the income statement: +31 million euros (due mainly to the increase in financial instruments at fair value through profit or loss;
  - the increase in deferred tax liabilities on account of changes in the revaluation reserve for financial instruments measured at fair value through OCI: +17 million euros.
- The deferred tax assets presented in the balance sheet are attributable primarily to KBC Bank.
- For more information about the second phase of the reduction in Belgian corporation tax in 2020, see Note 3.12.

Note 5.3: Investments in associated companies and joint ventures

(in millions of EUR)	31-12-2019	31-12-2018
Total	25	185
Overview of investments, including goodwill		
ČMSS	0	163
Isabel NV	8	6
Payconiq International S.A.	13	8
Joyn International NV	- 6	- 4
Bancontact Payconiq Company NV	5	5
Other	5	6
Goodwill on associated companies and joint ventures		
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	25	185
Listed	0	0
Fair value of investments in listed associated companies and joint ventures	0	0

- Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies. Joint ventures are companies over which KBC exercises joint control.
- In 2018, ‘Investments in associated companies and joint ventures’ was accounted for primarily by ČMSS. In June 2019, KBC acquired the remaining 45% stake in that company, which has been fully consolidated since then (see Note 6.6 for more details).
- Goodwill paid on associated companies and joint ventures is included in the nominal value of ‘Investments in associated companies and joint ventures’ shown on the balance sheet. An impairment test is performed and, if required, the necessary impairment losses on goodwill recognised (see table).

Note 5.4: Property and equipment and investment property

(in millions of EUR)				31-12-2019	31-12-2018
Property, equipment				3 051	2 554
Investment property				360	350
Rental income				36	42
Direct operating expenses from investments generating rental income				10	9
Direct operating expenses from investments not generating rental income				3	3
MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2019					
Opening balance	1 139	54	1 361	2 554	350
Acquisitions	210	38	595	843	29
Disposals	- 89	- 2	- 233	- 323	- 47
Depreciation	- 100	- 25	- 26	- 151	- 27
Other movements (*)	326	5	- 202	129	54
Closing balance	1 486	70	1 495	3 051	360
of which accumulated depreciation and impairment	*1 319*	*196*	*722*	*2 237*	*234*
Fair value 31-12-2019					524
2018					
Opening balance	1 115	51	1 366	2 532	314
Acquisitions	111	22	493	626	30
Disposals	- 14	- 1	- 249	- 264	- 24
Depreciation	- 65	- 22	- 20	- 107	- 16
Other movements	- 8	3	- 229	- 234	46
Closing balance	1 139	54	1 361	2 554	350
of which accumulated depreciation and impairment	1 221	187	679	2 087	162
Fair value 31-12-2018					505

(*) Includes the impact of the first time application of IFRS16 (322 million euros).

- Annual rates of depreciation: mainly 3% for buildings (including investment property), 33% for IT equipment, between 5% and 33% for other equipment. No depreciation is charged for land.
- There was a small amount (around 0.2 billion euros) 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
2019					
Opening balance	750	106	178	16	1 050
Acquisitions	167	43	89	2	300
Disposals	0	0	- 1	- 5	- 6
Amortisation	0	- 24	- 47	- 2	- 72
Other movements	- 3	15	27	- 5	34
Closing balance	914	140	246	6	1 305
of which accumulated amortisation and impairment	*72*	*116*	*463*	*22*	*674*
2018					
Opening balance	751	93	166	9	1 019
Acquisitions	7	36	59	6	109
Disposals	0	- 1	- 4	- 3	- 7
Amortisation	0	- 21	- 39	- 1	- 61
Other movements	- 8	- 1	- 5	5	- 10
Closing balance	750	106	178	16	1 050
of which accumulated amortisation and impairment	*75*	*97*	*366*	*21*	*559*

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

Goodwill outstanding (in millions of EUR)	31-12-2019	31-12-2018	Discount rates throughout the specific period of cashflow projections	
			31-12-2019	31-12-2018
K&H Bank	209	215	14,0% - 11,6%	13,6% - 12,0%
ČSOB (Czech Republic)	280	277	12,1% - 9,7%	11,4% - 10,0%
CMSS	167	0	11,9% - 9,6%	-
United Bulgarian Bank	110	110	11,2% - 10,7%	11,1% - 10,2%
KBC Asset Management NV	114	114	10,0% - 9,6%	10,1% - 10,0%
Rest	33	33	-	-
Total	914	750	-	-

- The period to which the cashflow budgets and projections relate is 13 years in most cases. This longer period is used to take account of the expected convergence of the Central and Eastern European economies with their Western European counterparts. This significant assumption is used in the model to reflect the dynamism of the economies in Central and Eastern Europe.
- The growth rate used to extrapolate the cashflow projections after that period is equal to the expected long-term growth rate of gross domestic product. This rate depends on the country and varied between 1.2% and 1.7% in 2019 (the same as in 2018).
- No sensitivity analysis was carried out for entities where the recoverable amount exceeded the carrying value to such a large extent that no reasonably possible change in the key assumptions would result in the recoverable amount being less than or equal to the carrying value. The table gives an indication for the other entities of the change in key assumptions that would lead to their recoverable amount equalling their carrying value.

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
KBC Commercial Finance	1.9%	-	-	16.5%	78%
United Bulgarian Bank	2.4%	–	3.8%	17.0%	89%

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 11.5%–11.9% bracket for KBC Commercial Finance and the 13.0%–13.6% 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 (not relevant for KBC Commercial Finance).

Note 5.6: Technical provisions, insurance

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

Note 5.7: Provisions for risks and charges

Note 5.7.1: Overview

(in millions of EUR)	31-12-2019	31-12-2018
Total provisions for risks and charges	222	211
Provisions for off-balance-sheet commitments and financial guarantees	138	129
Provisions for other risks and charges	85	82
Provisions for restructuring	7	6
Provisions for taxes and pending legal disputes	54	48
Other	24	28

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
31-12-2019				
Provisions on 01-01-2019	12	17	99	129
Movements with an impact on results				
Transfer of financial assets				
Stage 1 (12-month ECL)	0	4	0	4
Stage 2 (lifetime ECL)	0	- 1	14	13
Stage 3 'non-performing' (lifetime ECL)	0	0	0	0
New financial assets	4	1	1	6
Changes in risk parameters during the reporting period	- 2	- 3	7	2
Changes in the model or methodology	0	0	0	0
Derecognised financial assets	- 2	0	- 2	- 4
Other	0	0	0	0
Movements without an impact on results				
Derecognised financial assets	0	0	- 8	- 8
Changes in the scope of consolidation	0	0	0	1
Transfers under IFRS 5	0	0	0	0
Other	0	- 1	- 4	- 4
Provisions on 31-12-2019	13	17	107	138
31-12-2018				
Provisions on 01-01-2018	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	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

- Also see Note 6.1.

Note 5.7.3: Details of provisions for other risks and charges

(in millions of EUR)	Provision for restructuring	Provision for taxes and pending legal disputes	Other	Total
2019				
Opening balance	6	48	28	82
Movements with an impact on results				
Amounts allocated	5	28	5	39
Amounts used	- 3	- 19	- 4	- 26
Unused amounts reversed	- 2	- 3	- 4	- 10
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	1
Other	0	0	- 2	- 2
Closing balance	7	54	24	85
2018				
Opening balance	8	209	24	241
Movements with an impact on results				
Amounts allocated	4	42	17	62
Amounts used	0	- 149	- 10	- 159
Unused amounts reversed	- 2	- 55	- 3	- 59
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	48	28	82

- 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 (all defendants referred to below as the 'joint defence group'). 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 in February 2019 the Court of Appeals for the Second Circuit overturned the ruling and referred the case back to the bankruptcy court for further proceedings. The joint defence group then requested that this decision be reviewed by a panel of three judges or by all the

judges of the Court of Appeals for the Second Circuit. This request was denied in early April 2019. At the end of August 2019, the joint defence group filed a certiorari petition with the Supreme Court against the appeal ruling of February 2019. On 10 December 2019, the Supreme Court invited the State Attorney General to present the position of the United States government.

Note 5.8: Other liabilities

(in millions of EUR)	31-12-2019	31-12-2018
Total	1 890	1 766
Breakdown by type		
Retirement benefit obligations or other employee benefits	439	512
Accrued charges (other than from interest expenses on financial liabilities)	277	270
Other	1 174	984

- 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)	31-12-2019	31-12-2018
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	2 152	2 124
Current service cost	84	90
Interest cost	32	29
Plan amendments	0	0
Actuarial gain or loss resulting from changes in demographic assumptions	1	1
Actuarial gain or loss resulting from changes in financial assumptions	181	- 30
Experience adjustments	- 39	10
Past-service cost	0	0
Benefits paid	- 72	- 66
Exchange differences	4	2
Curtailments	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	1
Other	- 24	- 7
Defined benefit obligations at the end of the period	2 319	2 152
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 670	1 699
Actual return on plan assets	238	- 41
Expected interest income on plan assets, calculated based on the market interest rates of high-quality corporate bonds	*25*	*24*
Employer contributions	65	54
Plan participant contributions	19	21
Benefits paid	- 72	- 64
Exchange differences	4	1
Settlements	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	22	1
Fair value of plan assets at the end of the period	1 947	1 670
of which financial instruments issued by the group	*29*	*27*
of which property occupied by KBC	*4*	*5*
Funded status		
Plan assets in excess of defined benefit obligations	- 372	- 482
Reimbursement rights	0	41
Asset ceiling limit	- 36	- 21
Unfunded accrued/prepaid pension cost	- 408	- 462
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 462	- 407
Amounts recognised in the income statement	- 71	- 74
Amounts recognised in other comprehensive income	66	- 35
Employer contributions	65	56
Exchange differences	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	- 6	- 1
Unfunded accrued/prepaid pension cost at the end of the period	- 408	- 462
Amounts recognised in the income statement	- 71	- 74
Current service cost	- 84	- 90
Past-service cost	0	0
Interest cost	- 7	- 5
Plan participant contributions	19	21
Curtailments	0	0
Settlements	0	0
Changes in the scope of consolidation	0	- 1
Changes to the amounts recognised in other comprehensive income	66	- 35
Actuarial gain or loss resulting from changes in demographic assumptions	- 1	- 1
Actuarial gain or loss resulting from changes in financial assumptions	- 181	30
Actuarial result on plan assets	213	- 64
Experience adjustments	39	- 10
Adjustments to asset ceiling limits	- 15	16
Other	11	- 5
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	- 18	- 17

- The pension claims of the Belgian-based staff of the various KBC group companies are covered by pension funds and group insurance schemes. Retirement benefits that are actively accrued for the current workforce of KBC Bank, KBC Insurance and most of their Belgian subsidiaries are accrued exclusively through the KBC pension funds. Up until year-end 2018, employer-funded retirement benefits had accrued primarily through a defined benefit plan, where the benefit is calculated based on the final salary of employees before they retire, the number of years they had been in the plan and a formula that applies a progressive rate scale. A defined contribution plan was introduced on 1 January 2014 for all new employees and any employees who had chosen to switch to it. In this plan, a contribution is deposited based on the current monthly salary and the amounts deposited are paid out together with the (guaranteed) return on retirement. Both types of pension plan are managed by the OFP Pensioenfonds KBC (merged with the former OFP Pensioenfonds Senior Management), which uses the services of KBC Asset Management for the investment strategy. In addition, there are a number of smaller, closed group insurance schemes from the past that will continue to be funded (some of which were transferred to the pension fund in 2018). On 1 January 2019, a new defined contribution plan was introduced to replace the one introduced in 2014. All employees were again given the one-time option of switching from the defined benefit plan to the new defined contribution plan.
- 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)	**2019**	**2018**	**2017**	**2016**	**2015**
Changes in main headings in the main table					
Defined benefit obligations	2 319	2 152	2 124	2 126	2 230
Fair value of plan assets	1 947	1 670	1 699	1 600	1 995
Unfunded accrued/prepaid pension cost	- 408	- 462	- 407	- 500	- 185
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 (*)	182	- 29	4	- 147	- 24

* Arising from defined benefit plans. A plus sign signifies an increase in the obligation (in absolute value), a minus sign a decrease in the obligation (in absolute value).

Additional information on retirement benefit obligations – DEFINED BENEFIT PLANS	KBC pension fund	KBC Bank Ireland pension plan
Composition (31-12-2019)		
Equity instruments	40%	28%
Bonds	46%	48%
Real estate	11%	5%
Cash	3%	2%
Investment funds	0%	16%
of which illiquid assets	*9%*	*17%*
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%*
Contributions expected in 2020 (in millions of EUR)	48	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	A new version of the employer-funded DC plan was introduced on 1 January 2019. All employees affiliated in the DB plan had a one-off opportunity to switch to the DC plan for future contributions.	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	0.56%	1.65%
Expected rate of salary increase	2.04%	2.50%
Expected inflation rate	1.65%	1.30%
Expected rate of increase in pensions	-	1.30%
Weighted average duration of the obligations	12 years	26 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	13.73%	30.25%
an increase of 1% in the expected inflation rate	11.08%	30.01%
an increase that is 1% higher than the expected real increase in salary	14.39%	5.25%
the age of retirement being 65 for all active employees	0.73%	-
an increase of one year in life expectancy	-	3.14%
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 2020 (in millions of EUR)	35
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 valuation of retirement benefit obligations for the employer-funded defined contribution plan takes account of future contributions. However, it is not taken into account for the valuation of the employee-funded defined contribution plan, because the employer's obligation for that plan only relates to the minimum guaranteed interest rate.
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	0.83%
Weighted average duration of the obligations	18 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	18%
the age of retirement being 65 for all active employees	0.22%

Note 5.10: Parent shareholders' equity and additional tier-1 instruments

Quantities	31-12-2019	31-12-2018
Ordinary shares	**995 371 469**	**915 228 482**
of which ordinary shares that entitle the holder to a dividend payment	*995 371 469*	*915 228 482*
of which treasury shares	*0*	*0*
Additional information		
Par value per share (in EUR)	9.78	9.78
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.
- On 31 December 2019, 995 371 469 ordinary shares were in circulation, of which 995 371 468 shares belonged to KBC Group NV and 1 share belonged to KBC Insurance NV. During 2019, a capital increase was carried out by KBC Bank which KBC Group subscribed to (2.0 billion euros) in order to fund the acquisition of the remaining stake in KBC Asset Management.
- Additional tier-1 (AT1) instruments (these securities are classified as equity instruments under IAS 32 and the coupon is treated as a dividend):
    - In March 2014, KBC Group NV issued 1.4 billion euros in AT1 securities and underwrote an AT1 security for the same amount at KBC Bank (a perpetual AT1 instrument, which may be called for redemption after five years and on each subsequent coupon date, with a temporary write-down trigger should the common equity ratio fall below 5.125% and a coupon of 5.825% per annum, which is payable every quarter). In March 2019, KBC Group called those securities for redemption and the AT1 security at KBC Bank was also repaid to KBC Group.
    - In April 2018, KBC Group issued 1 billion euros in AT1 securities and underwrote an AT1 security for the same amount at KBC Bank (a perpetual AT1 instrument with a seven year first-call date and a temporary write-down trigger should the common equity ratio fall below 5.125% and an initial coupon of 4.45% per annum, which is payable every six months).
    - In February 2019, KBC Group issued 500 million euros in AT1 securities and underwrote an AT1 security for the same amount at KBC Bank (a perpetual AT1 instrument with a five year first-call date and a temporary write-down trigger should the common equity ratio fall below 5.125% and an initial coupon of 4.95% per annum, which is payable every six months).

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 2018 and 2019.

6.0 Other notes

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

(in millions of EUR)	31-12-2019			31-12-2018		
	Nominal amount	Provision	Net exposure	Nominal amount	Provision	Net exposure
Undrawn portion of credit lines granted						
Stage 1	34 959	11	34 949	35 003	9	34 994
Stage 2	3 070	7	3 062	1 400	8	1 392
Stage 3 – non-performing	115	3	112	146	18	128
Total	38 144	21	38 123	36 549	35	36 514
of which irrevocable credit lines	*22 981*	*12*	*22 969*	*23 527*	*31*	*23 496*
Financial guarantees given						
Stage 1	8 436	3	8 433	8 501	3	8 498
Stage 2	1 668	10	1 658	1 413	9	1 404
Stage 3 – non-performing	192	104	88	230	81	149
Total	10 295	116	10 179	10 144	93	10 051
Other commitments given						
Total	308	0	308	402	0	401
Total						
Off-balance-sheet commitments and financial guarantees	48 748	138	48 610	47 095	129	46 966

- Fair value of financial guarantees: based on the available market value.
- The carrying value of financial assets pledged by KBC as collateral came to 43 970 million euros for liabilities and 3 301 million euros for contingent liabilities (31 641 million euros and 1 862 million euros, respectively, in 2018). At year-end 2019, some 10.9 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 (11.1 billion euros at year-end 2018).
- There is an obligation to return collateral received (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will organise the foreclosure itself or take possession of the collateral. Collateral received that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table). More details are provided in Note 4.3.
- Collateral acquired through foreclosure came to 0.02 billion euros in 2019 (0.1 billion euros in 2019).

Collateral received (which may be sold or repledged in the absence of default by the owner) (in millions of EUR)	Fair value of collateral received		Fair value of collateral sold or repledged	
	31-12-2019	31-12-2018	31-12-2019	31-12-2018
Financial assets	41 128	24 019	11 047	7 505
Equity instruments	10	12	1	0
Debt securities	40 881	23 753	11 046	7 505
Loans and advances	236	254	0	0
Cash	0	0	0	0
Other	0	0	0	0
Property, plant and equipment	0	0	0	0
Investment property	0	0	0	0
Other	0	0	0	0

Note 6.2: Leasing

(in millions of EUR)	31-12-2019	31-12-2018
Finance lease receivables		
Gross investment in finance leases, receivable	6 293	6 130
At not more than one year	1 613	1 418
At more than one but not more than five years	3 422	3 183
At more than five years	1 257	1 530
Unearned future finance income on finance leases	366	479
Net investment in finance leases	5 926	5 618
At not more than one year	1 537	1 307
At more than one but not more than five years	3 240	2 912
At more than five years	1 150	1 399
of which unguaranteed residual values accruing to the benefit of the lessor	*46*	*39*
Accumulated impairment for uncollectable lease payments receivable	44	78
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable operating leases	518	488

- KBC acts only to a limited extent as a lessee in operational and financial leasing. For the impact of the first-time adoption of IFRS 16, see Note 5.4.
- 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.

Note 6.3: Related-party transactions

Transactions with related parties, excluding key management (in millions of EUR)	Parent entities with joint control	Subsidiaries and other entities of group	Associated companies	Joint ventures	Other	Total 2019	Parent entities with joint control	Subsidiaries and other entities of group	Associated companies	Joint ventures	Other	Total 2018
Assets	16	1 217	107	40	7	1 387	21	1 287	121	223	97	1 749
Loans and advances	7	800	38	1	0	846	0	1 076	41	2	80	1 199
Equity instruments (including investments in associated companies and joint ventures)	3	92	68	33	0	196	3	83	79	198	12	375
Other	7	326	1	6	7	345	18	128	1	23	5	175
Liabilities	7 493	796	93	0	365	8 748	5 865	969	98	168	303	7 403
Deposits	122	713	14	0	356	1 205	121	925	13	167	300	1 526
Other financial liabilities	7 341	17	0	0	0	7 357	5 731	15	0	0	0	5 747
Other	31	66	80	0	9	185	12	29	85	1	4	130
Income statement	- 808	- 52	- 2	0	- 5	- 867	- 748	- 82	1	- 8	5	- 833
Net interest income	- 83	- 152	- 1	0	0	- 236	- 69	- 145	- 1	- 8	0	- 222
Interest income	2	0	1	0	0	3	1	1	1	0	0	4
Interest expense	- 85	- 152	- 1	0	0	- 239	- 69	- 146	- 1	- 9	0	- 226
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0
Technical insurance charges (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0
Dividend income	0	0	1	0	0	1	0	2	5	0	3	10
Net fee and commission income	0	85	0	0	2	87	0	82	- 1	0	2	84
Fee and commission income	1	189	0	0	2	192	0	167	0	0	2	170
Fee and commission expense	- 1	- 103	- 2	0	0	- 105	0	- 85	- 2	0	0	- 86
Net other income	0	- 17	- 1	0	- 5	- 23	- 1	- 20	0	0	3	- 17
General administrative expenses	- 724	32	- 2	0	- 2	- 697	- 678	- 2	- 3	0	- 3	- 687
Undrawn portion of loan commitments, financial guarantees and other commitments												
Given by the group (*)	0	5 122	0	0	74	5 197	0	2 610	5	0	154	2 769
Received by the group	0	0	0	0	0	0	0	0	0	0	0	0

(*) 2018: corrected figure

Transactions with key management (members of the Board of Directors and Executive Committee) (in millions of EUR) (*)	2019	2018
Total (*)	2	2
Breakdown by type of remuneration		
Short-term employee benefits	2	2
Post-employment benefits	0	0
Defined benefit plans	0	0
Defined contribution plans	0	0
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	2	1

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

- The 'Subsidiaries and KBC group entities' heading in the first table includes transactions with unconsolidated subsidiaries (transactions with consolidated subsidiaries have already been eliminated from the consolidated financial statements) and transactions with other KBC group entities (primarily KBC Insurance).
- 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 Bank 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)	2019	2018
KBC Parent company and its subsidiaries		
Standard audit services	5 814 977	6 170 432
Other services	649 561	840 513
Other certifications	562 842	814 134
Tax advice	0	5 000
Other non-audit assignments	48 645	21 379
KBC Parent company (alone)		
Standard audit services	1 975 819	2 301 542
Other services	62 541	120 326

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

The table shows the most important group companies. A complete overview of all group companies (included in and excluded from the consolidation) can be found at www.kbc.com > About us > Our structure.

KBC Bank: main companies included in the scope of consolidation at year-end 2019					
Company	Registered office	Company number	Share of capital held at group level (in %)	Business unit (*)	Activity
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

(*) 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 entities in which KBC does not hold 50% of the share capital are classified as joint ventures, since it has joint control over these entities based on shareholder agreements. Based on the Articles of Association and/or shareholder agreements, voting rights in (and therefore the control of) the joint venture are spread evenly across the different shareholders and decisions may only be taken by unanimity.
  - 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 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 2014. 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 2019, the assets under management at these entities amounted to 12.1 billion euros.

- Sponsored unconsolidated structured entities are defined as structured entities where KBC Group 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 Bank or one of its subsidiaries. As a result, these entities are not consolidated.
- At year-end 2019, KBC Bank had received income from unconsolidated structured entities in the form of management fees (16 million euros), administrative agent fees (1 million euros) and accounting fees (1 million euros).

- At year-end 2019, no group companies were active in the extractive industry. As a result, no consolidated report on payments to governments has been prepared (see Art.3:8 § 1 of the Companies and Associations Code).

Note 6.6: Main changes in the scope of consolidation

- ČMSS
  - At the end of May 2019, ČSOB acquired the remaining 45% stake in ČMSS from Bausparkasse Schwäbisch Hall for a total consideration of 240 million euros. Moreover, the revaluation of the group's existing 55% stake in ČMSS generated a one-off gain of 82 million euros. As a consequence of this transaction, ČSOB now owns 100% of ČMSS, thereby consolidating its position as biggest provider of financial solutions for housing purposes in the Czech Republic.
  - The impact of the acquisition is included in the consolidated figures contained in this report. Since June 2019, the results of ČMSS have been fully consolidated into each line of the income statement (before then, the results had been recorded under 'Share in results of associated companies and joint ventures' in proportion to the 55% shareholding). ČMSS has also been fully consolidated in the balance sheet since June 2019 (before then, it had been recorded under 'Investments in associated companies and joint ventures', in accordance with the equity method). The one-off gain of 82 million euros, which related to the revaluation of the existing 55% stake, was recorded under 'Net other income'.
  - The impact of the acquisition on the financial instruments is presented in the pro forma 'Total excluding ČMSS' column in Note 4.1.
  - KBC recognised goodwill of 167 million euros in its consolidated financial statements, which was accounted for by the profitability of ČMSS (based on the results achieved in previous years and the business plan for the years ahead), along with revenue synergies (additional product sales through cross-selling) and cost synergies (relating in part to head office functions, such as Internal Audit, Procurement, ALM, Legal and Finance). Goodwill is not deductible for tax purposes.
  - The deal had an impact of -0.3 percentage points on KBC Group NV's common equity ratio.
  - The table below shows the fair value of the main assets and liabilities involved in the acquisition of ČMSS, as well as the company's contribution to the group's income statement (from June to December 2019).

in millions of EUR	12/31/2019
Purchase or sale	Purchase
Percentage of shares bought (+) or sold (-) in the relevant year	ČMSS 45%
Total share percentage at the end of the relevant year	100%
For business unit/segment	Czech
Deal date (month and year)	May 2019
Incorporation of the result of the company in the result of the group as of:	01-06-2019
Purchase price	240
Cashflow for acquiring or selling companies less cash and cash equivalents acquired	439
Recognised amounts of identifiable assets acquired and liabilities assumed - provisional fair value at 31 May 2019	
Cash and cash balances with central banks	729
Financial assets	4 959
Amortised cost	4 855
Fair value through OCI	103
Hedging derivatives	0
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	15
Tax assets	4
Property and equipment	20
Goodwill and other intangible assets	39
Other assets	7
of which: cash and cash equivalents (included in the assets above)	*729*
Financial liabilities	5 384
Measured at amortised cost	5 362
Hedging derivatives	22
Tax liabilities	10
Provisions for risks and charges	1
Other liabilities	33
of which: cash and cash equivalents (included in the liabilities above)	*50*

Contribution to the consolidated income statement (first 5 months of 2019 accounted for using the equity method at 55% interest and from 1 June 2019 fully consolidated at 100%).

(in millions of EUR)	2019
Net interest income	49
Dividend income	0
Net result from financial instruments at fair value through profit or loss	1
Net realised result from debt instruments at fair value through OCI	0
Net fee and commission income	15
Net other income	82
TOTAL INCOME	146
Operating expenses	- 30
Impairment	- 3
on financial assets at AC and at FVOCI	*- 3*
Share in results of associated companies and joint ventures	9
RESULT BEFORE TAX	121
Income tax expense	- 6
RESULT AFTER TAX	116
attributable to minority interests	0
attributable to equity holders of the parent	116

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 bank based on IFRS data and according to the rules imposed by the regulator.

This implies that we calculate our solvency ratios based on CRR/CRD IV. KBC Bank is subject to minimum solvency ratios. The main measure is the fully loaded common equity ratio, with the minimum regulatory requirement being 11.15%. 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 (4.90% set by the local competent authorities in KBC's core markets). At year-end 2019, the fully loaded common equity ratio came to 14.7% (the amount of 2019 profits included in the calculation of the common equity capital is still subject to approval by the ECB).

(in millions of EUR)	KBC Bank (consolidated) CRR/CRD IV (1) 31/12/2019 *Fully loaded*	31/12/2018 *Fully loaded*
Total regulatory capital (after profit appropriation)	16 660	15 749
Tier-1 capital	14 704	13 625
Common equity	13 204	12 618
Parent shareholders' equity	15 091	14 150
Solvency adjustment	-1 887	-1 532
Additional going concern capitalal	1 500	1 007
Tier-2 capital	1 957	2 124
Total weighted risk volume (2)	89 838	85 474
Common equity ratio	14.7%	14,8%

(1) More detailed figures can be found in 'How do we manage our capital?'.

(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.

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

Note 6.8: Post-balance-sheet events

Significant non-adjusting events between balance sheet date and the date on which the financial statements were approved for publication by the Board of Directors (29 March 2020):

- On 17 February 2020, we signed an agreement to acquire 99.44% of the shares in OTP Banka Slovensko, a mid-sized bank in Slovakia that focuses on retail, micro SME and SME clients. This deal will allow us to further strengthen our position on the Slovakian banking market. The acquisition, which has still to be approved by various supervisory bodies, is expected to be completed in the second or third quarter of 2020 and will have a limited impact on the group's common equity ratio (roughly -0.2 percentage points).
- The outbreak and global spread of the coronavirus will exert downward pressure on our results in 2020 (but not have any impact on our financial position at year-end 2019). Given that new government, regulatory and/or sector-related measures are being taken every day, it is impossible at this stage to make a reliable estimate of what the consequences will be for the global economy and, more specifically, for our group. We are, of course, closely monitoring the situation. As always, we are adopting a cautious and conservative approach, even though our solid capital and liquidity positions are such that we are able to withstand extreme scenarios.
  For more information, please also refer to 'In what environment do we operate?' in the 'Our business model' section and to 'Non-financial risks' in the 'How do we manage our risks?' section.

Note 6.9: General information on the company

Name:	KBC Bank NV.
Incorporated:	17 March 1998.
Country of incorporation	Belgium.
Registered office:	Havenlaan 2, 1080 Brussels, Belgium.
VAT:	BE 462.920.226.
RLP:	Brussels.
Website:	https://www.kbc.com.

E-mail address reserved for shareholders and bondholders:

IR4U@kbc.be.

Legal form:	*naamloze vennootschap* (company with limited liability) under Belgian law, which solicits or has solicited savings from the public; the company is a credit institution that is subject to the prudential supervision of the National Bank of Belgium and the European Central Bank.
Life:	undefined.
Object:	In Belgium or abroad, for its own account or for account of third parties, the company has as object the execution of all banking operations in the widest sense, as well as the exercise of all other activities which banks are or shall be permitted to pursue (Article 2 of the Articles of Association).

Documents open to public inspection:

The Articles of Association of the company are open to public inspection at the Registry of the 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, resignation 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 on www.kbc.com.

General Meeting of Shareholders:

A General Meeting is held every year at the company's registered office or at any other place indicated in the convening notice, at 11 a.m. on the Wednesday immediately prior to the last Thursday of April, or, if this day is a statutory public holiday or bank holiday, at 11 a.m. on the business day immediately before it. Each share gives entitlement to one vote.

For information on the general meeting of shareholders and the right of shareholders to take part in such meetings, see Article 23 *et seq*. of the Articles of Association, which are available at www.kbc.com.

Statutory auditor’s report

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

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

We have been appointed as statutory auditor by the general meeting of 24 April 2019, following the proposal formulated by the board of directors and following the recommendation by the audit committee and the proposal formulated by the workers' council. Our mandate will expire on the date of the general meeting which will deliberate on the annual accounts for the year ended 31 December 2021. We have performed the statutory audit of the consolidated accounts of KBC Bank NV for 4 consecutive years.

Report on the consolidated accounts

Unqualified opinion

We have performed the statutory audit of the Group's consolidated accounts, which comprise the consolidated balance sheet as at 31 December 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cashflow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information, and which is characterised by a consolidated balance sheet total of EUR 253.967 million and a profit for the year (attributable to equity holders of the parent) of EUR 2.005 million.

In our opinion, the consolidated accounts give a true and fair view of the Group's net equity and consolidated financial position as at 31 December 2019, and of its consolidated income and its consolidated cashflows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for unqualified opinion

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

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

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

Emphasis of Matter - subsequent event

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

Key audit matters

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

Estimation uncertainty with respect to financial instruments measured at fair value

Description of the Key Audit Matter

Details regarding the financial instruments measured at fair value at year-end 31 December 2019 are included in Note 4.5 to the consolidated accounts. For information regarding the determination of fair value please refer to Note 1.2. of the Summary of significant accounting policies and Note 4.4 to the consolidated accounts.

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

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

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How our Audit addressed the Key Audit Matter

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

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

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

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 2019 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 principles. At year-end 31 December 2019 the gross loans and advances at amortised cost amount to EUR 188.207 million, the total impairment at that date amounts to EUR 2.854 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.

How our Audit addressed 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.

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.

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.

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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. A statutory audit does not provide any assurance as to the Group's future viability nor as to the efficiency or effectiveness of the board of directors' current or future business management at Group level.

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

- Identify and assess the risks of material misstatement of the consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our statutory auditor's report to the related disclosures in the consolidated accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

FREE TRANSLATION FROM DUTCH ORIGINAL

- 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 which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, the directors’ report on the consolidated accounts and to report on these matters.

Aspects related to the directors’ report on the consolidated accounts

In our opinion, after having performed specific procedures in relation to the directors’ report on the consolidated accounts, this directors’ report is consistent with the consolidated accounts for the year under audit, and it is prepared in accordance with article 3:32 of the Companies' and Associations' Code.

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

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

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Statements related to independence

- Our registered audit firm and our network did not provide services which are incompatible with the statutory audit of the consolidated accounts, and our registered audit firm remained independent of the Group in the course of our mandate.

- The fees for additional services which are compatible with the statutory audit of the consolidated accounts referred to in article 3:65 of the Companies' and Associations' Code are correctly disclosed and itemized in the notes to the consolidated accounts.

Other statement

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

Sint-Stevens-Woluwe, 2 April 2020

The statutory auditor
PwC Bedrijfsrevisoren BV
represented by

Roland Jeanquart
Accredited auditor

Gregory Joos
Accredited auditor

Company annual accounts

10				9	EUR
NAT.	Date Filed	N°	P.	E.	D.

C-inst 1.1

ANNUAL ACCOUNTS IN EUR (2 decimals)

NAME: KBC BANK

Legal Form: NV
Address: Havenlaan N°.: 2 Box:
Postal Code: 1080 Municipality: BRUSSELS
Country: België
Register of Legal Persons (RLP) - Chamber of Commerce: Brussels
Internet address*: http://www.kbc.be

Company Number 0462.920.226

Date 02/05/2019 of the deposition of the partnership deed OR of the most recent document mentioning the date of publication of the partnership deed and the act changing the articles of association.

ANNUAL ACCOUNT approved by the General Meeting of 29/04/2020

concerning the financial year covering the period from 01/01/2019 till 31/12/2019

Previous period from 01/01/2018 till 31/12/2018

The amounts of the previous financial year are / ~~are not~~ ** identical to those which have been previously published.

COMPLETE LIST WITH name, first name, profession, residence-address (address, number, postal code, municipality) and position with the enterprise, OF DIRECTORS, MANAGERS and AUDITORS

	Period on the Board in 2019	End of current term of office
CHAIRMAN OF THE BOARD OF DIRECTORS:		
Mr. Thomas LEYSEN, Rosier 21, 2000 Antwerpen	entire year	2023
CHAIRMAN OF THE EXECUTIVE COMMITTEE		
Mr. Johan THIJS, Moorsemsestraat 260, 3130 Betekom	entire year	2021

Members: see next page

Enclosed to these annual accounts:
- the report of the statutory auditor
- the annual report of the Board of Directors to the ordinary General Meeting of shareholders

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Total number of pages deposited:
Number of the pages of the standard form not deposited for not being of service: -

Signature (name and position)	Signature (name and position)
J. THIJS	T. LEYSEN
Chairman of the Executive Committee	Chairman of the Board of Directors

* Optional Statement
** Delete where appropriate

LIST OF DIRECTORS, MANAGERS AND AUDITORS (continuation from previous page)

Members:

Dhr. Nabil ARISS, Havenlaan 2, 1080 Brussel	entire year	2022
Mevr. Katelijn CALLEWAERT, Beekboshoek 102, 2550 Waarloos	entire year	2021
Mevr. Sonja DE BECKER, Meerbeekstraat 20, 3071 Erps-Kwerps	entire year	2020
Dhr. Franky DEPICKERE, Izegemstraat 203, 8770 Ingelmunster	entire year	2023
Dhr. Daniel FALQUE, Bovenbosstraat 78, 3053 Haasrode	entire year	2020
Dhr. John HOLLOWS, Havenlaan 2, 1080 Brussel	entire year	2021
Mevr. Julia KIRALY, Havenlaan 2, 1080 Brussel	entire year	2022
Dhr. Erik LUTS, Kruisstraat 84, 3290 Diest	entire year	2021
Dhr. Bo MAGNUSSON, Taptogatan 6, Stockholm 115 26, Sweden	entire year	2020
Mevr. Vladimira PAPIRNIK, Havenlaan 2, 1080 Brussel	entire year	2022
Dhr. Luc POPELIER, Voosdonk 21, 2801 Heffen	entire year	2021
Dhr. Hendrik SCHEERLINCK, Gemslaan 44, 3090 Overijse	entire year	2021
Mevr. Christine VAN RIJSSEGHEM, Avenue du Manoir 59, 1410 Waterloo	entire year	2022
Dhr. Marc WITTEMANS, Beatrijslaan 91, 3110 Rotselaar	entire year	2022

AUDITOR:

PwC Auditors BV 0429.501.944
Woluwedal 18, 1932 Sint-Stevens-Woluwe, Belgium
Function: Commissioner, Member Number: B00009
Mandate : appointed 24/04/2019

Represented by: 2022

Jeanquart Roland (Membership IBR A01313)
Auditor
Woluwedal 18 , 1932 Sint-Stevens-Woluwe, België

Gregory Joos (Membership IBR A02025)
Auditor
Woluwedal 18 , 1932 Sint-Stevens-Woluwe, België

DECLARATION ABOUT SUPPLEMENTARY AUDITING OR ADJUSTMENT MISSION

The managing board declares that the assignment neither regarding auditing nor adjusting has been given to a person who was not authorised by law pursuant to art. 34 and 37 of the Law of 22nd April 1999 concerning the auditing and tax professions.

The annual accounts ~~have~~ / have not* been audited or adjusted by an external accountant or auditor who is not a statutory auditor.

If YES, mention here after: name, first names, profession, residence-address of each external accountant or auditor, the number of membership with the professional Institute ad hoc and the nature of this engagement:

A. Bookkeeping of the undertaking**,
B. Preparing the annual accounts**,
C. Auditing the annual accounts and/or
D. Adjusting the annual accounts.

If the assignment mentioned either under A or B is performed by authorised accountants or authorised accountants-tax consultants, information will be given on: name, first names, profession and residence-address of each authorised accountant or accountant-tax consultant, his number of membership with the Professional Institute of Accountants and Tax consultants and the nature of this engagement.

Name, first name, profession, residence-address	Number of membership	Nature of the engagement (A, B, C and/or D)

* Delete where appropriate.

** Optional disclosure.

BALANCE SHEET AFTER APPROPRIATION

ASSETS	Notes	Code	Current period	Previous period
I. Cash in hand, balances with central banks and post office banks		10100	1.308.953.771,88	14.038.398.984,54
II. Treasury bills eligible for refinancing at central banks		10200	212.993.325,31	201.648.024,86
III. Loans and advances to credit institutions	5.1	10300	18.256.806.686,96	14.266.043.749,10
A. Repayable on demand		10310	718.501.411,76	1.245.079.460,11
B. Other loans and adv. (with agreed maturity dates)		10320	17.538.305.275,20	13.020.964.288,99
IV. Loans and advances to customers	5.2	10400	91.749.804.687,16	95.214.115.409,86
V. Debt securities and other fixed-income securities	5.3	10500	39.796.732.400,15	31.683.477.586,25
A. Issued by public bodies		10510	14.796.486.849,60	11.990.146.321,93
B. Issued by other borrowers		10520	25.000.245.550,55	19.693.331.264,32
VI. Shares and other variable-yield securities	5.4	10600	829.602.201,64	754.206.948,81
VII. Financial fixed assets	5.5/ 5.6.1	10700	17.356.360.718,92	13.876.009.920,58
A. Participating interests in affiliated enterprises		10710	15.249.706.108,04	13.094.524.427,78
B. Participating interests in other enterprises linked by participating interests		10720	108.609.801,81	112.529.507,45
C. Other shares held as financial fixed assets		10730	18.433.180,55	8.899.191,59
D. Subordinated loans to affiliated enterprises and to other enterprises linked by participating interests		10740	1.979.611.628,52	660.056.793,76
VIII. Formation expenses and intangible fixed assets	5.7	10800	62.448.731,43	87.189.003,82
IX. Tangible fixed assets	5.8	10900	1.495.396.367,00	1.392.476.612,31
X. Own shares		11000	0,00	0,00
XI. Other assets	5.9	11100	1.042.445.608,83	1.104.009.288,14
XII. Accrued income	5.10	11200	6.868.474.004,93	6.179.226.296,72
TOTAL ASSETS		19900	178.980.018.504,21	178.796.801.824,99

	Notes	Code	Current Period	Previous Period
LIABILITIES				
THIRDPARTY FUNDS		201/208	163.815.187.136,04	166.500.868.008,19
I. Amounts owed to credit institutions	5.11	20100	20.330.390.331,86	23.738.667.259,08
A. Repayable on demand		20110	4.921.849.454,05	5.783.335.111,61
B. Amounts owed as a result of the rediscounting of trade bills		20120	0,00	0,00
C. Other debts with agreed maturity dates or periods of notice		20130	15.408.540.877,81	17.955.332.147,47
II. Amounts owed to customers	5.12	20200	109.219.783.460,21	103.652.189.636,79
A. Savings deposits		20210	41.909.920.840,56	38.427.680.022,03
B. Other debts		20220	67.309.862.619,65	65.224.509.614,76
1. repayable on demand		20221	49.971.383.627,60	49.109.420.235,67
2. with agreed maturity dates or periods of notice		20222	17.338.478.992,05	16.115.089.379,09
3. as a result of the rediscounting of trade bills		20223	0,00	0,00
III. Debts evidenced by certificates	5.13	20300	17.963.816.764,09	24.177.943.137,89
A. Debt securities and other fixed-income securities in circulation		20310	7.893.357.488,59	9.242.288.457,23
B. Other		20320	10.070.459.275,50	14.935.654.680,66
IV. Other liabilities	5.14	20400	2.072.657.002,20	1.651.267.931,82
V. Accrued charges and deferred income	5.15	20500	5.021.104.524,01	4.527.652.981,86
VI. Provisions and deferred taxes		20600	151.144.488,74	176.292.942,65
A. Provisions for liabilities and charges		20610	151.144.488,74	176.292.942,65
1. Pensions and similar obligations		20611	21.735.801,67	26.508.795,87
2. Taxation		20612	0,00	0,00
3. Other liabilities and charges	5.16	20613	129.408.687,07	149.784.146,78
B. Deferred taxes		20620	0,00	0,00
VII. Fund for general banking risks		20700	87.221.635,72	95.791.203,75
VIII. Subordinated liabilities	5.17	20800	8.969.068.929,21	8.481.062.914,35
OWN FUNDS		209/213	15.164.831.368,17	12.295.933.816,80
IX. CAPITAL	5.18	20900	9.732.238.065,25	8.948.439.652,39
A. Subscribed capital		20910	9.732.238.065,25	8.948.439.652,39
B. Uncalled capital (-)		20920	0,00	0,00
X. Share premium account		21000	2.066.338.686,58	895.449.646,51
XI. Revaluation surpluses		21100	0,00	0,00
XII. Reserves		21200	610.427.655,58	506.571.149,66
A. Legal reserve		21210	597.454.407,35	493.597.901,43
B. Reserves not available for distribution		21220	0,00	0,00
1. In respect of own shares held		21221	0,00	0,00
2. Other		21222	0,00	0,00
C. Untaxed reserves		21230	12.973.248,23	12.973.248,23
D. Reserves available for distribution		21240	0,00	0,00
XIII. Profits (losses (-)) brought forward (+)/(-)		21300	2.755.826.960,76	1.945.473.368,24
TOTAL LIABILITIES		29900	178.980.018.504,21	178.796.801.824,99

OFF BALANCE SHEET CAPTIONS	Notes	Code	Current period	Previous period
I. Contingent liabilities	5.22	30100	11.788.261.172,16	11.262.207.231,91
A. Non-negotiated acceptances		30110	30.412.675,62	31.808.196,46
B. Guarantees serving as direct credit substitutes		30120	3.955.437.071,65	2.827.464.552,46
C. Other guarantees		30130	6.479.971.916,24	7.352.369.126,47
D. Documentary credits		30140	1.322.439.508,65	1.576.653.283,52
E. Assets charged as collateral security on behalf of third parties		30150	0,00	0,00
II. Commitments which could give rise to a risk	5.22	30200	36.227.203.426,56	29.461.500.422,53
A. Firm credit commitments		30210	10.678.091.666,19	4.247.452.100,94
B. Commitments as a result of spot purchases of transferable or other securities		30220	424.647.517,99	678.419.347,57
C. Undrawn margin on confirmed credit lines		30230	25.124.464.242,38	24.535.628.974,02
D. Underwriting and placing commitments		30240	0,00	0,00
E. Commitments as a result of open-ended sale and repurchase agreements		30250	0,00	0,00
III. Assets lodged with the credit institution		30300	242.821.100.147,31	222.513.008.669,12
A. Assets held by the credit institution for fiduciary purposes		30310	5.375.240.826,89	4.535.108.318,77
B. Safe custody and equivalent items		30320	237.445.859.320,42	217.977.900.350,35
IV. Uncalled amounts of share capital		30400	20.406.567,73	21.971.567,73

INCOME STATEMENT (presentation in vertical form)

		Notes	Code	Current Period	Previous period
I. Interest receivable and similar income		5.23	40100	2.807.270.192,24	2.908.638.186,36
A. Of which: from fixed-income securities			40110	571.367.325,43	635.854.129,71
II. Interest payable and similar charges			40200	1.573.583.009,56	1.685.253.165,93
III. Income from variable-yield securities		5.23	40300	2.009.281.458,88	1.086.768.710,97
A. From shares and other variable-yield securities			40310	26.201.338,36	17.481.173,22
B. From participating interests in affiliated enterprises			40320	1.976.947.892,63	1.063.319.547,60
C. From participating interests in other enterprises linked by participating interests			40330	5.668.002,26	5.532.678,35
D. From other shares held as financial fixed assets			40340	464.225,63	435.311,80
IV. Commissions receivable		5.23	40400	1.818.567.526,47	1.409.933.593,80
A. Brokerage and related commissions			40410	631.575.630,42	594.610.651,73
B. Management, consultancy and conservation commissions			40420	32.011.250,03	28.972.968,52
C. Other commissions received			40430	1.154.980.646,02	786.349.973,55
V. Commissions payable			40500	930.858.560,73	596.262.348,64
VI. Profit (loss) on financial transactions	(+)/(-)	5.23	40600	265.702.447,92	384.801.202,77
A. On trading of securities and other financial instruments			40610	261.131.591,68	375.936.455,46
B. On disposal of investment securities			40620	4.570.856,24	8.864.747,31
VII. General administrative expenses			40700	1.986.425.320,27	1.902.992.788,88
A. Remuneration, social security costs and pensions			40710	815.047.921,95	804.286.020,58
B. Other administrative expenses			40720	1.171.377.398,32	1.098.706.768,30
VIII. Depreciation/amortization of and other write-downs on formation expenses, intangible and tangible fixed assets			40800	160.781.251,44	122.684.912,58
IX. Decrease in write downs on receivables and in provisions for off balance sheet captions 'I. Contingent liabilities' and 'II. Commitments which could give rise to a risk'	(+)/(-)		40900	231.568.763,88	-61.555.262,30
X. Decrease in write-downs on the investment portfolio of debt securities, shares and other fixed-income or variable-yield securities	(+)/(-)		41000	-278.874,15	1.479.639,97
XI. Utilization and write-backs of provisions for liabilities and charges other than those included in the off balance sheet captions	(+)/(-)		41100	-16.656.840,78	-80.215.858,14
XII. Provisions for liabilities and charges other than those included in the off balance sheet captions			41200	12.915.745,72	20.520.702,66
XIII. Transfer from (Transfer to) the fund for general banking risks	(+)/(-)		41300	8.569.568,03	-95.791.203,75
XIV. Other operating income		5.23	41400	372.215.621,27	302.472.305,16
XV. Other operating charges		5.23	41500	47.211.894,09	38.424.708,95
XVI. Profits (losses) on ordinary activities before taxes	(+)/(-)		41600	2.355.197.984,05	1.770.975.648,14

		Notes	Code	Current period	Previous period
XVII. Extraordinary income			41700	1.800.051,64	17.380.791,62
A. Adjustments to depreciation/amortization of and to other write-downs on intangible and and tangible fixed assets			41710	0,00	0,00
B. Adjustments to write-downs on financial fixed assets			41720	1.119.539,62	16.082.139,27
C. Adjustments to provisions for extraordinary liabilities and charges			41730	90.000,00	515.022,00
D. Gain on disposal of fixed assets			41740	144.903,23	60.466,60
E. Other extraordinary income		5.25	41750	445.608,79	723.163,75
XVIII. Extraordinary charges			41800	223.374.105,53	16.323.678,36
A. Extraordinary depreciation/amortization of and extraordinary write-downs on formation expenses and intangible and tangible fixed assets			41810	1.265.910,08	41.975,53
B. Write-downs on financial fixed assets			41820	220.781.212,80	5.344.416,01
C. Provisions for extraordinary liabilities and charges	(+/-)		41830	66.920,00	90.000,00
D. Loss on disposal of fixed assets			41840	1.256.718,82	10.835.899,88
E. Other extraordinary charges		5.25	41850	3.343,83	11.386,94
XIX. Profits (Losses) for the period before taxes	(+/-)		41910	2.133.623.930,16	1.772.032.761,40
XIXbis. A. Transfer to deferred taxes			41921	11.320,86	116.378,43
B. Transfer from deferred taxes			41922	627.746,00	1.295.418,59
XX. Income taxes	(+/-)	5.26	42000	57.110.236,83	74.816.777,44
A. Income taxes			42010	63.684.607,64	75.920.664,73
B. Adjustement of income taxes and write-back of tax provisions			42020	6.574.370,81	1.103.887,29
XXI. Profits (Losses) for the period	(+/-)		42100	2.077.130.118,47	1.698.395.024,12
XXII. Transfer to untaxed reserves	(+/-)		42200	0,00	0,00
XXIII. Profit (Losses) for the period available for appropriation	(+/-)		42300	2.077.130.118,47	1.698.395.024,12

APPROPRIATION ACCOUNT

		Code	Current period	Previous period
A. Profit (loss) to be appropriated	(+)/(-)	49100	4.022.603.486,71	2.954.633.186,67
1. Profit (loss) for the period available for appropriation	(+)/(-)	(42300)	2.077.130.118,47	1.698.395.024,12
2. Profit (loss) to be carried forward	(+)/(-)	(21300P)	1.945.473.368,24	1.256.238.162,55
B. Transfers from capital and reserves		49200	0,00	0,00
1. From capital and share premium account		49210	0,00	0,00
2. From reserves		49220	0,00	0,00
C. Transfers to capital and reserves		49300	103.856.505,92	84.919.751,21
1. To capital and share premium account		49310	0,00	0,00
2. To the legal reserve		49320	103.856.505,92	84.919.751,21
3. To other reserves		49330	0,00	0,00
D. Profit (loss) to be carried forward	(+)/(-)	49400	2.755.826.960,76	1.945.473.368,24
E. Shareholders' contribution in respect of losses		49500	0,00	0,00
F. Profit to be distributed		49600	1.162.920.020,03	924.240.067,22
1. Dividends		49610	1.144.677.189,35	906.076.197,18
2. Director's or manager's entitlements		49620	0,00	0,00
3. Other allocations		49630	18.242.830,68	18.163.870,04

NOTES

I. STATEMENT OF LOANS AND ADVANCES TO CREDIT INSTITUTIONS (Assets caption III)

	Code	Current period	Previous period
A. FOR THE CAPTION AS A WHOLE	(10300)	18.256.806.686,96	14.266.043.749,10
1. Loans and advances to affiliated enterprises	50101	9.434.302.285,31	8.549.047.861,24
2. Loans and advances to other enterprises linked by participating interests	50102	0,00	0,00
3. Subordinated loans and advances	50103	0,00	0,00
B. OTHER LOANS AND ADVANCES TO CREDIT INSTITUTIONS (with agreed maturity dates or periods of notice)	(10320)	17.538.305.275,20	13.020.964.288,99
1. Trade bills eligible for refinancing with the central bank of the country(ies) of establishment of the credit	50104	0,00	
2. Breakdown according to the remaining maturity			
a. Up to 3 months	50105	9.344.556.382,62	
b. Over 3 months up to 1 year	50106	2.384.424.241,65	
c. Over 1 year up to 5 years	50107	3.066.190.782,89	
d. Over 5 years	50108	691.915.282,94	
e. Undated	50109	2.051.218.585,10	

II. STATEMENT OF LOANS AND ADVANCES TO CUSTOMERS (Assets caption IV)

	Code	Current Period	Previous Period
1. Loans to affiliated enterprises	50201	14.778.122.954,04	16.899.370.033,80
2. Loans to other enterprises linked by participating interests	50202	109.244.897,05	41.620.081,36
3. Subordinated loans	50203	22.150.965,54	1.314.283.319,79
4. Trade bills eligible for refinancing with the central bank of the country or countries where the credit institution is established	50204	0,00	0,00
5. Breakdown according to the remaining maturity :			
a. Up to 3 months	50205	24.627.045.068,23	
b. Over 3 months up to 1 year	50206	3.947.439.266,24	
c. Over 1 year up to 5 years	50207	15.249.706.579,20	
d. Over 5 years	50208	47.749.582.967,51	
e. Undated	50209	176.030.805,98	
6. Breakdown of customer loans based on the type of debtor			
a. Claims on government	50210	4.325.006.216,56	4.762.806.030,25
b. Retail exposures	50211	30.842.872.939,30	32.820.102.301,96
c. Claims on enterprises	50212	56.581.925.531,30	57.631.207.077,65
7. Breakdown by type :			
a. Trade bills (including own acceptance)	50213	43.529.779,16	
b. Loans and advances as a result of leasing and similar agreements	50214	2.043.898.729,93	
c. Fixed-rate loans	50215	1.495.886.761,20	
d. Mortgage loans	50216	26.085.708.410,51	
e. Other term loans with a maturity over 1 year	50217	36.354.410.915,48	
f. Other loans and advances	50218	25.726.370.090,88	
8. Geographical breakdown			
a. Belgian origin	50219	81.383.252.661,13	
b. Foreign	50220	10.366.552.026,03	
9. Details of mortgage loans with reconstitution of capital or linked to life insurance and capitalization contracts			
a. Principal sums initially lent	50221	0,00	
b. Reconstitution fund and mathematical reserves relating to these loans	50222	0,00	
c. Net amount outstanding (a-b)	50223	0,00	

III. STATEMENT OF DEBT SECURITIES AND OTHER FIXED-INCOME SECURITIES (Assets caption V)

	Code	Current period	Previous period
A. GENERAL	(10500)	39.796.732.400,15	31.683.477.586,25
1. Securities issued by affiliated enterprises	50301	30.007.462.190,13	18.849.633.042,41
2. Securities issued by enterprises linked by participating interests	50302	0,00	0,00
3. Securities representing subordinated loans	50303	11.488.402,57	65.518.134,10
4. Country analysis of the securities issued			
a. By public bodies	50304	7.270.258.856,25	
b. By other borrowers	50305	7.526.227.993,35	
c. Belgian issuers other than public bodies	50306	6.249.832.497,82	
d. Foreign issuers other than public bodies	50307	18.750.413.052,73	
5. Listing			
a. Book value of listed securities	50308	24.117.812.573,49	
b. Market value of listed securities	50309	25.375.577.609,90	
c. Book value of unlisted securities	50310	15.678.919.826,66	
6. Maturities			
a. Remaining maturity of up to one year	50311	16.955.966.517,04	
b. Remaining maturity of over one year	50312	22.840.765.883,11	
7. Analysis by portfolio			
a. Trading portfolio	50313	1.139.513.180,68	
b. Investment portfolio	50314	38.657.219.219,47	
8. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50315	3.838.339,00	
b. Difference between market value (if higher) and carrying value (for securities valued in accordance with Art. 35ter §2 para. 2)	50316	0,00	
9. Investment portfolio			
a. Difference between redemption value (if higher) and carrying value	50317	36.070.342,82	
b. Difference between redemption value (if lower) and carrying value	50318	601.628.031,15	

		Code	Current period	Previous period
B. ANALYSIS OF THE CARRYING VALUE OF INVESTMENT SECURITIES				
1. As at end of the preceding period		50323P	xxxxxxxxxxxxxxx	31.392.160.895,59
2. Movements during the the period	(+/-)	50319	7.276.961.835,98	
a . Acquisitions		50320	241.138.685.285,89	
b . Sales		50321	233.856.857.827,41	
c . Adjustments by application of Article 35ter §4 and 5	(+/-)	50322	-4.865.622,51	
3. Acquisition cost as at end of the period		50323	38.669.122.731,57	
4. Transfers between portfolios				
a . Transfers from the investment portfolio to the trading portfolio		50324	0,00	
b . Transfers from the trading portfolio to the investment portfolio		50325	0,00	
c . Impact on result		50326	0,00	
5. Write-Downs as at end of the period		50332P	xxxxxxxxxxxxxxx	11.968.086,30
6. Movements during the the period	(+/-)	50327	-64.574,20	
a . Recorded		50328	0,00	
b . Excess written back		50329	299.481,47	
c . Cancellations		50330	0,00	
d . Transfers from one caption to another	(+/-)	50331	234.907,27	
7. Write-downs as at end of the period		50332	11.903.512,10	
8. Carrying value as at end of the period		(50314)	38.657.219.219,47	

		Codes	Boekjaar	Vorig boekjaar
IIIBIS THEMATIC CITIZENS LENDING				
1.	**Total amount drawn**	50340	179.628.638,52	356.667.737,22
	a. Bonds	50341	179.628.638,52	356.667.737,22
	b. Allowed interbank loans	50342	0,00	0,00
2.	**Use of assets**	50350	1.193.196.269,85	1.362.371.367,83
	a. Citizens Lending	50351	1.193.196.269,85	1.362.371.367,83
	b. Investment pursuant to art. 11	50352	0,00	0,00
	c. Interbank loans drawn	50353	0,00	0,00
3.	**Income from realized investments pursuant to art. 11**	50360	0,00	0,00

IV. STATEMENT OF SHARES AND OTHER VARIABLE-YIELD SECURITIES (Assets caption VI)

	Code	Current Period	Previous Period
A. GENERAL REPORT	(10600)	829.602.201,64	754.206.948,81
1. Country analysis of the issuers of securities			
a. Belgian issuers	50401	295.894.758,43	230.967.062,05
b. Foreign issuers	50402	533.707.443,21	523.239.886,76
2. Listing			
a. Carrying value	50403	819.548.333,81	
b. Market value	50404	819.549.500,52	
c. Carrying value of unlisted securities	50405	10.053.867,83	
3. Analysis by portfolio			
a. Trading portfolio	50406	819.407.724,28	
b. Investment portfolio	50407	10.194.477,36	
4. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50408	66.210.471,00	
b. Difference between market value (if higher) and carrying value (for securities valued in accordance with Article 35ter §2 paragraph 2)	50409	0,00	

B. ANALYSIS OF THE CARRYING VALUE OF INVESTMENT SECURITIES		Code	Current period	Previous period
1. Acquisition cost as at the end of the period		50414P	xxxxxxxxxxxxxxx	19.350.834,22
2. Movements during the the period	(+)/(-)	50410	1.430.297,47	
a. Acquisitions		50411	7.285.469,76	
b. Sales		50412	5.858.010,32	
c. Other adjustments	(+/-)	50413	2.838,03	
3. Acquisition cost as at end of the period		50414	20.781.131,69	
4. Transfers between portfolios				
a. Transfers from the investment portfolio to the trading portfolio		50415	0,00	
b. Transfers from the trading portfolio to the investment portfolio		50416	0,00	
c. Impact on result		50417	0,00	
5. Write-downs as per end of the period		50423P	xxxxxxxxxxxxxxx	10.571.602,14
6. Movements during the period	(+)/(-)	50418	15.052,19	
a. Recorded		50419	20.607,29	
b. Excess written back		50420	0,00	
c. Cancellations		50421	5.555,10	
d. Transfers from one caption to another	(+)/(-)	50422	0,00	
7. Write-downs as at end of the period		50423	10.586.654,33	
8. Carrying value as at end of the period		(50407)	10.194.477,36	

V. STATEMENT OF FINANCIAL FIXED ASSETS (Assets caption VII)

A. GENERAL

	Code	Current period	Previous period
1. Breakdown of financial fixed assets by economic sector			
a. Participating interests in enterprises that are credit institutions	50501	7.367.511.587,14	7.573.511.587,18
b. Participating interests in enterprises that are not credit institutions	50502	7.882.194.520,90	5.521.012.840,60
c. Participating interests in enterprises linked by participating interests that are credit institutions	50503	5.839,10	6.508.558,37
d. Participating interests in enterprises linked by participating interests that are not credit institutions	50504	108.603.962,71	106.020.949,08
e. Other shares held as financial fixed assets in enterprises that are credit institutions	50505	0,00	0,00
f. Other shares held as financial fixed assets in enterprises that are not credit institutions	50506	18.433.180,55	8.899.191,59
g. Subordinated loans in linked enterprises that are credit institutions	50507	214.500.000,00	214.500.000,00
h. Subordinated loans in linked enterprises that are not credit institutions	50508	1.765.111.628,52	415.756.793,76
i. Subordinated loans in enterprises with participation interests that are credit institutions	50509	0,00	0,00
j. Subordinated loans in enterprises with participation interests that are not credit institutions	50510	0,00	29.800.000,00
2. Listings			
a. Participating interests in affiliated listed enterprises	50511	0,00	
b. Participating interests in affiliated not listed enterprises	50512	15.249.706.108,04	
c. Participating interests in other enterprises linked by participating interests that are listed	50513	0,00	
d. Participating interests in other enterprises linked by participating interests that are not listed	50514	108.609.801,81	
e. Other shares held as financial fixed assets in enterprises that are listed	50515	1.541.990,89	
f. Other shares held as financial fixed assets in enterprises that are not listed	50516	16.891.189,66	
g. Amount of subordinated loans represented by listed securities	50517	0,00	

	Code	Current period	Previous period
B. ANALYSIS OF THE CARRYING VALUE OF FINANCIAL FIXED ASSETS IN AFFILIATED ENTERPRISES			
1. Acquisition cost at the end of the period	50522P	xxxxxxxxxxxxxxx	14.966.601.708,91
2. Movements during the period (+/-)	50518	2.368.166.590,56	
a. Acquisitions	50519	2.415.166.475,25	
b. Sales and disposals	50520	49.649.884,69	
c. Transfers from one caption to another (+/-)	50521	2.650.000,00	
3. Acquisition cost as at the end of the period	50522	17.334.768.299,47	
4. Revaluation surpluses	50528P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period (+/-)	50523	0,00	
a. Recorded	50524	0,00	
b. Acquisitions from third parties	50525	0,00	
c. Cancellations	50526	0,00	
d. Transfers from one caption to another (+/-)	50527	0,00	
6. Revaluation surpluses as at the end of the period	50528	0,00	
7. Write-downs as at the end of the period	50535P	xxxxxxxxxxxxxxx	1.872.077.281,13
8. Movements during the period (+/-)	50529	212.984.910,30	
a. Recorded	50530	213.000.000,04	
b. Excess written back	50531	0,00	
c. Acquisitions from third parties	50532	0,00	
d. Cancellations	50533	15.089,74	
e. Transfers from one caption to another (+/-)	50534	0,00	
9. Write-downs as at end of the period	50535	2.085.062.191,43	
10. Net carrying value as at the end of the period	10710	15.249.706.108,04	

C. ANALYSIS OF THE CARRYING VALUE OF FIXED FINANCIAL ASSETS IN ENTERPRISES LINKED BY PARTICIPATING INTERESTS		Code	Current period	Previous period
1. Acquisition cost as at end of the period		50540P	xxxxxxxxxxxxxxx	118.365.568,89
2. Movements during the period	(+/-)	50536	2.104.893,92	
a. Acquisitions		50537	12.250.048,97	
b. Sales and disposals		50538	992.435,78	
c. Transfers from one caption to another	(+/-)	50539	-9.152.719,27	
3. Acquisition cost as at end of the period		50540	120.470.462,81	
4. Revaluation surpluses at the end of the period		50546P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+/-)	50541	0,00	
a. Recorded		50542	0,00	
b. Acquisitions from third parties		50543	0,00	
c. Cancellations		50544	0,00	
d. Transfers from one caption to another	(+/-)	50545	0,00	
6. Revaluation surpluses at the end of the period		50546	0,00	
7. Write-downs as at the end of the period		50553P	xxxxxxxxxxxxxxx	5.836.061,44
8. Movements during the period	(+/-)	50547	6.024.599,56	
a. Recorded		50548	6.648.546,32	
b. Excess written back		50549	0,00	
c. Acquisitions from third parties		50550	0,00	
d. Cancellations		50551	623.946,76	
e. Transfers from one caption to another	(+/-)	50552	0,00	
9. Write-downs as at the end of the period		50553	11.860.661,00	
10. Net carrying value as at end of the period		10720	108.609.801,81	

		Code	Current period	Previous period
D. ANALYSIS OF THE CARRYING VALUE OF OTHER SHARES HELD AS FINANCIAL FIXED ASSETS				
1. Acquisition cost as at the end of the period		50558P	xxxxxxxxxxxxxxx	11.524.272,56
2. Movements during the period	(+/-)	50554	10.236.674,35	
a. Acquisitions		50555	3.891.761,34	
b. Sales and disposals		50556	157.806,26	
c. Transfers from one caption to	(+/-)	50557	6.502.719,27	
3. Acquisition cost as at the end of the period		50558	21.760.946,91	
4. Revaluation surpluses at the end of the period		50564P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+/-)	50559	0,00	
a. Recorded		50560	0,00	
b. Acquisitions from third parties		50561	0,00	
c. Cancellations		50562	0,00	
d. Transfers from one caption to	(+/-)	50563	0,00	
6. Revaluation surpluses as at end of the period		50564	0,00	
7. Write-downs as at the end of the period		50571P	xxxxxxxxxxxxxxx	2.625.080,97
8. Movements during the period	(+/-)	50565	702.685,39	
a. Recorded		50566	911.927,17	
b. Excess written back		50567	169.433,06	
c. Acquisitions from third parties		50568	0,00	
d. Cancellations		50569	39.808,72	
e. Transfers from one caption to	(+/-)	50570	0,00	
9. Write-downs as at the end of the period		50571	3.327.766,36	
10. Net carrying value as at the end of the period		10730	18.433.180,55	

		Code	Current period	Previous period
E. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS TO AFFILIATED ENTERPRISES				
1. Net carrying value as at end of the period		50579P	xxxxxxxxxxxxxxx	630.256.793,76
2. Movements during the period	(+)/(-)	50572	1.349.354.834,76	
a. Additions		50573	1.327.474.834,76	
b. Reimbursements		50574	5.220.000,00	
c. Write-downs		50575	0,00	
d. Amounts written back		50576	0,00	
e. Realized exchange gains/losses	(+)/(-)	50577	0,00	
f. Other	(+)/(-)	50578	27.100.000,00	
3. Net carrying value as at the end of the period		50579	1.979.611.628,52	
4. Accumulated write-downs as at the end of the period		50580	0,00	

		Code	Current period	Previous period
F. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS TO ENTERPRISES LINKED BY PARTICIPATING INTERESTS				
1. Net carrying value as at the end of the period		50588P	xxxxxxxxxxxxxxx	29.800.000,00
2. Movements during the period	(+)/(-)	50581	-29.800.000,00	
a. Additions		50582	0,00	
b. Reimbursements		50583	2.700.000,00	
c. Write-downs		50584	0,00	
d. Amounts written back		50585	0,00	
e. Realized exchange gains/losses	(+)/(-)	50586	0,00	
f. Other	(+)/(-)	50587	-27.100.000,00	
3. Net carrying value as at the end of the period		50588	0,00	
4. Accumulated write-downs as at the end of the period		50589	0,00	

VI LIST OF ENTERPRISES IN WHICH THE INSTITUTION HOLDS A PARTICIPATING INTEREST

A. SHARE IN THE CAPITAL AND OTHER RIGHTS IN OTHER COMPANIES

List enterprises in which the enterprise holds a participating interest within the meaning of the Royal Decree of September 23 rd 1992 and other enterprises in which the institution holds rights in the amount of at least 10% of the capital issued.

NAME, full address of the REGISTERED OFFICE and for the enterprise governed by Belgian law, the COMPANY NUMBER	Shares held				Information from the most recent period for which annual accounts are available			
	directly			by subsidiaries	Annual accounts dated	Currency	Own funds	Net result
	Type	Number	%	%			(+) or (-) (in thousands units)	
1. Affiliated enterprises								
Almafin Real Estate NV Brussels BE 0403.355.494	Ordinary	61.999	99,99	0,01	31/12/2018	EUR	21.172	883
Almafin Real Estate Services NV Brussels BE 0416.030.525	Ordinary	1	0,01	99,99	31/12/2018	EUR	980	57
Almaloisir & Immobilier SAS Nice FR 35428620439	Ordinary	328	100,00	0,00	31/12/2018	EUR	56	-15
Bel Rom Sapte SRL Parter RO 18908106	Ordinary	16.428.357	99,99	0,01		RON	150.235	10.539
Brussels North Distribution NV Brussels BE 0476.212.887	Ordinary	5	5,00	95,00	31/12/2018	EUR	69	15
CBC Banque SA Namur BE 0403.211.380	Ordinary	2.989.624	99,99	0,00	31/12/2018	EUR	612.043	64.814
Ceskoslovenska Obchodni Banka AS Praha CZ 699000761	Ordinary	292.750.002	100,00	0,00	31/12/2018	CZK	84.425.000	17.319.000
CSOB SK Bratislava SK 7020000218	Ordinary	8.886	100,00	0,00	31/12/2018	EUR	785.790	53.158
Hello Shopping Park SRL ParterRO 18574766	Ordinary	10.000.000	100,00	0,00		RON	127.439	3.554
Immo-Antares NV Brussels BE 0456.398.361	Ordinary	2.375	95,00	5,00	10/11/2018	EUR	-2.538	-265
Immo-Basilix NV Brussels BE 0453.348.801	Ordinary	2.375	95,00	5,00	12/09/2018	EUR	-73	-132
Immobilière Distri-Land NV Brussels BE 0436.440.909	Ordinary	1.093	87,44	0,08	31/12/2018	EUR	372	8
Immo Lux-Airport SA Luxemburg LU	Ordinary	1.456	99,93	0,07	31/12/2018	EUR	136	0
Immo Mechelen City Center NV Brussels BE 0635.828.862	Ordinary	99	99,00	1,00	31/03/2018	EUR	60	6
Immo NamOtt NV Brussels BE 0840.412.849	Ordinary	99	99,00	1,00	31/12/2018	EUR	62	0
Immo NamOtt Tréfonds NV Brussels BE	Ordinary	1	1,00	99,00	31/12/2018	EUR	1.078	6
Immo-Quinto NV Brussels BE 0466.000.470	Ordinary	141.935	99,30	0,70	31/12/2018	EUR	5.212	-32
Immo Retail Libramont BV Brussels BE	Ordinary	10	100,00	0,00		EUR	0	0
Immo-Zénobe Gramme NV Brussels BE 0456.572.664	Ordinary	99	99,00	1,00	31/12/2018	EUR	75	-2
Julienne Holdings SARL Luxemburg LU	Cat. A	4.500	90,00	0,00	31/12/2018	EUR	-30.230	-1.185
K&H Bank ZRT Budapest HU 17780120	Ordinary	140.978.164.412	100,00	0,00	31/12/2018	HUF	302.795.000	57.050.000
KB-Consult NV Brussels BE 0437.623.220	Ordinary	364.543	99,95	0,05	31/12/2018	EUR	798	-18
KBC Asset Management NV Brussels BE 0469.444.267	Ordinary	5.766.804	99,99	0,00	31/12/2018	EUR	124.575	357.823
KBC Autolease NV Leuven BE 0422.562.385	Ordinary	184.987	99,99	0,01	31/12/2018	EUR	7.875	14.117
KBC Bail Immobilier France SAS Lille FR 19487504995	Ordinary	750.000	100,00	0,00	31/12/2018	EUR	14.706	464
KBC Bank Ireland PLC Dublin IE 8F86824G	Ordinary	827.892.018	99,99	0,00	31/12/2018	EUR	1.250.663	162.141
KBC Commercial Finance NV Brussels BE 0403.278.488	Ordinary	119.999	99,99	0,00	31/12/2018	EUR	9.459	4.362

KBC Credit Investments NV Brussels BE 0887.849.512	Ordinary	4.999.999	99,99	0,01	31/12/2018	EUR	5.581.181	146.986
KBC Finance Ireland Dublin IE 8F86824G	Ordinary	151.845.510	99,99	0,00	31/12/2017	EUR	25.979	964
KBC Focus Fund NV Brussels BE 0403.552.563	Ordinary	99.999	99,99	0,01	31/12/2018	EUR	2.560	-30
KBC Ifima NV Luxemburg NL 005967181B01	Ordinary	22.679	100,00	0,00	31/12/2018	EUR	7.269	621
KBC Immolease NV Leuven BE 0444.058.872	Ordinary	1.000.328	99,99	0,01	31/12/2018	EUR	26.418	3.757
KBC Investments LTD London GB 778102912	Ordinary	105.000.100	100,00	0,00		USD	466.213	2.145
KBC Lease Belgium NV Leuven BE 0426.403.684	Ordinary	267.179	99,99	0,01	31/12/2018	EUR	11.003	5.036
KBC Net Lease Investments LLC New York US	Ordinary	1	100,00	0,00		USD	1.520	2.071
KBC Real Estate Luxembourg SA Luxemburg LU 21567326	Ordinary	3.098	99,93	0,07	31/12/2018	EUR	14.666	2.319
KBC Securities NV Brussels BE 0437.060.521	Ordinary	1.898.517	99,94	0,00	31/12/2018	EUR	102.645	42.056
KBC Securities USA LLC New York US	Ordinary	100	0,06	0,00		USD	8.316	-645
KBC Vastgoedinvesteringen NV Brussels BE 0455.916.925	Ordinary	57.909	99,89	0,01	31/12/2018	EUR	-3.904	75
KBC Vastgoedportefeuille België Brussels BE 0438.007.854	Ordinary	57.763	99,99	0,01	31/12/2018	EUR	9.331	6.174
KBC Verzekeringen NV Leuven BE 0403.552.563	Ordinary	1	0,01	99,99	31/12/2018	EUR	1.368.474	370.618
Luxembourg North Distribution SA Luxemburg LU 19453469	Ordinary	11	11,00	89,00	31/12/2018	EUR	101	67
Omnia NV Leuven BE 0413.646.305	Ordinary	1	0,01	99,99	31/12/2018	EUR	4.792	809
Poelaert Invest NV Brussels BE 0478.381.531	Ordinary	9.950	99,50	0,50	31/12/2018	EUR	12.317	1.227
Reverse Mortgage Loan Trust 2008-1 New York US	Ordinary	1	100,00	0,00		USD	1.174	823
Soluz.io NV Mechelen BE 0711.710.576	Ordinary	5.100	51,00	0,00		EUR	0	0
Start It X NV Antwerpen BE	Ordinary	1.000	100,00	0,00		EUR	0	0
UBB Asset Management AD Sofia BG	Ordinary	64	9,14	90,85		BGN	1.478	1.297
UBB Interlease AD Sofia BG	Ordinary	3.474.648	100,00	0,00		BGN	81.282	-5.784
United Bulgarian Bank AD Sofia BG	Ordinary	75.893.450	99,90	0,00	31/12/2018	BGN	1.386.814	175.889
World Alliance Financial LLC New York US	Ordinary	1	100,00	0,00		USD	-333	-326
2. Enterprises linked by participating interests >=20% en <= 50%								
Bancontact Payconiq Company NV Brussels BE 0675.984.882	Cat. B	12.414.111	22,49	0,00	31/12/2018	EUR	21.894	-14.087
Banking Funding Company NV Brussels BE 0884.525.182	Ordinary	12.437	20,25	0,00	31/12/2018	EUR	736	11
BRS Microfinance Coop CVBA Leuven BE 0508.996.711	Cat. C	7.500.000	34,94	0,00	31/12/2018	EUR	21.766	272
C Plus SAS Voisins Le Bretonneux FR 7983222020003	Ordinary	50.000	83,33	0,00		EUR	-12.696	-10
Gasco Group NV Willebroek BE 0887.290.177	Ordinary	2.531.250	28,12	0,00	31/12/2018	EUR	-20.913	-679

Gemma Frisius-Fonds K.U. Leuven NV Leuven BE 0477.960.372	Cat. A	4.000	40,00	0,00	31/12/2018	EUR	15.712	382
Go Connect BV Grimbergen BE 0653.775.248	Cat. C	124	25,00	0,00	31/12/2018	EUR	80	-109
Immo Beaulieu NV Brussels BE 0450.193.133	Ordinary	1.000	50,00	0,00	16/06/2018	EUR	68	116
Isabel NV Brussels BE 0455.530.509	Ordinary	253.322	25,33	0,00	31/12/2018	EUR	31.135	8.552
Joyn International NV Hasselt BE 0578.946.577	Cat. B	9.292.583	43,00	0,00	31/12/2017	EUR	18.170	-3.472
Justinvest NV Antwerp BE 0476.658.097	Ordinary	50	33,33	0,00	31/12/2018	EUR	651	101
Payconiq International SA Luxemburg LU 131239768	Ordinary	664.288	42,24	0,00	31/12/2018	EUR	24.046	-13.474
Rabot Invest NV Antwerp BE 0479.758.733	Ordinary	60	25,00	0,00	31/12/2018	EUR	761	101
Thanksys NV Antwerp BE 0553.877.423	Cat. B	1.148.315	39,03	0,00	31/12/2018	EUR	2.500	-931
3. Enterprises linked by participating interests >=10% en <= 20%								
Baekeland II NV Gent BE 0876.424.296	Ordinary	2.000.000	18,01	0,00	31/12/2017	EUR	787	-899
Bedrijvencentra Limburg NV Hasselt BE 0425.902.353	Ordinary	1.800	12,50	0,00	31/12/2018	EUR	4.024	59
Bedrijvencentrum Vilvoorde NV Vilvoorde BE 0434.222.577	Ordinary	338	9,30	8,26	31/12/2018	EUR	1.152	-47
Bedrijvencentrum Zaventem NV Zaventem BE 0426.496.726	Ordinary	350	11,26	8,04	31/12/2018	EUR	509	-46
Belgian Mobile ID NV Brussels BE 0541.659.084	Ordinary	73.093	14,99	0,00	31/12/2018	EUR	8.270	-7.010
BEM NV Brussel BE 0461612904	Ordinary	1.500	6,47	12,94	31/12/2018	EUR	2.932	-37
Business Brewery NV Heverlee BE 0428.014.676	Ordinary	40	9,52	4,76	31/12/2018	EUR	1.858	-81
Designcenter De Winkelhaak NV Borgerhout BE 0470.201.857	Cat. A/B	124	19,46	0,00	31/12/2018	EUR	733	32
Europay Belgium NV Brussels BE 0434.197.536	Ordinary	4.932	14,56	0,95	31/12/2017	EUR	1.120	48
Impulse Microfinance Investment Fund NV Wilrijk BE 0870.792.160	Ordinary	2.000	17,56	0,00	31/12/2018	EUR	1.704	-240
OEM Equity Participations BV Utrecht NL	Ordinary	720.200	12,24	0,00	31/12/2018	EUR	228	-2
QBIC Feeder Fund NV Gent BE 0846.493.561	Cat. B	4.000	14,71	0,00	31/12/2018	EUR	16.145	596
Rural Impulse Luxemburg LU	Ordinary	15.000	16,66	0,00	31/12/2017	USD	16.596	7.117
Storesquare NV Roeselare BE 0554.814.066	Ordinary	951.576	16,95	0,00	31/12/2018	EUR	3.734	-2.907
Visa Belgium CVBA Brussels BE 0435.551.972	Ordinary	23	13,06	0,56	30/09/2018	EUR	40.622	200
Vives NV Louvain-La-Neuve BE 0862.398.591	Cat. A/B	2.500	14,69	0,00	31/12/2018	EUR	1.299	-20
We.trade Innovation DAC Dublin IE	Ordinary	1.366.592	11,21	0,00		EUR	0	0

B. ENTERPRISES FOR WHICH THE CREDIT INSTITUTION HAS UNLIMITED LIABILITY IN ITS CAPACITY OF FULLY LIABLE PARTNER OR MEMBER

The annual accounts of any enterprise to which the enterprise is unlimited liable will be added to the present accounts and published jointly.
Departure from that requirement will be mentioned in the second column referring to the appropiate code (A or B), explained hereafter.

The annual accounts of the enterprise:

A. are published by filing with the National Bank of Belgium;

B. are effectively published in another Member State of the EEC as laid down in Article 3 of the Directive 2009/101/EEC;

C. are fully consolidated or proportionally consolidated in the reporting institution's accounts which have been prepared audited and published in accordance with the Royal Decree of September 23 rd 1992 on the consolidated accounts of institutions.

Name and full address of registered office and, for enterprises governed by Belgian law, VAT number or national identification number	Code, if any

VII. STATEMENT OF FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

		Code	Current period	Previous period
A. Formation expenses				
1. Net carrying value as at the end of the period		50705P	xxxxxxxxxxxxxxx	0,00
2. Movements during the period		50701	0,00	
a. New expenses incurred		50702	0,00	
b. Amortization		50703	0,00	
c. Other	(+)/(-)	50704	0,00	
3. Net carrying value as at the end of the period		50705	0,00	
4. Of which				
a. Expenses of formation or capital increase, loan issue expenses and other formation expenses		50706	0,00	
b. Reorganization costs		50707	0,00	

		Code	Current period	Previous period
B. GOODWILL				
1. Acquisition cost as at the end of the period		50712P	xxxxxxxxxxxxxxx	49.189.577,68
2. Movements during the period		50708	-1.250.874,68	
a. Acquisitions, including own construction		50709	0,32	
b. Sales and disposals		50710	1.250.875,00	
c. Transfers from one caption to another	(+)/(-)	50711	0,00	
3. Acquisition cost as at the end of the period		50712	47.938.703,00	
4. Amortizations and write-downs as at the end of the period		50719P	xxxxxxxxxxxxxxx	6.044.745,16
5. Movements during the period		50713	8.336.865,88	
a. Recorded		50714	9.587.740,88	
b. Excess written back		50715	0,00	
c. Acquisitions from third parties		50716	0,00	
d. Cancellations		50717	1.250.875,00	
e. Transfers from one caption to another	(+/-)	50718	0,00	
6. Amortizations and write-downs as at the end of the period		50719	14.381.611,04	
7. Net carrying value as at the end of the period		50720	33.557.091,96	

		Code	Current period	Previous period
C. COMMISSIONS FOR ATTRACTING NEW BUSINESS WITH CUSTOMERS				
1. Acquisition cost as at the end of the period		50725P	xxxxxxxxxxxxxxx	0,00
2. Movements during the period		50721	0,00	
a. Acquisitions, including own construction		50722	0,00	
b. Sales and disposals		50723	0,00	
c. Transfers from one caption to another	(+)/(-)	50724	0,00	
3. Acquisition cost as at the end of the period		50725	0,00	
4. Amortizations and write-downs as at the end of the period		50732P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period		50726	0,00	
a. Recorded		50727	0,00	
b. Excess written back		50728	0,00	
c. Acquisitions from third parties		50729	0,00	
d. Cancellations		50730	0,00	
e. Transfers from one caption to another	(+)/(-)	50731	0,00	
6. Amortizations and write-downs as at the end of the period		50732	0,00	
7. Net carrying value as at end of the period		50733	0,00	

		Code	Current period	Previous period
D. OTHER INTANGIBLE FIXED ASSETS				
1. Acquisition cost as at end of the period		50738P	xxxxxxxxxxxxxxx	74.222.567,98
2. Movements during the period		50734	-1.477.276,69	
a. Acquisitions, including own construction		50735	276.019,44	
b. Sales and disposals		50736	1.753.296,13	
c. Transfers from one caption to another	(+)/(-)	50737	0,00	
3. Acquisition cost as at end of the period		50738	72.745.291,29	
4. Amortizations and write-downs as at end of the period		50745P	xxxxxxxxxxxxxxx	30.178.396,67
5. Movements during the period		50739	13.675.255,16	
a. Recorded		50740	13.691.190,93	
b. Excess written back		50741	0,00	
c. Acquisitions from third parties		50742	0,00	
d. Cancellations		50743	15.935,77	
e. Transfers from one caption to another	(+)/(-)	50744	0,00	
6. Amortizations and write-downs as at the end of the period		50745	43.853.651,83	
7. Net carrying value as at the end of the period		50746	28.891.639,46	

VIII. TANGIBLE FIXED ASSETS (Assets caption IX)

		Code	Current period	Previous period
A. LAND AND BUILDINGS				
1. Acquisition cost as at the end of the period		50805P	xxxxxxxxxxxxxxx	1.297.065.806,64
2. Movements during the period	(+)/(-)	50801	13.372.021,63	
a. Acquisition, including own construction		50802	24.937.127,93	
b. Sales and disposals		50803	12.134.827,16	
c. Transfers from one caption to another	(+)/(-)	50804	569.720,86	
3. Acquisition cost as at the end of the period		50805	1.310.437.828,27	
4. Revaluation surpluses as at the end of the period		50811P	xxxxxxxxxxxxxxx	58.404.716,30
5. Movements during the period	(+)/(-)	50806	-9.698,49	
a. Recorded		50807	0,00	
b. Acquisitions from third parties		50808	0,00	
c. Cancellations		50809	9.698,49	
d. Transfers from one caption to another	(+)/(-)	50810	0,00	
6. Revaluation surpluses as at the end of the period		50811	58.395.017,81	
7. Amortizations and write-downs as at the end of the period		50818P	xxxxxxxxxxxxxxx	827.871.725,36
8. Movements during the period	(+)/(-)	50812	24.311.497,85	
a. Recorded		50813	32.186.688,70	
b. Excess written back		50814	0,00	
c. Acquisitions from third parties		50815	0,00	
d. Cancellations		50816	7.875.190,85	
e. Transfers from one caption to another	(+)/(-)	50817	0,00	
9. Amortizations and write-downs as at the end of the period		50818	852.183.223,21	
10. Net carrying value as at the end of the period		50819	516.649.622,87	

		Code	Current period	Previous period
B. PLANT, MACHINERY AND EQUIPMENT				
1. Acquisition cost as at the end of the period		50824P	xxxxxxxxxxxxxxx	9.866.890,23
2. Movements during the period	**(+)/(-)**	50820	318.528,96	
a. Acquisition, including own construction		50821	466.431,28	
b. Sales and disposals		50822	147.902,32	
c. Transfers from one caption to another	(+)/(-)	50823	0,00	
3. Acquisition cost as at the end of the period		50824	10.185.419,19	
4. Revaluation surpluses as at the end of the period		50830P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	**(+)/(-)**	50825	0,00	
a. Recorded		50826	0,00	
b. Acquisitions from third parties		50827	0,00	
c. Cancellations		50828	0,00	
d. Transfers from one caption to another	(+)/(-)	50829	0,00	
6. Revaluation surpluses as at the end of the period		50830	0,00	
7. Amortization and write-downs as at the end of the period		50837P	xxxxxxxxxxxxxxx	9.498.418,65
8. Movements during the period	**(+)/(-)**	50831	309.163,88	
a. Recorded		50832	454.346,22	
b. Excess written back		50833	0,00	
c. Acquisitions from third parties		50834	0,00	
d. Cancellations		50835	136.223,34	
e. Transfers from one caption to another	(+)/(-)	50836	-8.959,00	
9. Amortizations and write-downs as at the end of the period		50837	9.807.582,53	
10. Net carrying value as at the end of the period		50838	377.836,66	

		Code	Current period	Previous period
C. FURNITURE AND VEHICLES				
1. Acquisition cost as at the end of the period		50843P	xxxxxxxxxxxxxxx	33.111.382,32
2. Movements during the period	**(+)/(-)**	50839	-344.617,77	
a. Acquisition, including own construction		50840	630.422,87	
b. Sales and disposals		50841	975.040,64	
c. Transfers from one caption to another	(+)/(-)	50842	0,00	
3. Acquisition cost as at the end of the period		50843	32.766.764,55	
4. Revaluation surpluses as at the end of the period		50849P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	**(+)/(-)**	50844	0,00	
a. Recorded		50845	0,00	
b. Acquisitions from third parties		50846	0,00	
c. Cancellations		50847	0,00	
d. Transfers from one caption to another	(+)/(-)	50848	0,00	
6. Revaluation surpluses as at the end of the period		50849	0,00	
7. Amortizations and write-downs as at the end of the period		50856P	xxxxxxxxxxxxxxx	16.778.240,75
8. Movements during the period	**(+)/(-)**	50850	-557.395,52	
a. Recorded		50851	221.139,40	
b. Excess written back		50852	0,00	
c. Acquisitions from third parties		50853	0,00	
d. Cancellations		50854	787.492,92	
e. Transfers from one caption to another	(+)/(-)	50855	8.958,00	
9. Amortizations and write-downs as at the end of the period		50856	16.220.845,23	
10. Net carrying value as at the end of the period		50857	16.545.919,32	

		Code	Current period	Previous period
D. LEASING AND OTHER SIMILAR RIGHTS				
1. Acquisition cost as at the end of the period		50862P	xxxxxxxxxxxxxxx	130.971.150,12
2. Movements during the period	(+)/(-)	50858	2.068.000,00	
a. Acquisition, including own construction		50859	7.318.000,00	
b. Sales and disposals		50860	5.250.000,00	
c. Transfers from one caption to another	(+)/(-)	50861	0,00	
3. Acquisition cost as at the end of the period		50862	133.039.150,12	
4. Revaluation surpluses as at the end of the period		50868P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+)/(-)	50863	0,00	
a. Recorded		50864	0,00	
b. Acquisitions from third parties		50865	0,00	
c. Cancellations		50866	0,00	
d. Transfers from one caption to another	(+)/(-)	50867	0,00	
6. Revaluation surpluses as at the end of the period		50868	0,00	
7. Amortizations and write-downs as at the end of the period		50875P	xxxxxxxxxxxxxxx	32.030.321,96
8. Movements during the period	(+)/(-)	50869	6.023.076,89	
a. Recorded		50870	6.023.076,89	
b. Excess written back		50871	0,00	
c. Acquisitions from third parties		50872	0,00	
d. Cancellations		50873	0,00	
e. Transfers from one caption to another	(+)/(-)	50874	0,00	
9. Amortizations and write-downs as at the end of the period		50875	38.053.398,85	
10. Net carrying value as at the end of the period		50876	94.985.751,27	
11. Of which				
a. Land and buildings		50877	94.985.751,27	
b. Plant, machinery and equipment		50878	0,00	
c. Furniture and vehicles		50879	0,00	

		Code	Current period	Previous period
E. OTHER TANGIBLE FIXED ASSETS				
1. Acquisition cost as at the end of the period		50884P	xxxxxxxxxxxxxxx	962.189.911,08
2. Movements during the period	(+)/(-)	50880	194.172.096,48	
a. Acquisition, including own construction		50881	298.433.637,22	
b. Sales and disposals		50882	103.691.819,88	
c. Transfers from one caption to another	(+)/(-)	50883	-569.720,86	
3. Acquisition cost as at the end of the period		50884	1.156.362.007,56	
4. Revaluation surpluses as at the end of the period		50890P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+)/(-)	50885	0,00	
a. Recorded		50886	0,00	
b. Acquisitions from third parties		50887	0,00	
c. Cancellations		50888	0,00	
d. Transfers from one caption to another	(+)/(-)	50889	0,00	
6. Revaluation surpluses as at the end of the period		50890	0,00	
7. Amortizations and write-downs as at the end of the period		50897P	xxxxxxxxxxxxxxx	212.954.537,65
8. Movements during the period	(+)/(-)	50891	76.570.233,02	
a. Recorded		50892	100.347.148,31	
b. Excess written back		50893	1.144,14	
c. Acquisitions from third parties		50894	0,00	
d. Cancellations		50895	23.775.771,15	
e. Transfers from one caption to another	(+)/(-)	50896	0,00	
9. Amortizations and write-downs as at the end of the period		50897	289.524.770,67	
10. Net carrying value as at the end of the period		50898	866.837.236,89	

		Code	Current period	Previous period
F. ASSETS UNDER CONSTRUCTION AND ADVANCE PAYMENTS				
1. Acquisition cost as at the end of the period		50903P	xxxxxxxxxxxxxxx	0,00
2. Movements during the period	(+)/(-)	50899	0,00	
a. Acquisition, including own construction		50900	0,00	
b. Sales and disposals		50901	0,00	
c. Transfers from one caption to another	(+)/(-)	50902	0,00	
3. Acquisition cost as at the end of the period		50903	0,00	
4. Revaluation surpluses as at the end of the period		50909P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+)/(-)	50904	0,00	
a. Recorded		50905	0,00	
b. Acquisitions from third parties		50906	0,00	
c. Cancellations		50907	0,00	
d. Transfers from one caption to another	(+)/(-)	50908	0,00	
6. Revaluation surpluses as at the end of the period		50909	0,00	
7. Amortization and write-downs as at the end of the period		50916P	xxxxxxxxxxxxxxx	0,00
8. Movements during the period	(+)/(-)	50910	0,00	
a. Recorded		50911	0,00	
b. Excess written back		50912	0,00	
c. Acquisitions from third parties		50913	0,00	
d. Cancellations		50914	0,00	
e. Transfers from one caption to another	(+)/(-)	50915	0,00	
9. Amortizations and write-downs as at the end of the period		50916	0,00	
10. Net carrying value as at the end of the period		50917	0,00	

IX. OTHER ASSETS (Assets caption XI)

Breakdown (if the amount in this caption is significant)	Current period
Options	612.917.969,05
Other	429.527.639,78

X. DEFERRED CHARGES AND ACCRUED INCOME (Assets caption XII)

	Code	Current period
1. Deferred charges	51001	34.741.013,67
2. Accrued income	51002	6.833.732.991,26

X.bis REINVESTMENT OF SEGREGATED CUSTOMER FUNDS

	Code	Current period
Total	51003	0,00

XI. STATEMENT OF AMOUNTS OWED TO CREDIT INSTITUTIONS (Liabilities caption I)

	Code	Current period	Previous period
1. Amounts due to affiliated enterprises	51101	2.552.069.591,58	2.627.545.209,34
2. Amounts due to other enterprises linked by participating interests	51102	0,00	0,00
3. Breakdown of debts other than on sight according to their remaining maturity			
a. Up to 3 months	51103	9.832.543.447,58	
b. Over 3 months up to 1 year	51104	528.182.385,20	
c. Over 1 year up to 5 years	51105	2.768.416.320,89	
d. Over 5 years	51106	2.092.384,42	
e. Undated	51107	2.277.306.339,72	

XII. STATEMENT OF AMOUNTS OWED TO CUSTOMERS (Liabilities caption II)

	Code	Current period	Previous period
1. Affiliated enterprises	51201	2.969.470.808,24	3.047.590.581,42
2. Other enterprises linked by participating interests	51202	111.138.613,37	97.050.754,26
3. Breakdown according to the remaining maturity			
a. Repayable on demand	51203	50.023.306.748,64	
b. Up to 3 months	51204	6.928.003.283,09	
c. Over 3 months up to 1 year	51205	3.686.431.095,01	
d. Over 1 year up to 5 years	51206	5.560.343.784,09	
e. Over 5 years	51207	360.138.972,49	
f. Undated	51208	42.661.559.576,89	
4. Breakdown of debt owed to customers depending on the nature of the debtors			
a. Debt owed to government	51209	3.166.555.750,19	1.926.897.831,65
b. Debt owed to private persons	51210	61.439.702.701,75	58.043.395.543,58
c. Debt owed to enterprises	51211	44.613.525.008,27	43.681.896.261,56
5. Geographical breakdown of debt owed to customers			
a. Of Belgian origin	51212	92.685.450.947,42	
b. Of foreign origin	51213	16.534.332.512,79	

XIII. STATEMENT OF DEBTS EVIDENCED BY CERTIFICATES (liabilities caption III)

	Code	Current period	Previous period
1. Debts represented by a certificate that, to the knowledge of the institution, are debts owed to affiliated companies.	51301	311.279.699,71	164.666.182,80
2. Debts represented by a certificate that, to the knowledge of the institution, are debts owed to companies linked by participating interests.	51302	0,00	0,00
3. Breakdown of debt represented by certificates in accordance to their remaining maturity.			
a. Up to 3 months	51303	9.747.366.769,76	
b. Over 3 months up to 1 year	51304	1.766.867.664,57	
c. Over 1 year up to 5 years	51305	4.756.496.531,94	
d. Over 5 years	51306	1.693.085.797,82	
e. Undated	51307	0,00	

XIV. OTHER LIABILITIES (liabilities caption IV)

	Code	Current period
1. Taxes, remuneration and social security charges due to the tax authorities	51401	0,00
a. Overdue debts	51402	0,00
b. Unmatured debts	51403	0,00
2. Taxes, remuneration and social security charges due to the National Social Security Office	51404	0,00
a. Overdue debts	51405	0,00
b. Unmatured debts	51406	0,00
3. Taxes		
a. Taxes payable	51407	40.655.206,18
b. Estimated tax liabilities	51408	3.568.584,32
4. Other liabilities		
Breakdown if the amount in this caption is significant		
Other amounts payable relating to remuneration and social security		144.295.272,11
Option contracts		520.056.615,86
Dividends still to be paid		1.144.677.189,35
Other		219.404.134,38

XV. ACCRUED CHARGES AND DEFERRED INCOME (liabilities caption V)

	Code	Current period
1. Accrued charges	51501	4.877.538.686,69
2. Deferred income	51502	143.565.837,32

XVI. PROVISIONS FOR OTHER LIABILITIES AND CHARGES (liabilities VI.A.3)

	Current period
Breakdown of liabilities (VI.A.3) if the amounts in this caption are significant	
Credit commitments	96.122.540,82
Litigation and operational disputes	8.500.942,31
Provision for other risks and future expenses	14.282.900,00
Provision for disability payments	2.722.935,74
Other	7.779.368,20

XVII. STATEMENT OF SUBORDINATED LIABILITIES (liabilities caption VIII)

	Code	Current period	Previous period
1. Subordinated debts due to affiliated enterprises	51701	8.916.956.562,38	8.350.000.283,66
2. Subordinated debts due to other enterprises linked by participating interests	51702	0,00	0,00

	Code	Current period
3. Charges as a result of subordinated liabilities	51703	179.552.654,98

4. For each subordinated loan, the following information: reference number, the ISO code of the currency, the amount of the loan in the currency of the loan, the remuneration arrangements, the due date and, if no due date is determined, the terms of duration, where appropriate the circumstances in which the institution is required to repay in advance, the conditions for the subordination and if appropriate, the conditions for the conversion into capital or into some other form of liability.

Detail of each subordinated loan :

Reference nummer	Currency	Amount	Maturity date or conditions governing the maturity	a) Circumstances in which the entreprise is required to repay b) Conditions for the subordition c) Conditions for conversion into capital
1	EUR	1.000.000.000	24/04/2018 - 24/04/2025 Deposits originated by KBC Group - AT1	a) Unconditional
2	EUR	500.000.000	05/03/2019 - 05/03/2024 Deposits originated by KBC Group - AT1	a) Unconditional
3	EUR	174.581.960	24/07/2014 - 24/07/024 Deposits originated by KBC Group - Tier2	a) Unconditional
4	EUR	9.903.269	06/03/2015 - 06/03/2025 Deposits originated by KBC Group - Tier2	a) Unconditional
5	EUR	748.756.689	11/03/2015 - 11/03/2027 Deposits originated by KBC Group - Tier2	a) Unconditional
6	EUR	745.798.746	03/09/2019 - 03/12/2024 Deposits originated by KBC Group - Tier2	a) Unconditional
7	EUR	748.783.785	26/04/2016 - 26/04/2021 Deposits originated by KBC Group - Holdco	a) Unconditional
8	EUR	749.691.184	18/10/2016 - 18/10/2023 Deposits originated by KBC Group - Holdco	a) Unconditional
9	EUR	1.249.917.978	01/03/2017 - 01/03/2022 Deposits originated by KBC Group - Holdco	a) Unconditional
10	EUR	750.000.000	24/05/2017 - 24/11/2022 Deposits originated by KBC Group - Holdco	a) Unconditional
11	EUR	24.978.317	04/10/2017 - 04/10/2027 Deposits originated by KBC Group - Holdco	a) Unconditional
12	EUR	498.192.449	27/06/2018 - 27/06/2023 Deposits originated by KBC Group - Holdco	a) Unconditional
13	EUR	749.080.145	25/01/2019 - 25/01/2024 Deposits originated by KBC Group - Holdco	a) Unconditional
14	EUR	30.091.010	Continuous issued Subordinated Certificate	a) Unconditional
15	EUR	22.021.357	Continuous issued Subordinated Term Account	a) Unconditional
16	USD	134.431.148	Continuous issued Deposits originated by KBC IFIMA	a) Fiscal requalification
17	EUR	78.844.234	Continuous issued Deposits originated by KBC IFIMA	a) Fiscal requalification
18	EUR	497.089.094	10/04/2019 - 10/04/2025 Euro Medium Term Note	a) Unconditional
19	EUR	256.907.567	24/06/2019 - 25/01/2024 Euro Medium Term Note	a) Unconditional

XVIII. STATEMENT OF CAPITAL

	Code	Current period	Previous period
A. CAPITAL			
1. Subscribed capital			
a. Subscribed capital as at the end of the preceding period	20910P	xxxxxxxxxxxxxx	8.948.439.652,39
b. Subscribed capital as at the end of the period	(20910)	9.732.238.065,25	

	Code	Amounts	Number of shares
c. Changes during the period		783.798.412,86	80.142.987
d. Structure of the capital			
e. Categories of shares			
Ordinary shares entitled to dividend		9.732.238.065,25	995.371.469
f. Registered shares	51801	xxxxxxxxxxxxxx	995.371.469
g. Bearer and or dematerialized shares	51802	xxxxxxxxxxxxxx	0

	Code	Uncalled capital	Called but unpaid capital
2. CAPITAL NOT PAID UP			
a. Uncalled capital	(20920)	0,00	xxxxxxxxxxxxxx
b. Called but unpaid capital	51803	xxxxxxxxxxxxxx	0,00
c. Shareholders still owing capital payment			

	Code	Current period
3. OWN SHARES		
a. Held by the reporting institution itself		
* Amount of capital held	51804	0,00
* Corresponding number of shares	51805	0,00
b. Held by its subsidiaries		
* Amount of capital held	51806	0,00
* Corresponding number of shares	51807	0,00
4. SHARE ISSUANCE COMMITMENTS		
a. Following the exercise of conversion rights		
* Amount of convertible loans outstanding	51808	0,00
* Amount of capital to be subscribed	51809	0,00
* Maximum corresponding number of shares to be issued	51810	0,00
b. Following the exercise of subscription rights		
* Number of subscription rights outstanding	51811	0,00
* Amount of capital to be subscribed	51812	0,00
* Maximum corresponding number of shares to be issued	51813	0,00
5. AUTHORIZED CAPITAL NOT ISSUED	51814	4.000.000.000,00

	Code	Current period
6. SHARES NOT REPRESENTING CAPITAL		
a. Repartition		
* Number of parts	51815	0,00
* Number of votes	51816	0,00
b. Breakdown by shareholder		
* Number of parts held by the reporting institution itself	51817	0,00
* Number of parts held by its subsidiaries	51818	0,00

B. SHAREHOLDER STRUCTURE OF THE INSTITUTION AT YEAR END, ACCORDING TO THE NOTIFICATIONS RECEIVED BY THE INSTITUTION

KBC Groep NV	Number of shares:	995.371.468
KBC Verzekeringen NV	Number of shares:	1

XIX. BREAKDOWN OF BALANCE SHEET, IF MORE THAN 15 MILLION EUROS, IN EUROS AND IN FOREIGN CURRENCY

	Code	Current period
1. Total Assets		
a. In Euro	51901	152.055.449.162,46
b. In foreign currency (equivalent in EUR)	51902	26.924.569.341,75
2. Total liabilities		
a. In Euro	51903	148.155.277.326,42
b. In foreign currency (equivalent in EUR)	51904	30.824.741.177,79

XX. FIDUCIARY TRANSACTIONS ACCORDING TO ARTICLE 27TER §1 PARAGRAPH 3

	Current period
Concerned assets and liabilities items	

XXI. STATEMENT OF GUARANTEED DEBTS AND OBLIGATIONS

	Current period
A. MORTGAGES (amount of enrollment or carrying amount of the collateralized buildings, if this is less)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	

	Current period
B. PLEDGE OF THE TRADING FUND (total enrollment)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of third parties	

	Current period
C. PLEDGE OF OTHER ASSETS (book value of pledged assets)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
Discounting, repurchase agreements and secured advances	17.182.611.875,19
Asset Pledge requirement KBC New York	48.663.432,43
Asset Pledge National Bank of Belgium	4.215.711.934,69
Asset Pledge Bancontact	174.982.452,35
Covered bonds	10.908.006.082,95
b. Off-balance sheet	
Cash & Bond Collateral wrt derivatives	2.628.768.313,93
Clearing Margin Derivatives	736.181.343,34
Securities Lending	135.887.443,31
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	

	Current period
D. COLLATERAL ON FUTURE ASSETS (total assets in question)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off-balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of third parties	

XXII. STATEMENT OF CONTINGENT LIABILITIES AND COMMITMENTS WITH POTENTIAL CREDIT RISK (off balance sheet I and II)

	Codes	Current period	Previous period
1. Total contingent liabilities on behalf of affiliated companies	52201	4.991.675.014,87	4.386.431.719,39
2. Total contingent liabilities on behalf of companies linked by participating interests	52202	281.330,13	5.658.172,63
3. Total commitments with a potential credit risk to affiliated companies	52203	0,00	0,00
4. Total commitments with a potential risk with regard to companies linked by participating interests	52204	0,00	0,00

XXIII. OPERATING RESULTS (items I to XV of the income statement)

	Code	Period	Previous period
1. Breakdown of operating income according to origin			
a. Interest and similar income	(40100)	2.807.270.192,25	2.908.638.186,36
* Belgian sites	52301	2.437.143.149,62	2.492.787.945,17
* Foreign offices	52302	370.127.042,63	415.850.241,20
b. Income from fixed-income securities: shares and other variable-yield securities	(40310)	26.201.338,36	17.481.173,22
* Belgian sites	52303	2.449.568,40	522.416,19
* Foreign offices	52304	23.751.769,96	16.958.757,03
c. Income from fixed-income securities: investments in affiliated companies	(40320)	1.976.947.892,63	1.063.319.547,60
* Belgian sites	52305	1.976.947.892,63	1.063.319.547,60
* Foreign offices	52306	0,00	0,00
d. Income from fixed-income securities: shares in companies linked by participating interests	(40330)	5.668.002,26	5.532.678,35
* Belgian sites	52307	5.668.002,26	5.532.678,35
* Foreign offices	52308	0,00	0,00
e. Income from fixed-income securities: other shares held as fixed financial assets	(40340)	464.225,63	435.311,80
* Belgian sites	52309	464.225,63	435.311,80
* Foreign offices	52310	0,00	0,00
f. Commissions received	(40400)	1.818.567.526,47	1.409.933.593,80
* Belgian sites	52311	1.787.577.398,60	1.381.244.589,26
* Foreign offices	52312	30.990.127,87	28.689.004,55
g. Profit on financial transactions	(40600)	265.702.447,92	384.801.202,77
* Belgian sites	52313	268.251.675,95	378.099.095,22
* Foreign offices	52314	-2.549.228,03	6.702.107,55
h. Other operating income	(41400)	372.215.621,27	302.472.305,16
* Belgian sites	52315	357.449.988,14	288.845.548,83
* Foreign offices	52316	14.765.633,13	13.626.756,34
2. Employees on the personnel register			
a. Total number at the closing date	52317	9.489	9.804
b. Average number of employees in full-time equivalents	52318	8.767	8.904
* Management Personnel	52319	82	89
* Employees	52320	8.685	8.815
* Workers	52321	0	0
* Other	52322	0	0
c. Number of actual worked hours	52323	12.105.372	12.577.042
3. Personnel			
a. Remuneration and direct social benefits	52324	578.729.987,09	574.209.369,24
b. Employers' social security	52325	144.893.811,19	147.678.849,28
c. Employers' premiums for extra statutory insurance	52326	58.071.304,75	49.204.745,94
d. Other personnel	52327	26.908.815,18	28.663.700,71
e. Retirement and survivors' pensions	52328	6.444.003,74	4.529.355,41
4. Provisions for pensions and similar obligations			
a. Increase (+)	52329	7.118.233,85	6.212.068,70
b. Decrease (-)	52330	11.869.036,15	11.756.771,00

	Code	Period	Previous period
5. Breakdown of other operating income if this represents a significant amount			
a. Leasing activities		133.491.245,02	105.830.121,46
b. Recalculations to / recuperations of group companies		160.815.743,65	129.730.375,22
c. Other		77.908.632,60	66.911.808,48
6. Other operating expenses			
a. Corporate taxes	52331	38.602.063,74	34.314.093,44
b. Other	52332	8.609.830,35	4.110.615,51
c. Analysis of other operating expenses if this represents a significant amount			
7. Operating revenue from affiliated companies	52333	5.961.034.480,75	3.067.177.341,50
8. Operating costs relating to affiliated companies	52334	4.056.804.730,09	2.326.024.770,59

XXIV. STATEMENT OF OFF BALANCE SHEET OPERATIONS ON SECURITIES, CURRENCIES AND OTHER FINANCIAL INSTRUMENTS WHICH BRING NO OBLIGATION WITH A POTENTIAL CREDIT RISK ACCORDING TO HEADING II OF THE OFF BALANCE SHEET ITEMS

	Code	Current period
A. TYPES OF OPERATIONS (amounts on the closing date of the accounts)		
1. Securities transactions		
a. Forward purchases and sales of securities and marketable securities	52401	0,00
* of which: not intended for hedging purposes	52402	0,00
2. Exchange transactions (amounts to be provided)		
a. Forward exchange contracts	52403	130.280.700.282,27
* of which: not intended for hedging purposes	52404	130.252.684.392,66
b. Currency and interest rate swaps	52405	45.005.705.579,80
* of which: not intended for hedging purposes	52406	43.508.519.212,41
c. Currency futures	52407	0,00
* of which: not intended for hedging purposes	52408	0,00
d. Options on currencies	52409	9.373.406.847,45
* of which: not intended for hedging purposes	52410	9.373.406.847,45
e. Forward exchange contracts	52411	0,00
* of which: not intended for hedging purposes	52412	0,00
3. Transactions in other financial instruments		
Forward transactions in interest rate (nominal / notional reference)		
a. Interest rate swap agreements	52413	381.121.467.185,99
* of which: not intended for hedging purposes	52414	318.943.080.533,99
b. Interest futures transactions	52415	10.909.787.275,55
* of which: not intended for hedging purposes	52416	10.909.787.275,55
c. Future Interest rate Agreements	52417	3.388.221.887,78
* of which: not intended for hedging purposes	52418	3.388.221.887,78
d. Interest rate options	52419	34.353.835.924,09
* of which: not intended for hedging purposes	52420	31.714.225.445,09
Other purchase and sales (sale / purchase price agreed between parties)		
e. Other option transactions	52421	3.601.035.575,71
* of which: not intended for hedging purposes	52422	3.601.035.575,71
f. Other futures transactions	52423	418.117.318,96
* of which: not intended for hedging purposes	52424	418.117.318,96
g. Other forward purchases and sales	52425	14.000.000,00
* of which: not intended for hedging purposes	52426	14.000.000,00

		Code	Current period
B. QUANTIFICATION OF THE IMPACT ON THE RESULTS OF THE DEROGATION OF VALUATION RULE UNDER article 36bis, § 2 RELATING TO THE FORWARD TRANSACTIONS IN INTEREST RATE			
1. Forward transactions in interest rate regarding treasury management			
a. Nominal / notional reference amount on the closing date of accounts		52427	0,00
b. Difference between market value and book value	(+)/(-)	52428	0,00
2. Forward transactions in interest rate regarding ALM (*)			
a. Nominal / notional reference amount on the closing date of accounts		52429	48.429.992.657,77
b. Difference between market value and book value	(+)/(-)	52430	-1.298.448.967,68
3. Forward transactions in interest rate without the effect of risk reduction (LOCOM)			
a. Nominal / notional reference amount on the closing date of accounts		52431	12.301.131,75
b. Difference between market value and book value	(+)/(-)	52432	649.360,43

(*) Including forward transactions regarding securitizations of loans (nominal value 6.470.771.078 EUR). The MtM Value of the deals amount to (507.302.150 EUR).

XXV. EXTRAORDINARY RESULTS

	Code	Current period
1. Realised gains on transfer of fixed assets to affiliated companies	52501	0,00
2. Incurred losses on transfer of fixed assets to affiliated companies	52502	0,00
3. Breakdown of the other exceptional income if it comprises significant amounts		0,00
4. Breakdown of the other extraordinary costs if they comprise significant amounts		0,00

XXVI. INCOME TAXES

	Code	Current period
1. Income taxes for the year	52601	-62.225.143,25
a. Taxes and withholding taxes due or paid	52602	-44.687.790,60
b. Excess of income tax prepayments and of withholding taxes	52603	1.399.083,00
c. Estimated additional charges for income taxes	52604	-18.936.435,65
2. Income taxes for previous years	52605	-1.459.464,39
a. Additional income taxes due or paid	52606	0,00
b. Additional charges for income taxes, estimated (included in liabilities)	52607	-1.459.464,39
3. Main sources of differences between the profit before tax, as stated in the financial statements, and the estimated taxable income		
Movements in taxable reserves and provisions		116.866.972,19
The specific tax system applicable to gains and losses on shares		220.664.421,63
The application of the foreign tax credit scheme on dividends received		-2.260.128.388,32
Disallowed expenses (other than write-downs, losses on shares, revenue participation and corporation tax)		26.339.494,11

4. Impact of extraordinary results on the amount of income taxes for the year

Realised gains and incurred losses on shares under financial fixed assets (gains not taxable and losses not deductible)		-1.008.247,96
Write-downs (not deductible) and write-backs (not taxable) on shares under financial fixed assets		-219.712.194,48

	Code	Current period
5. Sources of deferred taxes		
a. Deferred tax assets	52608	2.014.624.335,68
* Accumulated tax losses deductible from future taxable profits	52609	1.562.982.352,80
* Other deferred tax assets		451.641.982,88
Taxable impairments		412.556.841,82
Taxable supplies		27.191.743,84
Other taxable reserves		11.893.397,22
b. Passive deferrals	52610	0,00
* Breakdown of the passive deferrals		

XXVII. VALUE ADDED TAX AND TAXES BORNE BY THIRD PARTIES

	Code	Current period	Previous period
1. Charged value added tax			
a. To the reporting institution (deductible)	52701	247.498.930,54	205.838.528,94
b. By the reporting institution	52702	219.690.651,28	206.822.586,35
2. Amounts withheld on behalf of third parties as			
a. Payroll tax	52703	149.941.885,26	158.015.697,50
b. Withholding tax	52704	116.016.551,51	96.462.388,31

XXVIII. OFF-BALANCE SHEET RIGHTS AND COMMITMENTS AND TRANSACTIONS WITH RELATED PARTIES

A. OFF BALANCE SHEET RIGHTS AND COMMITMENTS

	Code	Current period
1. Substantial commitments to acquire fixed assets		
2. Substantial commitments to dispose of fixed assets		

3. Significant litigation and other significant commitments

Significant disputes pending:

Information relating to the most important pending litigation: claims against KBC Group companies are valued in accordance with IFRS rules according to their risk assessment (probable, possible or unlikely). For those cases where a loss is probable, we set aside provisions (see Notes to the accounting policies). If the receivable is only estimated as possible (the files with risk estimation possible loss), we do not make provisions, but we make notes in the financial statements if they could have a significant impact on the balance sheet (i.e. if the receivable could lead to a possible outflow in excess of 50 million euros). All other exposures (i.e. those with an estimated risk of improbable loss), irrespective of their order of magnitude, which are of low or zero risk need not be disclosed. The most important files are listed below. We keep the information limited so as not to impede the Group's position in pending lawsuits.

Possible outflow:

Irving H. Picard, trustee of Substantively Consolidated SIPA (Securities Investor Protection Corporation) Liquidation of Bernard L. Madoff Investments Securities LLC and Bernard L. Madoff, sued KBC Investments on 6 October 2011 before the bankruptcy court in New York for recovery of approximately $110 million following transfers in favor of KBC entities. The claim is based on successive transactions that KBC received from Harley International, a Madoff feeder fund set up under Cayman Islands law. This requirement is part of a whole series of claims brought by Picard (SIPA) against various banks, hedge funds, feeder funds and investors. In addition to the handling of other legal issues, briefings took place before the district court on the applicability of Bankruptcy Code's safe harbors and good defenses for successive beneficiaries, as is the case for KBC. KBC had submitted motions for rejection together with numerous other defendants (hereinafter referred to as the joint defence group). Judge Rakoff of the district court has rendered several interlocutory judgments in that regard. The most important judgments concern the defence based on extraterritoriality and good faith. On 27 April 2014, Judge Rakoff rendered such a judgment regarding the applicable standard for good faith and the burden of proof based on Sections 548(b) and 559(b) of the Bankruptcy Act. Thus, the burden of proof that KBC would have been aware of the fraud committed by Madoff is placed on Picard/SIPA. On 7 July 2014, Judge Rakoff ruled that Picard/SIPA's invocation of Section 550(a) does not permit the recovery of successive transfers from a foreign transferor to a recipient abroad, as is the case for KBC Investments Ltd. Therefore, the trustee's recoveries have been rejected as they concern only foreign transfers. In June 2015, Irving Picard, the trustee, filed an application to reform the decision to reject on the grounds of extraterritoriality. In that petition, the trustee also amended the original claims including the amount he was trying to recover. That amount was increased to $196 million. On 21 November 2016, the bankruptcy court issued an interlocutory judgment in which it announced its decision that the claims of the trustee Irving Picard relating to such foreign transactions should be rejected on the basis of rules of international courtesy. This was followed on 3 March 2017 by a negative judgment, against which the trustee lodged an appeal. The Court of Appeal (Court of Appeals for Second Circuit) reformed the judgment in February 2019 and referred the case back to the bankruptcy court for further treatment. The Joint Defence Group then requested a review of this decision by a panel of three judges or by all the judges of the Court of Appeal of the Second Circuit. At the beginning of April 2019, this request was rejected. At the end of August 2019, the joint defence group lodged an extraordinary appeal (certiorari petition) against the appeal ruling of February 2019 with the Supreme Court. On 10 December 2019, the Supreme Court invited the Attorney General of the State to present the position of the United States Government.

Other significant liabilities.

The bank irrevocably guarantees all the sums, indebtedness, obligations and liabilities outstanding on 31 December 2019 of the following companies, which are consequently exempt from publication on a consolidated basis.

KBC Asset Management NV

4. Where appropriate, a brief description of the system of supplementary retirement or survivor benefit of the personnel or the executives, stating the measures taken to cover the resulting charges

A system of additional pension provisions, a supplementary death capital, orphan's interest and invalidity allowances is provided for all staff members. For all staff who have been employed since 2014, this is organised via the KBC Pension Fund in a "fixed contribution" plan. This means that the amount of these provisions depends on the employee's remuneration over the course of his career. For staff who were already in service before 2014, these provisions are organised within the framework of a "defined benefit" plan, which means that the amount of these provisions depends on the final remuneration, the number of years of service and the age at the time of retirement. Since 2015, the target plan to be achieved is therefore a closed plan (no more new accessions).

These pension provisions are fully financed by the employer by means of annual allowances that are charged to the result. These allowances in the defined benefit plan are calculated on an actuarial basis using the aggregate cost method. The allowances in the "defined contribution" plan are calculated as a percentage of the individual, actual remuneration; for contribution plans, a statutory minimum return guarantee is applicable, which currently amounts to 1.75%. The allowances are paid to the KBC Pension Fund, which is responsible for the management of the reserves thus formed, their payment and the administration.

In addition, a supplementary pension plan (fixed contribution plan) is provided, based exclusively on the personal contributions of the employees through deductions from salary payments. The legal return guarantee currently amounts to 1.75%. This plan was discontinued on 1 January 2019. In other words, no new accessions will take place and it only exists for those staff who were already members of this plan before 1/1/2019 and who have opted to continue the plan beyond 1/1/2019. Here too, the management, payment and administration of this plan has been entrusted to the KBC pension fund.

5. Pensions that are borne by the institution itself: the estimated amount of obligations arising from past services

Bases and methods of estimation

Code	Current period
52801	

6. Nature and business purpose of off balance sheet arrangements

Provided that the risks or benefits of such arrangements are material and to the extent that disclosure of the risks or benefits is necessary for assessing the financial situation of the institution;
where appropriate, the financial consequences of these operations for the facility must also be mentioned:

KBC Bank NV is a member of a VAT grouping.

KBC Bank has set up a company for investments in debt securities, called Loan Invest NV, which has acquired loans of KBC Bank, using funds received from the issuance of securities.

KBC Bank carries an important part of these securities on its balance sheet. The interest risk carried by Loan Invest NV is covered by interest rate swaps concluded between Home Loan Invest and KBC Bank, so that this operation has a limited effect on the ALM management of the bank and on the income statement. The balance sheet shows a decrease of loans for an amount of 7.860 million euros and an increase of investment securities for an amount of 6.146 million euros. KBC Bank NV has a subordinated claim on Loan Invest NV, worth 1.663 million euros.

The main reason for setting up this operation is to make part of the loans of KBC Bank more liquid, as the securities issued by Loan Invest NV and held by KBC Bank are eligible for refinancing with the ECB. As a consequence the main purpose of this operation is improving the liquidity risk of the bank.

Note that Loan Invest NV is listed as a “Special Purpose Entity”, included in the consolidated reporting of KBC Bank.

The annual accounts of Loan Invest NV are available at the Central Balance Sheet Office.

7. Other off balance sheet rights and commitments

B. TRANSACTIONS WITH RELATED PARTIES OUTSIDE NORMAL MARKET CONDITIONS

Indication of such transactions if they are significant, including the amount of these transactions, the nature of the relationship with the related party and any other information on transactions that would be required to obtain a better understanding of the financial situation of the institution:

Related party	The nature of the relationschip	Current period
Apicinq NV	Committed lines	7.600.000,00
CBC BANQUE SA	Other option transactions	11.453.400,00
	Guarantees given	28.380.766,47
	Guarantees received	396.077.366,38
	Interest rate options	567.694.975,57
	Options on currencies	105.998.110,02
	Interest rate swap agreements	5.403.743.355,17
	Forward exchange contracts	310.347.872,40
	Currency and interest rate swaps	6.607.929,52
Československá Obchodná Banka a.s.	Guarantees received	259.859.682,90
	Interest rate options	35.570.808,74
	Options on currencies	42.838.464,23
	Interest rate swap agreements	5.760.656.909,14
	Forward exchange contracts	269.369.249,05
Československá Obchodní Banka a.s.	Other option transactions	195.513.774,66
	Guarantees given	12.895.462,71
	Guarantees received	2.152.645.843,61
	Interest rate options	622.199.013,33
	Options on currencies	1.028.417.568,89
	Forward interest rate contracts	1.157.115.868,44
	Interest rate swap agreements	69.460.116.145,79
	Forward exchange contracts	28.030.437.410,67
	Committed lines	85.995.495,80
	Currency and interest rate swaps	2.810.720.686,98
ČSOB Leasing a.s.	Guarantees given	39.447.593,40
Groep VAB NV	Guarantees given	1.788.601,48
	Committed lines	3.000.000,00
Julie LH bvba	Guarantees received	116.550.000,02
K&H Bank Zrt.	Other option transactions	4.225.032,55
	Guarantees given	65.383.337,56
	Guarantees received	285.823.582,75
	Interest rate options	37.011.375,52
	Options on currencies	973.286.877,47
	Interest rate swap agreements	9.363.713.389,39
	Forward exchange contracts	1.730.447.355,47
	Currency and interest rate swaps	520.112.381,62
KBC Asset Management NV	Guarantees given	269.501.052,00
	Guarantees received	1.390.000,00
	Forward exchange contracts	81.175.261,68
	Committed lines	30.000.000,00
KBC Asset Management SA	Guarantees given	2.195.000,00
	Committed lines	2.535.000,00
KBC Autolease NV	Committed lines	148.404.999,00
KBC Bail Immobilier France sas	Guarantees received	54.398.561,35
	Committed lines	44.346.602,32
KBC Bank Ireland Plc	Guarantees given	1.258.456.000,00
	Guarantees received	2.327.269.774,03
	Interest rate options	1.750.000,00
	Interest rate swap agreements	3.597.948.400,77
	Forward exchange contracts	354.815.503,13
	Committed lines	193.590.040,00
	Currency and interest rate swaps	852.049.185,12
KBC Commercial Finance NV	Guarantees given	1.231.284.175,00
	Guarantees received	3.762.916,15
	Committed lines	2.700.000.000,00

Related party	The nature of the relationschip	
KBC Credit Investments NV	Guarantees received	6.718.377.396,29
	Interest rate swap agreements	8.144.886.891,09
	Currency and interest rate swaps	320.818.800,75
KBC Groep NV	Guarantees received	59.510.806,30
	Interest rate swap agreements	500.000.000,00
	Committed lines	20.000.000,00
KBC Ifima SA	Other option transactions	146.775.630,00
	Other forward purchases and sales	7.000.000,00
	Guarantees given	1.354.929.478,95
	Interest rate options	14.891.859,36
	Interest rate swap agreements	942.581.653,52
KBC Immolease NV	Committed lines	33.466.133,00
KBC Lease (Luxembourg) SA	Committed lines	10.989.999,00
KBC Lease Belgium NV	Guarantees received	4.850.000,00
	Committed lines	144.237.123,00
KBC Securities NV	Other option transactions	2.321.064,15
	Guarantees given	132.702.340,66
	Guarantees received	9.963.635,00
	Committed lines	700.000.000,00
KBC Verzekeringen NV	Other option transactions	4.378.624,12
	Guarantees given	3.230.735,83
	Guarantees received	4.588.693.503,83
	Interest rate swap agreements	657.500.000,00
	Committed lines	8.300.000,00
	Assets pledged as collateral	2.750.000.000,11
Loan Invest NV	Interest rate swap agreements	6.470.771.078,40
Poelaert Invest NV	Interest rate swap agreements	45.613.624,00
	Committed lines	48.600.000,00
United Bulgarian Bank AD	Guarantees given	5.314.353,10
	Guarantees received	936.679.864,10
	Interest rate swap agreements	60.000.000,00
	Forward exchange contracts	631.082.203,31
	Assets pledged as collateral	420.008.971,99

C. Nature and financial impact of the significant events after the balance sheet date which are not taken into account in the income statement or the balance sheet

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

XXIX. FINANCIAL RELATIONS WITH

	Code	Current period
A. DIRECTORS AND MANAGERS, INDIVIDUALS OR CORPORATE BODIES WHO CONTROL THE INSTITUTION DIRECTLY OR INDIRECTLY WITHOUT BEING RELATED TO IT OR OTHER COMPANIES CONTROLLED DIRECTLY OR INDIRECTLY BY THESE PEOPLE		
1. Amounts receivable from these persons	52901	262.241.144,00
a. Conditions on amounts receivable		
b. Possibly refunded amount or amount which is waived		
All related party transactions occur at arm's length.		
2. Guarantees granted on their behalf	52902	0,00
a. Principal terms of the guarantees granted		
3. Other significant commitments undertaken in their favour	52903	0,00
a. Main conditions of these obligations		
4. Direct and indirect remuneration and pensions, included in P&L, provided that such disclosure does not concern exclusively or mainly the situation of a single identifiable person		
a. To directors and managers	52904	495.000,00
b. To former directors and former managers	52905	0,00

	Code	Current period
B. THE AUDITOR(S) AND THE PEOPLE HE (SHE) IS (ARE) RELATED TO		
1. Remuneration of the auditor(s)	52906	1.975.819,00
2. Fees for exceptional services or special services provided to the company by the auditor(s)		
a. Other audit services	52907	62.541,00
b. Tax advisory services	52908	0,00
c. Other non-audit services	52909	0,00
3. Fees for exceptional services or special services provided to the company by persons with whom the auditor(s) is(are) related		
a. Other audit services	52910	0,00
b. Tax advisory services	52911	0,00
c. Other non-audit services	52912	0,00

4. Statements in accordance with Article 133, § 6 of the Company Code

XXX. POSITIONS IN FINANCIAL INSTRUMENTS

	Code	Current period
1. Financial instruments to be received by the institution on behalf of clients	53001	7.696.816.767,62
2. Financial instruments to be delivered by the institution to clients	53002	7.334.099.218,94
3. Financial instruments of clients held in custody by the institution	53003	229.686.404.818,60
4. Financial Instruments from clients given in custody by the institution	53004	151.397.758.508,30
5. Financial Instruments from clients held as collateral by the institution	53005	2.269.816.671,38
6. Financial Instruments from clients given as collateral by the institution	53006	0,00

XXXI. COUNTRY BY COUNTRY INFORMATION

Information to be provided by the institutions referred to in Article 4(1)(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No 648/2012 with the exception of those undertakings which draw up and publish consolidated accounts in accordance with the Royal Decree of 23 September 1992 on the consolidated accounts of credit institutions, investment firms and collective investment undertakings.

DENOMINATION of the branch, subsidiary or joint subsidiary Nature of activities	Financial year				
LAND	Number of employees *in full-time equivalents*	Turnover (= Interest income and similar income + income from variable-income securities + commissions received + gain on financial transactions)	Profit (Loss) before taxes	Tax on the results	Government grants received

XXXII. DERIVATIVES NOT ESTIMATED AT FAIR VALUE

FOR EACH CATEGORY OF DERIVATIVE FINANCIAL INSTRUMENTS NOT BE VALUED ON THE BASIS OF FAIR VALUE

				Period		Previous Period	
Category of financial derivatives	Hedge risk	Speculation/ hedging	Volume	Book value	Fair value	Book Value	Fair value
Interest rate swaps	Interest rate risk	Hedging	61.726.744.104	-101.475.092	-1.472.054.774	-109.528.966	-1.365.360.750
Cross currency interest rate swaps	Interest- and currency risk	Hedging	197.655.169	317.849	12.986.349	575.258	10.140.524
Credit Default Swap	Credit Risk	Hedging	-	-	-	-	-

FINANCIAL FIXED ASSETS CARRIED AT AN AMOUNT IN EXCESS OF FAIR VALUE	**Book value**	**Fair value**
Amount of individual assets or appropriate groupings of those assets		
Reasons for not reducing the book value		
Informations that suggest than the book value will be recovered		

XXXII. DECLARATION ON CONSOLIDATED ACCOUNTS

A. TO BE COMPLETED BY ALL CREDIT INSTITUTIONS

The institution has drawn up and has published consolidated annual accounts and a consolidated annual report*

~~**The institution does not draw up consolidated annual accounts nor a consolidated annual report because she is exempted due to following reason(s)***~~

The institution does not, solely nor jointly, control one or more subsidiaries governed by Belgian or foreign law*

The institution is a subsidiary of a parent company that draws up and publishes consolidated accounts, in which the annual accounts are included through consolidation*

Justification of compliance with the conditions set out in Article 4 of the Royal Decree of September 23rd 1992:

Name and full address of the registered office and, for institutions governed by Belgian law, the company number of the parent company publishing the consolidated accounts by virtue of which the exemption is granted

B. TO BE COMPLETED BY INSTITUTIONS WHICH ARE SOLELY OR JOINTLY-HELD SUBSIDIARIES

Name and full address of the registered office and, for companies governed by Belgian law, the company number of the parent company or companies preparing and publishing the consolidated accounts in which the accounts of the reporting institution are consolidated **:

KBC GROEP NV
HAVENLAAN 2, 1080 BRUSSEL
0403.227.515
The parent company draws up consolidated annual accounts and publishes these consolidated annual accounts.

If the parent company or companies are governed by foreign law, state the place where the above-mentioned consolidated accounts may be obtained **:

* Delete where appropriate

** If the accounts are consolidated at several levels, give details of the largest and smallest aggregate to which the reporting institution belongs as a subsidiary and for which consolidated accounts are prepared and published

C. FINANCIAL RELATIONSHIPS OF THE GROUP LED BY THE COMPANY IN BELGIUM WITH THE AUDITOR(S) OR PEOPLE HE (THEY) IS (ARE) RELATED TO: Statement in accordance with article 133, paragraph 6 of the Company Law

	Code	Current period
D. FINANCIAL RELATIONSHIPS OF THE GROUP LED BY THE COMPANY IN BELGIUM WITH THE AUDITOR(S) OR PEOPLE HE (THEY) IS (ARE) RELATED TO: Statement in accordance with article 134, paragraphs 4 and 5 of the Company Law		
1. Auditor's fees for carrying out an auditor's mandate on the level of the group led by the company that publishes the information	53201	5.814.977,00
2. Fees for exceptional services or special services rendered in this group by the auditor(s)		
a. Other audit services	53202	286.552,00
b. Tax consultancy services	53203	0,00
c. Other non-audit services	53204	0,00
3. Fees for the people who are related to the auditor(s) for carrying out an auditor's mandate on the level of the group led by the company that publishes the information	53205	0,00
4. Fees for exceptional services or special services rendered in this group by the people who are related to the auditor(s)		
a. Other audit services	53206	276.290,00
b. Tax consultancy services	53207	0,00
c. Other non-audit services	53208	48.645,00

XXXIII. Relationships with associates (*) :

	Code	Closed financial year
1. Amount of financial assets	**53101**	**21.608.651,29**
- Holdings	53102	21.608.651,29
- Subordinated loans	53103	0,00
- Other claims	53104	0,00
2. Receivables form associated companies	**53105**	**108.874.628,26**
- On more than one year	53106	108.874.628,26
- within one year	53107	0,00
3. Debts to associates	**53108**	**147.495.277,32**
- On more than one year	53109	147.495.277,32
- within one year	53110	0,00
4. Personal and real guarantees :	**53111**	**279.490,17**
- made by the company or irrevocably promised as security for debts or liabilities of associates	53112	24.897,50
- Held by associates or irrevocably promised as security for the debts or obligations of the company	53113	254.592,67
5. Other significant financial commitments :	**53114**	**0,00**

(*) Associates within the meaning of Article 12 of the companies code.

Valuation rules KBC Bank

1. General

The accounting principles and valuation rules are conform to Belgian accounting legislation and the provisions of the Royal Decree of 23 September 1992 on the annual accounts of credit institutions.

The annual accounts are made up as at 31 December after profit appropriation.

In conformity with Article 3 of the above-mentioned Royal Decree, the annual accounts are drawn up according to the principle of a true and fair view. A transparent, clear and consistent financial reporting is important for KBC Bank as a financial institution. As such, KBC aims to align as much as possible, within the possibilities of the Belgian accounting law and the systems, with the international accounting standards IFRS, as applied for the consolidated annual accounts.

2. Valuation rules

CURRENCY TRANSLATION

All monetary items denominated in foreign currency are translated into their equivalent in euros at the spot rate at balance sheet date. Negative and positive valuation differences, except for those relating to the financing of shares and investments in foreign currency and to dotation capital for foreign branches, are recorded in the profit and loss account.

Non-monetary items are valued on the basis of the historical rate at acquisition or, where appropriate, on the basis of the exchange rate at which the currency used to pay the price was purchased.

For transactions that entailed funding (lending), the rate of the day is used if there is no exchange rate.

Income and charges denominated in foreign currency are stated in the profit and loss account at the rate prevailing when they were recognised. Foreign-currency income and expenditure which is hedged in advance is recorded in euros on the basis of the fixed rate.

Translation of the financial statements of foreign branches outside the euro zone:

balance sheet items are translated at the closing exchange rate prevailing at year-end, profit and loss account items are translated based on average rates. For this purpose, each month's profit or loss is translated into euros at the rate prevailing at the end of that month.

The translation difference at balance sheet date, resulting from translating the profit and loss account on the basis of average rates, is taken to the profit and loss account as profit on financial transactions.

AMOUNTS RECEIVABLE

Interest collected in advance and similar income (including such additional compensation as fees for foreign loans) for the entire loan period cannot be taken to the profit and loss account immediately, and is therefore posted to an accruals and deferrals heading. At month-end, the amount earned is written to the profit and loss account.

Origination and processing fees charged are taken to profit and loss immediately on the inception of the loans and advances concerned, credit insurance premiums are taken to the profit and loss account annually when paid.

Commissions due (payable in advance) for bank guarantees given are recorded in the profit and loss account immediately. The commissions received by KBC Bank for credit broking are charged to the profit and loss account when the credit is disbursed.

Amounts receivable arising from advances and cash deposits are recorded in the balance sheet for the amount made available.

The difference between the amount made available and the nominal value (discount) is recognised on an accruals basis according to the straight- line method as interest receivable via the accruals and deferrals accounts.

Dated commercial credit, consumer credit, home loans and receivables arising from leasing contracts are recorded in the balance sheet in the outstanding principal amount, plus the interest past due and sundry costs to be paid by customers. Interest received but not yet due (interest collected in advance) is recorded in the profit and loss account on an accruals basis via the accruals and deferrals headings.

The other amounts receivable are recognised in the balance sheet at nominal value.

Loans and advances that are transferred through securitisation operations where the transfer qualifies as a sale under NBB/BNB guidelines no longer constitute bank assets and consequently may not appear on the balance sheet of KBC Bank, although the amount is required to be recorded in the contingent accounts. Until the securitisation operation comes to an end, the entry in the contingent accounts is required to be adjusted at the end of each month to reflect customers' loan repayments. Any gains realised on the sale of securitised assets are taken to the profit and loss account immediately at the time of the sale.

If the sales price is made up entirely or in part of a variable element dependent on the buyer's operating profit, this element will only be taken to the profit and loss account when the operating profit is known and this element is therefore fixed.

In synthetic securitisation operations, the (credit) risk in respect of the underlying (loan) portfolio is all that is transferred to a third party, and this by means of a credit default swap, for example, and not through the effective transfer/sale of the (loan) receivables.

In other words, the loans remain on the balance sheet. Transactions used to hedge the company's own loan receivables are recognised as guarantees given or received. Transactions relating to the trading portfolio are recorded as interest rate swaps.

Both types of transaction are marked to market and taken to profit and loss, unless carried out on an illiquid market (in this case, positive valuation differences are posted to an accruals and deferrals heading, and negative valuation differences to the profit and loss account).

For loans with an uncertain outcome, general provisions are set aside and specific write-downs are charged. All interest and various other receivables which have remained unpaid for three months after having become payable will not be recognised in the profit and loss account.

Non-specific write-downs are calculated for domestic loans with an uncertain outcome on the basis of the principal amount whose repayment is uncertain, the percentage susceptible to reclassification (that portion of the 'uncertain outcome' portfolio that might become 'doubtful') and the loss percentage.

For loans classified as irrecoverable and doubtful, specific write-downs are posted on a case-by-case basis and charged to the assets heading in the annual accounts in which the risks appear, in order to cover the losses which are considered certain or likely to ensue on the outstanding loans. Interest due and charges are written to reserves.

Loans are classified as irrecoverable and doubtful if the loan balance is payable and if debt-recovery procedures have been initiated in or out of court.

The amount of any security is equal to the principal amount registered. Personal security is recorded in the accounts in the amount that can be obtained if execution is levied.

SECURITIES

Securities are recognised at acquisition cost at the time of purchase, excluding costs and less subscription fees. The ancillary costs attendant on acquisition are charged directly to the result.

- *Investment portfolio*

Fixed-income investment securities are recorded at acquisition cost, less or plus the matured portion of the premium or discount.

The difference between the acquisition cost and the redemption value is reflected as an interest item in the profit and loss account on an accruals basis over the remaining term to maturity of the securities. It is included in the profit and loss account on a discounted basis, based on the internal rate of return at the time of purchase.

Perpetual debt is valued at the lower of acquisition cost and market value.

If redemption of a security is uncertain or doubtful, an impairment is recorded according to the principles that apply for the valuation of amounts receivable.

If securities are sold, their carrying value is determined on a case-by-case basis. Gains or losses are posted directly to the profit and loss account.

Listed shares and other variable-yield securities are valued each month at the lower of acquisition cost and market value at balance sheet date. Other securities are valued at least once a year, based on the annual accounts for the previous year. File administrators are responsible for ensuring that any significant negative developments during the course of the year are also dealt with.

No value impairments are posted for shares hedged against a decline in price by means of an option.

- *Trading portfolio*

Securities belonging to the trading portfolio are marked to market. The resulting valuation differences are recorded in the profit and loss account under heading VI: 'Profit (Loss) on financial transactions'.

FINANCIAL FIXED ASSETS

Included in KBC Bank's holdings or participating interests are the rights (shares) held in other companies with a view to creating specific, lasting ties with them.

If there are no lasting ties and the shares are acquired for resale, then this investment will not be considered a financial fixed asset, but rather as part of the investment portfolio, regardless of the size of the shareholding and the influence that could be exerted on the management of the company in question through this shareholding.

Participating interests and shares that are considered financial fixed assets are recognised at acquisition cost.

Write-downs are applied only in the event of a lasting impairment in or loss of value, established on the basis of the financial position, the profitability and the prospects of the company concerned.

Participating interests, shares and share certificates classified as financial fixed assets may be revalued if, in light of their usefulness to the company, they exhibit an incontestable and lasting increase in value.

Regardless of whether they are represented by securities, subordinated loans and advances to associated companies and companies linked by participating interests are valued according to the same principles as non-subordinated loans and advances.

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

All formation expenses referred to in the Royal Decree on the annual accounts of credit institutions are charged directly to the profit and loss account for the financial year as administrative expenses.

Capitalised goodwill is depreciated according to the straight-line method over a period of five years, unless the Board of Directors decides otherwise.

The following rules apply to software that has been developed in-house: all charges relating to continuity projects, as well as any research expenses for investments, are taken directly to the profit and loss account. However, development expenses (both internal and external) for investments are capitalised as an intangible fixed asset and written off over a period of five years. Investments are large-scale projects that introduce or replace an important business objective or model. Systems software is depreciated at the same rate as hardware, being written off according to the straight-line method over a period of three years.. Software other than systems software is depreciated over five years. Core systems with a longer useful life are depreciated straight line over an eight-year period. Core systems are types of standard software, including back-end data applications, for processing operations during the day and updates of the general ledger balances on the mainframe.

At KBC Bank, intangible fixed assets recorded are capitalised at acquisition cost including ancillary costs, and are written off on an accruals basis during the first year of investment.

TANGIBLE FIXED ASSETS

All tangible fixed assets are recognised at acquisition cost, less accumulated depreciation. They are recorded at acquisition cost, including ancillary, directly allocable costs (acquisition costs, non-deductible VAT, etc.).

The rates of depreciation are determined on the basis of the anticipated useful economic life of the item and are applied according to the straight-line method. All tangible fixed assets are depreciated on an accruals basis from the time they are available for use.

The ancillary costs are written off over the life of the asset. A write-down is charged for ancillary costs on the acquisition of land.

When tangible fixed assets are sold, realised gains or losses are taken immediately to the profit and loss account. If these assets are destroyed, the remaining amount to be written off is charged directly to the result.

Tangible fixed assets that exhibit an incontestable and lasting appreciation in value compared to their carrying value may be revalued. This surplus is written off over the average residual useful life of the assets in question.

CREDITORS

Amounts owed as a result of advances or cash deposits received are recorded in the balance sheet in the amount made available, plus or minus any difference between this amount and the redemption price of the portion that has already accrued. The difference between the amount made available and the nominal value is reflected as interest on an accruals basis in the profit and loss account.

PROVISIONS FOR LIABILITIES & CHARGES

Provisions for liabilities and charges are intended to cover losses or charges, the nature of which is clearly defined and which at balance sheet date are either likely or certain to be incurred, but the amount of which is uncertain.

- Pensions

Concerned here are commitments with regard to retirement and survivor's pensions, benefits paid out on early retirement and other similar pensions or allowances (related mainly to employees' leaving employment early and end-of-career schemes).

- Taxation

This provision covers the commitments that may arise from a change in the tax base or in the calculation of tax. It is set aside in anticipation of additional tax charges (not yet assessed) for past financial years, for the amount that is disputed.

- Other liabilities and charges

This is a residual heading in respect of the provisions referred to above and includes provisions for legal disputes, commitment credit and indirect taxes.

FUND FOR GENERAL BANK RISKS

A fund for general banking risks is created as a general buffer for the expected future credit losses calculated on a 1-year time horizon (one year expected credit loss) inherent in the normal loan portfolio and fixed-interest securities for which there are no payment difficulties (loans with a probability of default from 1 to 9).

FINANCIAL INSTRUMENTS

-Valuation rules for trading and non-trading activities

Where trading activities are concerned, the unrealised profit or loss on revaluation is recognised at least at the end of every month. This revaluation takes into account any interest flows that have already been recognised on an accruals basis. In the event of a sale, liquidation or expiration, the profit/loss on the position is recognised immediately. Where illiquid currencies or securities are concerned, no profit on revaluation is recognised.

The existing strategic positions the dealing room takes for its own account via derivatives with a view to generating a profit on the long term by way of capital gains or interest spreads are valued according to the same principles used for illiquid interest rate positions.

For non-trading activities, where interest rate instruments are concerned, the gains or losses realised are only recognised on an accruals basis over the corresponding term. The valuation of non-interest-rate instruments (e.g., share option premiums) matches the valuation of the hedged position. In addition, non-trading activities carried out for the purpose of general, long-term management of interest rate products denominated in a foreign currency (macro-hedging) are also valued according to the 'lower of cost and market' principle, along with the associated on-balance-sheet products. Profit or loss on similar transactions carried out for general EUR ALM interest rate management purposes is recognised solely on an accruals basis.

Option premiums that are paid in advance are only taken to the profit and loss account on the due date or on liquidation, with the exception of option premiums for caps, floors and collars that have been concluded for hedging purposes (accruals-basis recognition). In the meantime, they are posted under the 'Other assets' or 'Other liabilities' items. Option premiums relating to trading activities are revalued at least at the end of every month.

-Valuation of derivatives

All derivatives are always recorded under specific off-balance-sheet headings on the transaction date. Amounts are released from the off-balance-sheet headings once the outcome of the transaction is definitive, even if the underlying term only starts at that time for certain interest rate products (e.g., FRAs).

Trading transactions are marked to market, and the mark-to-market (dirty price) value is recognised in the trading results.

Non-trading transactions are included in interest income on an accruals basis, which is the case for interest payable and interest receivable relating to interest rate swaps and foreign currency interest rate swaps. The swap difference arising on FX swaps (and FX outrights) is also released to the results on an accruals basis. The results from interest rate futures and FRAs are included in the profit and loss account spread over the term of the underlying hedged item. Equity swaps are treated in the same way as interest rate swaps. In practice, equity swaps (just like options) are only recorded in the trading book and consequently marked to market. KBC Bank makes use of the derogation allowed by the NBB/BNB to Article 36*bis* of the Royal Decree on the annual accounts of credit institutions. This derogation makes it possible to take interest rate derivatives that do not meet the hedging criteria to the profit and loss account on an accruals basis (interest rate derivatives classified as ALM or treasury management instruments).

-Hedging criteria for forward interest rate transactions:

The general criteria are set out in Article 36*bis* of the Royal Decree on the annual accounts of credit institutions of 23 September 1992:

- the hedged item or the combination of comparable hedged items must expose the credit institution to a risk of interest rate fluctuation;
- the transaction must be recorded in the books as a hedge from its inception;
- there must be a close correlation between fluctuations in the value of the hedged item and fluctuations in the value of the hedge; in the case of hedging options, there must be a correlation between fluctuations in the value of the hedged item and fluctuations in the value of the underlying financial instrument.

In addition, specific company criteria apply. All these criteria must be met: if one criterion is no longer satisfied, the hedge will be considered a trading transaction and be subject to the appropriate accounting treatment.

Hedging combinations that involve derivatives and are terminated before maturity will be considered trading transactions once the underlying position to be hedged no longer exists.

Future interest rate positions can be hedged if it is reasonably certain that the position will actually materialise. Moreover, the amount, term and interest rate conditions must be sufficiently certain.

-Calculation of unrealised profit/loss on revaluation

Derivatives are always valued on a contract basis; positive and negative valuation differences are not netted in the accounting records. Only for calculating capital adequacy requirements relative to market risks is the market risk calculated on a net basis per counterparty.

For forward interest rate and similar products (namely forward foreign exchange products), valuation occurs on the basis of the net present value of future, determinable cash flows using a single yield curve per currency, which is used throughout the bank. Any adjustments for operational and liquidity risks are deducted from the initial revaluation. Options are valued according to the usual valuation models. For interest rate products, calculations are always based on the assumption of a liquid market, provided the underlying currencies are liquid.

If a credit granted to a counterparty is classified as 'doubtful' or 'irrecoverable', the receivables and commitments stemming from off-balance-sheet products involving the same counterparty will be given the same classification. For loans and advances, write-downs may be recorded; for commitments, provisions will be set aside.

3. Change in the valuation rules

With the wind down of the net investment hedging on participations in foreign currency, the translation differences were realized by using a weighted average methodology, calculated on the outstanding and rolled-over hedging instruments for which the results were deferred in OCI.

This methodology replaces the previous methodology where LIFO was used. The difference between the 2 methodologies amounts to approximately -47,3m EUR simulated on the dividend of CSOB Bank. Other dividends were immaterial.

KBC Bank NV
Company annual report for financial year 2019

Pursuant to Article 119 of the Companies Code, KBC Bank NV has combined the reports for its company and consolidated financial statements. You can find this 'combined' report in the 'Report of the Board of Directors' section of the KBC Bank Annual Report.

The accounting information provided in the 'Report of the Board of Directors' is based on the consolidated IFRS accounting policies. In order to provide the reader of the company financial statements, based on Belgian accounting policies (B-GAAP), with a true and fair view of the company, an additional brief explanation is given. In addition, other information to be published that is not included in the 'Report of the Board of Directors' has been included here too.

Table of Contents

- Notes to the company annual accounts 80
- Additional information 84
  - Information on branch offices
  - Public disclosures of notional amounts covered by the collateral exemption under the European Market Infrastructure Regulation
  - Post-balance sheet events
  - Explanation of a change compared to the previous financial year
- Report of the Board of Directors 86

Notes to the company annual accounts

The annual accounts have been prepared according to Belgian accounting standards (B-GAAP).

Balance sheet

KBC Bank NV (x1 000 EUR)	31/12/2019	31/12/2018	Change
ASSETS	**178 980 019**	**178 796 802**	**183 217**
Cash and cash balances with central banks	1 521 947	14 240 047	-12 718 100
Amounts receivable from credit institutions	18 256 807	14 266 044	3 990 763
Loans and advances to customers	91 749 805	95 214 115	-3 464 311
Bonds and other fixed-income securities	39 796 732	31 683 478	8 113 255
Shares and other variable-yield securities	829 602	754 207	75 395
Financial fixed assets	17 356 361	13 876 010	3 480 351
Formation expenses, tangible and intangible fixed assets	1 557 845	1 479 666	78 179
Other assets	1 042 446	1 104 009	-61 564
Deferred charges and accrued income	6 868 474	6 179 226	689 248
LIABILITIES	**178 980 019**	**178 796 802**	**279 008**
Amounts payable to credit institutions	20 330 390	23 738 667	-3 408 277
Amounts payable to clients	109 219 783	103 652 190	5 567 594
Debts represented by securities	17 963 817	24 177 943	-6 214 126
Other amounts payable	2 072 657	1 651 268	421 389
Accrued charges and deferred income	5 021 105	4 527 653	493 452
Provisions for liabilities and charges and deferred taxes	151 144	176 293	-25 148
Fund for general banking risks	87 222	95 791	-8 570
Subordinated liabilities	8 969 069	8 481 063	488 006
Equity	15 164 831	12 295 934	2 868 897

Balance sheet total

At 178.9 billion euros, total assets were virtually the same as in 2018. The branches abroad held 3.50% of the bank's total assets (3.89% at the end of 2018).

Netting on the balance sheet

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.

Netting disclosure	Bruto bedragen		Netting	Genette bedragen	
	Actief	Passief		Actief	Passief
repo's - reverse repo's	26 936 462 286	17 206 869 437	13 922 196 400	13 014 265 886	3 284 673 037
Derivaten	12 242 958 031	10 560 781 354	5 930 688 509	6 312 269 522	4 630 092 844

Cash, cash balances with central banks and amounts receivable from credit institutions

Depending on conditions on the interbank market, excess cash is deposited at central banks or placed on the interbank market. The required amount of MREL instruments depends on the balance sheet total.

Loans and advances to customers

'Loans and advances to customers' fell by 3.4 billion euros to 91.7 billion euros due to various movements, the most important of which for financial year 2019 being a new securitisation of 3.5 billion euros' worth of home loans.

Bonds and other fixed-income securities

The total portfolio of fixed-income securities rose by 8.1 billion euros to 39.8 billion euros, owing in part to the repurchase of Home Loan Invest notes following the new securitisation operation (see above) (3.2 billion euros), the purchase of securities from KBC Credit Investments (2 billion euros) and certificates issued by ČSOB Bank (2.3 billion euros).

Securities issued by public authorities represented 37.2% of the portfolio.

Financial fixed assets

Financial fixed assets went up by 3.5 billion euros to 17.4 billion euros following the acquisition of the shares of KBC Asset Management by KBC Bank (2.2 billion euros) and the granting of a 1.3-billion-euro subordinated loan to Home Loan Invest relating to the new securitisation operation (2019 sub-fund).

Other asset items

'Deferred charges and accrued income' was mostly made up of accrued interest and the revaluation of derivatives (such as IRS). The item increased by 0.7 billion euros due to the effect of mark-to-market accounting.

Amounts payable to credit institutions

Amounts payable to credit institutions fell by 3.4 billion euros to 20.3 billion euros due primarily to the net impact of an increase in repos with credit institutions (1.0 billion euros) and a decrease in time deposits (-4.4 billion euros).

Amounts payable to clients and debts represented by securities

Total customer deposits remained virtually unchanged at 127.2 billion euros. However, the following movements were observed:

- a slight decline in time deposits (-0.5 billion euros) owing to a shift to savings deposits and demand deposits following a change in investor appetite for interest-bearing products
- an increase in savings deposits and demand deposits (4.4 billion euros)
- a decrease in short-term certificates of deposit (-5 billion euros)
- matured covered bonds (-0.8 billion euros)
- short positions in bonds triggered by ČSOB in the Czech Republic after implementation of the strategy to centralise global trading in Belgium

Accrued charges and deferred income

'Accrued charges and deferred income' was made up primarily of interest payable and the revaluation of derivatives. The increase was attributable to the effect of mark-to-market accounting.

Subordinated liabilities

Subordinated liabilities rose by 0.5 billion euros, which was the net effect of:

- An AT1 loan being called by KBC Group NV (-1.4 billion euros)
- A contingent convertible note being called (-0.9 billion euros)
- A perpetual AT1 instrument being issued by KBC Group NV (0.5 billion euros)
- A perpetual tier-2 instrument being issued by KBC Group NV (0.75 billion euros)
- A 5Y Green Senior Bond being issued by KBC Group NV (1.5 billion euros)

Equity

Equity grew by 2.9 billion euros to 15.2 billion euros.

Profit and loss account

KBC Bank NV (x1 000 EUR)	31/12/2019	31/12/2018	Change
Gross income from ordinary activities	4 768 596	3 811 098	957 497
Operating charges	-2 194 418	-2 064 102	-130 316
Write-downs and provisions	-218 979	23 980	-242 959
Profit on ordinary activities	2 355 198	1 770 976	584 222
Extraordinary result	-221 574	1 057	-222 631
Taxes	-56 494	-73 638	17 144
Result for the period to be appropriated	**2 077 130**	**1 698 395**	**378 735**

Notes to the profit and loss account

(x1 000 EUR)	31/12/2019	31/12/2018	Change
Net interest income	1 233 687	1 223 385	10 302
Income from variable-yield securities	2 009 281	1 086 769	922 513
Net fee and commission income	887 709	813 671	74 038
Results from financial transactions	265 702	384 801	-119 099
Other operating income	372 216	302 472	69 743
Gross income from ordinary activities	**4 768 596**	**3 811 098**	**957 497**

‘Gross income from ordinary activities’ came to 4.8 billion euros, up 1.0 billion euros on its 2018 level.

Details of this increase are given in the table above.

- There was limited increase in ‘Net interest income’ of 10.3 million euros, due primarily to continuing pressure on interest margins and a lower transformation result caused by lower reinvestment yields.
- ‘Income from variable-yield securities’ went up by 922.5 million euros, owing mainly to the interim dividend paid by KBC Credit Investments.
- ‘Net fee and commission income’ increased by 74 million euros, rising mainly because of the higher revenues earned on the provision of investment services and the sale of investment funds, as well as the migration of Bolero and the securities service business to KBC Bank.
- ‘Results from financial transactions’ fell by 119.1 million euros primarily on account of foreign exchange results from intra-group participations.
- ‘Other operating income’ grew by 69.7 million euros.

(x1 000 EUR)	31/12/2019	31/12/2018	Change
General administrative charges	-1 986 425	-1 902 993	-83 433
Depreciation of tangible and intangible fixed assets	-160 781	-122 685	-38 096
Other operating charges	-47 212	-38 425	-8 787
Operating charges	**-2 194 418**	**-2 064 102**	**-130 316**

Operating charges (including 'Depreciation of tangible and intangible fixed assets' and 'Other operating charges') rose in 2019, reaching -2.2 billion euros primarily on account of higher ICT costs and bank taxes. The increase in the depreciation of tangible fixed assets was attributable to the growth of operational leasing activities.

(x1 000 EUR)	31/12/2019	31/12/2018	Change
Write-downs on loans	-231 569	61 555	-293 124
Write-downs on investment portfolio	279	-1 480	1 759
Provisions	12 311	-36 096	48 407
Write-downs and provisions	**-218 979**	**23 980**	**-242 959**

Quite large individual write-downs were recorded on corporate loans in financial year 2019 compared to a year earlier.

Provisions in financial year 2018 comprised a new provision that had been set aside for the fund for general banking risks (-95.8 million euros) and a reversal of the provisions for cash companies (59 million euros). In financial year 2019, it consisted primarily of a reversal of the provision for the fund for general banking risks (8.5 million euros).

Income tax was limited as a result of outstanding tax losses carried forward, the specific tax system for dividends received from subsidiaries and impairment on shares.

Additional information

Information on branch offices

KBC Bank has 10 branches abroad, more specifically in New York, London, Paris, Rotterdam, Singapore, Hong Kong, Shanghai, Dublin, Germany and Italy.

Public disclosures of notional amounts covered by the collateral exemption under the European Market Infrastructure Regulation (see Article 11(14)(d)) or EMIR (Benchmark Regulation 648/2012)

When counterparties apply an intragroup exemption under the European Market Infrastructure Regulation, they should publicly disclose information in order to ensure transparency in respect of market participants and potential creditors. This is particularly important for the potential creditors of the counterparties in terms of assessing risks. The disclosure aims at preventing misperception that OTC derivative contracts are centrally cleared or subject to risk mitigation techniques when it is not the case.

Article 20 of Delegated Regulation 149/2013 provides more details with regard to the disclosure obligation:

The information on an intragroup exemption to be disclosed publicly shall include:

(a) the legal counterparties to the transactions including their identifiers in accordance with Article 3 of Implementing Regulation (EU) No. 1247/2012 (Article 3 contains the counterparty data covered by the reporting obligation under the European Market Infrastructure Regulation):
- KBC Bank NV, LEI code: 6B2PBRV1FCJDMR45RZ53
- CBC Banque SA, LEI code: DVCTKZJG5QM5XGM4TR05

(b) the relationship between the counterparties:
CBC Banque SA is a subsidiary of KBC Bank NV

(c) whether the exemption is a full exemption or a partial exemption;
Full exemption

(a) the notional aggregate amount of the OTC derivative contracts for which the intragroup exemption applies (in EUR equivalent).

Currency and interest rate swaps	320 052 690.56
Currency options	107 076 054.18
Interest rate swaps	5 392 234 930.21
Interest rate options	567 694 975.57

Post-balance sheet events

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

Explanation of a change compared to the previous financial year

Last financial year, the subordinated loan on behalf of Home Loan Invest, for the amount of 1,3 billion EUR, was reported in section ‘IV. Loans and advances to customers’.

Due to the ‘subordinated’ nature of this loan, it had to be reported in section ‘VII.D Subordinated loans to affiliated enterprises and to other enterprises linked by participating interests’.

The amounts in the column “previous year” were not adapted, which results in a material year-on-year shift

List of impact tables and codes, either a decrease (-) or an increase (+)

- C-inst 2.1 – codes 10400 (-) and 10740 (+)
- C-inst 5.2 – codes 50201 (-), 50208 (-), 50212 (-), 50217 (-) and 50219 (-)
- C-inst 5.5.1 – codes 50508 (+)
- C-inst.5.5.5 – codes 50572 (+), 50573 (+) and 50579 (+)

ACCOUNTANT REPORT

10				9	EUR
NAT.	Date Filed	N°	P.	E.	D.

C-inst 6

Social Balance Sheet

NAME: KBC BANK

Legal Form: NV
Address: Havenlaan N°.: 2 Box:
Postal Code: 1080 Municipality: BRUSSELS
Country: België
Register of Legal Persons (RLP) - Chamber of Commerce: Brussels
Internet address*: http://www.kbc.be

Company Number 0462.920.226

concerning the financial year covering the period from 01/01/2019 till 31/12/2019

Previous period from 01/01/2018 till 31/12/2018

The amounts of the previous financial year are / ~~are not~~ ** identical to those which have been previously published.

N°	462.920.226	C-inst 6

SOCIAL REPORT (in euro)

Numbers of joint industrial committees which are competent for the enterprise:	310				

STATEMENT OF THE PERSONS EMPLOYED

EMPLOYEES RECORDED IN THE STAFF REGISTER

During the current period	Codes	Total	1. Male	2. Female
Average number of employees				
Full-time	1001	5.894	3.534	2.360
Part-time	1002	3.415	766	2.649
Total of full-time equivalents (VTE)	1003	8.424	4.079	4.345
Number of hours actually worked				
Full-time	1011	8.219.182	5.062.850	3.156.332
Part-time	1012	3.257.242	702.402	2.554.841
Total	1013	11.476.424	5.765.251	5.711.173
Personnel costs				
Full-time	1021	531.994.835,94	348.347.591,06	183.647.244,88
Part-time	1022	206.623.776,66	51.405.586,39	155.218.190,27
Total	1023	738.618.612,60	399.753.177,45	338.865.435,15
Advantages in addition to wages	1033	16.005.220,17	8.662.302,18	7.342.917,99

During the previous period	Codes	P. Total	1P. Male	2P. Female
Average number of employees	1003	8.537	4.160	4.376
Number of hours actually worked	1013	11.897.568	5.923.070	5.974.498
Personnel costs	1023	737.542.947,17	401.792.395,91	335.750.551,26
Advantages in addition to wages	1033	16.217.732,02	8.820.992,92	7.396.739,10

	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
At the closing date of the current period				
Number of employees recorded in the personnel register	105	5.777	3.381	8.285,3
By nature of the employment contract				
Contract for an indefinite period	110	5.552	3.371	8.052,4
Contract for a definite period	111	225	10	232,9
Contract for the execution of a specifically assigned work	112	0	0	0
Replacement contract	113	0	0	0
According to the gender and by level of education				
Male	120	3.455	768	4.005,4
primary education	1200	0	0	0
secondary education	1201	280	139	373,4
higher education (non-university)	1202	2.051	493	2.410,3
university education	1203	1.124	136	1.221,7
Female	121	2.322	2.613	4.279,9
primary education	1210	0	0	0
secondary education	1211	222	380	491,7
higher education (non-university)	1212	1.356	1.697	2.626,1
university education	1213	744	536	1.162,1
By professional category				
Management staff	130	62	8	66,0
Employees	134	5.715	3.373	8.129
Workers	132	0	0	0
Other	133	0	0	0

HIRED TEMPORARY STAFF AND PERSONNEL PUT AT THE ENTERPRISE'S DISPOSAL

During the current period	Codes	1. Temporary personnel	2. Persons put at the disposal of the enterprise
Average number of employees	150	41	0
Number of hours actually worked	151	79.056	0
Charges of the enterprise	152	2.965.082,05	0

TABLE OF PERSONNEL CHANGES DURING THE CURRENT PERIOD

ENTRIES	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
Number of employees recorded on the personnel register during the financial year	205	366	50	406
By nature of the employment contract				
Contract for an indefinite period	210	233	42	267
Contract for a definite period	211	133	8	139
Contract for the execution of a specifically assigned work	212	0	0	0
Replacement contract	213	0	0	0

DEPARTURES	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
The number of employees with a in the staff register listed date of termination of the contract during the period	305	457	247	615
By nature of the employment contract				
Contract for an indefinite period	310	382	245	539
Contract for a definite period	311	75	2	77
Contract for the execution of a specifically assigned work	312	0	0	0
Replacement contract	313	0	0	0
According to the reason for termination of the employment contract				
Retirement	340	57	132	129
Unemployment with company bonus	341	0	0	0
Dismissal	342	45	13	55
Other reason	343	355	102	431
Of which: the number of persons who continue to render services to the enterprise at least half-time on a self-employed basis	350	0	0	0

INFORMATION WITH REGARD TO TRAINING RECEIVED BY EMPLOYEES DURING THE CURRENT PERIOD

	Codes	Male	Codes	Female
Total number of official advanced professional training projects at company expense				
Number of participating employees	5801	3.877	5811	4.484
Number of training hours	5802	91.659	5812	103.102
Costs for the company	5803	7.889.271,34	5813	9.124.450,00
of which gross costs directly linked to the training	58031	7.709.456,16	58131	8.916.482,18
of which paid contributions and deposits in collective funds	58032	179.815,18	58132	207.967,82
of which received subsidies (to be deducted)	58033		58133	0,00
Total number of less official and unofficial advance professional training projects at company expense				
Number of participating employees	5821	4.097	5831	4.839
Number of training hours	5822	38.916	5832	44.921
Costs for the company	5823	2.261.825,12	5833	2.671.460,03
Total number of initial professional training projects at company expense				
Number of participating employees	5841	0	5851	0
Number of training hours	5842	0	5852	0
Costs for the company	5843	0,00	5853	0,00

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

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

We have been appointed as statutory auditor by the general meeting of 24 April 2019, following the proposal formulated by the board of directors and following the recommendation by the audit committee and the proposal formulated by the workers' council. Our mandate will expire on the date of the general meeting which will deliberate on the annual accounts for the year ended 31 December 2021. We have performed the statutory audit of the annual accounts of KBC Bank NV for 4 consecutive years.

Report on the annual accounts

Unqualified opinion

We have performed the statutory audit of the Company's annual accounts, which comprise the balance sheet as at 31 December 2019, and the profit and loss account for the year then ended, and the notes to the annual accounts, characterised by a balance sheet total of EUR 178.980 million and a profit and loss account showing a profit for the year of EUR 2.077 million.

In our opinion, the annual accounts give a true and fair view of the Company's net equity and financial position as at 31 December 2019, and of its results for the year then ended, in accordance with the financial-reporting framework 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 which are applicable to the year-end and which are not yet approved at the national level. Our responsibilities under those standards are further described in the "*Statutory auditor's responsibilities for the audit of the annual 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 annual accounts in Belgium, including the requirements related to independence.

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.

PwC Bedrijfsrevisoren BV - PwC Reviseurs d'Entreprises SRL - Financial Assurance Services
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BTW/TVA BE 0429.501.944 / RPR Brussel - RPM Bruxelles / ING BE43 3101 3811 9501 - BIC BBRUBEBB / BELFIUS BE92 0689 0408 8123 - BIC GKCC BEBB

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Emphasis of Matter - subsequent event

As far as the outbreak of COVID 19 is concerned, we draw your attention to Note 5.28.2 c “Nature and financial impact of significant events after the balance sheet date which are not taken into account in the income statement or the balance sheet” of the annual accounts and the various sections of the directors' report as mentioned in this Note 5.28.2 c, in which the board of directors expresses its view that, although the outbreak and global spread of the coronavirus will exert downward pressure on the Company's results in 2020, it does not have any impact on its financial position for the year ended 31 December 2019. Our opinion is not qualified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual 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 measurement of financial instruments at year-end 31 December 2019 are included in Notes to the annual accounts III (bonds), IV (equity securities), on the face of the balance sheet for the derivatives contracts and Note IX Other assets for the option contracts. The applicable valuation rules are described in Note 7 to the annual accounts (chapters “Securities” and “Financial instruments”).

For certain financial instruments a quoted price is not readily available to determine fair value. Valuation techniques and models used to determine fair value in these cases 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. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. As the use of different assumptions could produce different estimates of fair value, we consider this as a key audit matter.

How our Audit addressed the Key Audit Matter

We obtained an understanding of the internal control framework related to the valuation of financial instruments, including price testing and model validation. We assessed the appropriateness of the model validation methodology with the assistance of our valuation experts and we performed a recalculation of the fair valuation on a sample basis. This includes the assessment of market data, inputs and key assumptions as critical factors used in the fair value models, based on our experience and market practice. Based on our procedures we found that management’s outcome of the models used for the fair value of certain financial instruments for which a quoted price is not readily available, in the context of the estimation uncertainty concerned, fell within a reasonable and acceptable range of outcomes.

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Estimation uncertainty with respect to impairment allowances for receivables on clients

Description of the Key Audit Matter

The appropriateness of the impairment allowances for receivables on clients requires significant judgment of management. Measuring impairment allowances requires an assessment of the risk that a counterparty will not respect all of its contractual obligations. As disclosed in Note 7 to the annual accounts, the Company applies for the measurement of the fund for general banking risks and of the impairment allowances in the annual accounts prepared under Belgian GAAP, a methodology which is partly aligned with IFRS. At year-end 31 December 2019 information regarding impairment allowances for receivables on clients and on the fund for general banking risks are included respectively in line 40900 and line 41300 of the profit and loss accounts, in application of the valuation rules as described in Note 7 to the annual accounts (chapters “Receivables” and “Fund for general banking risks”). At year-end 31 December 2019 the receivables on clients amount to EUR 91.750 million.

The identification of impairment, the determination of the recoverable amount and the determination of the 12-month expected credit losses, which is the basis for the fund for general banking risks, are part of the estimation process at the Company and are, amongst others, based on macroeconomic scenarios, credit risk models, 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 receivables on clients or to a different fund for general banking risks. As the receivables on clients represent the majority of the Company's balance sheet and given the related estimation uncertainty on impairment charges, including the fund for general banking risks, we consider this as a key audit matter.

How our Audit addressed the Key Audit Matter

Our audit procedures included an assessment of the overall governance of the Company's credit and impairment process, including the 12-month expected loss modelling process. 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 Company. 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.

For the 12-month expected credit loss, determining the fund for general banking risks, we challenged the macroeconomic scenarios and tested the underlying models including the Company’s model approval and validation process.

In our view, the impairments and the fund for general banking risks estimated by management are within a reasonable range of outcomes in view of the overall receivables on clients and the related uncertainties.

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

The board of directors is responsible for the preparation of annual accounts that give a true and fair view in accordance with the financial-reporting framework applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the board of directors is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the annual 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 annual accounts.

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

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 annual 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 Company's internal control.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 annual 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

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 annual 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, of the documents required to be deposited by virtue of the legal and regulatory requirements as well as for the compliance with the legal and regulatory requirements regarding bookkeeping, with the Companies' and Associations' Code (as from 1 January 2020), the Companies' Code (until 31 December 2019) and with the Company's articles of association.

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Statutory auditor's responsibilities

In the context of our mandate and in accordance with the Belgian standard which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, the directors' report, certain documents required to be deposited by virtue of legal and regulatory requirements, as well as compliance with the articles of association and certain requirements of the Companies' and Associations' Code (as from 1 January 2020) and of the Companies' Code (until 31 December 2019) and to report on these matters.

Aspects related to the directors' report

In our opinion, after having performed specific procedures in relation to the directors' report, the directors' report is consistent with the annual accounts for the year under audit, and it is prepared in accordance with the articles 3:5 and 3:6 of the Companies' and Associations' Code.

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

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

Statement related to the social balance sheet

The social balance sheet, to be deposited in accordance with article :12, §1, 8° of the Companies' and Associations' Code, includes, both in terms of form and content, the information required by virtue of this Code and does not present any material inconsistencies with the information we have at our disposition in our engagement.

Statements related to independence

- Our registered audit firm and our network did not provide services which are incompatible with the statutory audit of the annual accounts and our registered audit firm remained independent of the Company in the course of our mandate.

- The fees for additional services which are compatible with the statutory audit of the annual accounts referred to in article 3:65 of the Companies' and Associations' Code are correctly disclosed and itemized in the notes to the annual accounts.

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Other statements

- Without prejudice to formal aspects of minor importance, the accounting records were maintained in accordance with the legal and regulatory requirements applicable in Belgium.
- The appropriation of results proposed to the general meeting complies with the legal provisions and the provisions of the articles of association.
- There are no transactions undertaken or decisions taken in breach of the Company's articles of association or the Companies' and Associations' Code (as from 1 January 2020) and the Companies' Code (until 31 December 2019) that we have to report to you.
- This report is consistent with the additional report to the audit committee referred to in article 11 of the Regulation (EU) N° 537/2014.

Sint-Stevens-Woluwe, 2 April 2020

The statutory auditor
PwC Bedrijfsrevisoren BV
represented by

Roland Jeanquart
Accredited auditor

Gregory Joos
Accredited auditor

Additional information

Ratios used

Common equity ratio

A risk-weighted measure of the group's solvency based on common equity tier-1 capital 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'. Information on how this ratio is calculated can be found in the 'How do we manage our capital?' section.

Calculation (in millions of EUR or %)	2019	2018
'Detailed calculation 'Danish compromise' table in the 'Solvency KBC Group' section.'		
Fully loaded	14,7%	14,8%

Coverage ratio

Indicates the proportion of impaired loans (see 'Impaired loans ratio' for definition) that are covered by 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' table in the 'How do we manage our risks?' section).

Calculation (in millions of EUR or %)	Reference	2019	2018
Specific impairment on loans (A)	'Credit risk: loan portfolio overview' table in the 'Credit risk' section	2 584	3 203
/			
Outstanding impaired loans (B)	'Credit risk: loan portfolio overview' table in the 'Credit risk' section	6 160	7 151
= (A) / (B)		42.0%	44.8%

Impaired loans ratio

Indicates the proportion of impaired loans in the loan portfolio (see 'Loan portfolio' for definition) and, therefore, gives an idea of the creditworthiness of the portfolio. Impaired loans are loans where it is unlikely that the full contractual principal and interest will be repaid/paid. These loans have a KBC default status of PD 10, PD 11 or PD 12. 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' table in the 'How do we manage our risks?' section. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	Reference	2019	2018
Amount outstanding of impaired loans (A)	'Credit risk: loan portfolio overview' table in the 'Credit risk' section	6 160	7 151
/			
Total outstanding loan portfolio (B)	'Credit risk: loan portfolio overview in the 'Credit risk' section	175 431	164 824
= (A) / (B)		3.5%	4.3%

Cost/income ratio

Gives an impression of relative cost efficiency (costs relative to income). We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	Reference	2019	2018
Cost/income ratio			
Operating expenses of the banking activities (A)	'Consolidated income statement': component of 'Operating expenses'	3 797	3 712
/			
Total income of the banking activities (B)	'Consolidated income statement': component of 'Total income'	6 548	6 460
=(A) / (B)		58.0%	57.5%

Credit cost ratio

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	2019	2018
Net changes in impairment for credit risks (A)	'Consolidated income statement': component of 'Impairment'	204	- 59
/			
Average outstanding loan portfolio (B)	Credit risk: loan portfolio overview' table in the 'Credit risk' section	170 128	163 393
= (A) (annualised) / (B)		0.12%	-0.04%

Loan portfolio

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

Calculation (in millions of EUR or %)	Reference	2019	2018
Loans and advances to customers (A)	Note 4.1, component of 'Loans and advances to customers'	153 781	144 810
+			
Reverse repos (not with Central Banks) (B)	Note 4.1, component of 'Reverse repos with credit institutions and investment firms'	2 356	1 521
+			
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'	5 894	5 750
+			
Other exposures to credit institutions (D)		4 629	4 603
+			
Financial guarantees granted to clients (E)	Note 6.1, component of 'Financial guarantees given'	8 167	8 308
+			
Impairment on loans (F)	Note 4.2, component of 'Impairment'	2 866	3 534
+			
Insurance entities (G)	Note 4.1, component of 'Loans and advances to customers'	0	0
+			
Non-loan-related receivables (H)		- 984	- 570
+			
Other (I)	Component of Note 4.1	- 1 279	- 3 131
= (A)+(B)+(C)+(D)+(E)+(F)+(G)+(H)+(I)		175 431	164 824

Leverage ratio

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

Calculation (in millions of EUR or %)	2019	2018
Regulatory available tier-1 capital (A)	14 704	13 625
/		
Total exposure measures (total of non-risk-weighted on and off-balance sheet items, with a number of adjustments) (B)	269 707	263 249
= (A) / (B)	5,5%	5,2%

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	2019	2018
Stock of high-quality liquid assets (A)	Based on the European Commission's Delegated Act on LCR and the European Banking	74 884	79 300
/			
Total net cash outflows over the next 30 calendar days (B)		54 415	57 200
= (A) / (B)		138%	139%

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	2019	2018
Available amount of stable funding (A)	Basel III, the net stable funding ratio (Basel Committee on Banking Supervision publication,	174 977	165 650
/			
Required amount of stable funding (B)		128 845	122 150
= (A) / (B)		135.8%	135.6%

Net interest margin

Gives an idea of the net interest income (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.

Calculation (in millions of EUR or %)	Reference	2019	2018
Net interest income of the banking activities (A)	'Consolidated income statement': component of 'Net interest income'	3 853	3 813
/			
Average interest-bearing assets of the banking activities (B)	'Consolidated balance sheet': component of 'Total assets'	194 731	187 703
= (A) (annualised x360/number of calendar days) / (B)		1.95%	2.00%

Total assets under management

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

Calculation (in billions of EUR or quantity)	Reference	2019	2018
Belgium Business Unit (A)	Company presentation on www.kbc.com	199.9	186.4
+			
Czech Republic Business Unit (B)		10.8	9.5
+			
International Markets Business Unit (C)		4.9	4.4
A)+(B)+(C)		215.6	200.3

Management certification

'I, Rik Scheerlinck, Chief Financial Officer of KBC Bank, certify on behalf of the Executive Committee of KBC Bank 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 Bank NV and its consolidated subsidiaries, and that the annual report provides a fair overview of the development, results and the situation of KBC Bank NV and its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed.'