
for 2019
KBC Group
Annual Report
KBC

KBC group **passport**

Our area of operation

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

Our clients, staff and network

Clients	12 million
Staff	41 000
Bank branches	1 278
Insurance network	355 agencies in Belgium, various distribution channels in Central and Eastern Europe

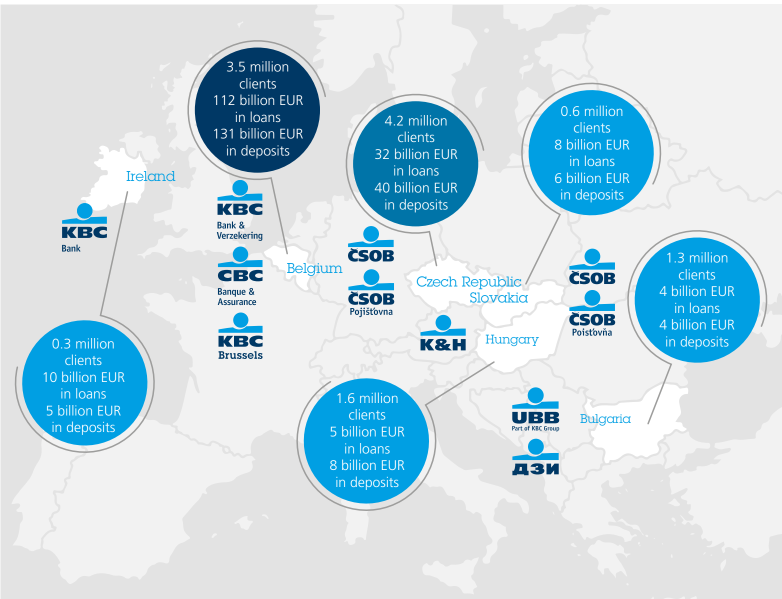
Our long-term debt ratings (30-03-2020)

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

Our core shareholders

KBC Ancora	18.6%
Cera	2.7%
MRBB	11.5%
Other core shareholders	7.5%

Data relates to year-end 2019, unless otherwise indicated. Outlook/watch/review data for our ratings is given elsewhere in this report.



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

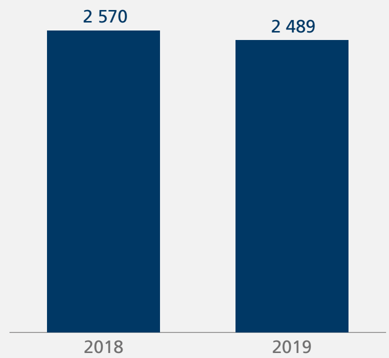
KBC group in 2019

2.5 billion EUR in net profit	**acquisition** of remaining 45% stake in ČMSS in Czech Republic	endorsement of ***Collective Commitment to Climate Action***
group-wide **governance** optimisation exercise	6% growth of loans and advances to customers	12 billion EUR in SRI funds
81% digital interaction with clients	17.1%* common equity ratio	**sale of** legacy corporate loans in Ireland

* See 'Comment' on p. 137.

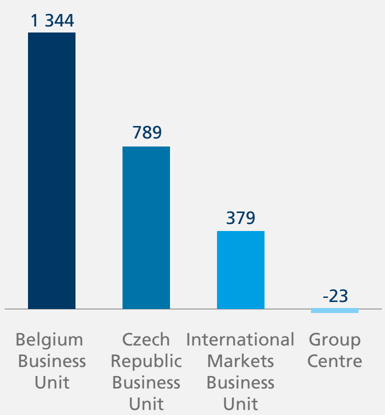
Net result

(in millions of EUR)



Breakdown of net result by business unit

(2019, in millions of EUR)



	2019	2018	2017	2016	2015
Consolidated balance sheet, end of period (in millions of EUR)[1]					
Total assets	290 735	283 808	292 342	275 200	252 356
Loans and advances to customers (excluding reverse repos)	155 816	147 052	140 999	132 855	127 721
Securities	65 633	62 708	67 743	73 262	72 623
Deposits from customers and debt securities (excluding repos)	203 369	194 291	193 708	177 421	161 542
Technical provisions and liabilities under investment contracts, insurance	32 170	31 273	32 193	32 310	31 919
Total equity	20 365	19 633	18 803	17 357	15 811
Consolidated income statement (in millions of EUR)[1]					
Total income	7 629	7 512	7 700	7 211	7 148
Operating expenses	-4 303	-4 234	-4 074	-3 948	-3 890
Impairment	-217	17	30	-201	-747
Net result, group share	2 489	2 570	2 575	2 427	2 639
Belgium	1 344	1 450	1 575	1 432	1 564
Czech Republic	789	654	702	596	542
International Markets (Slovakia, Hungary, Bulgaria, Ireland)	379	533	444	428	245
Group Centre	-23	-67	-146	-29	287
Environment, sustainability and gender diversity					
Own greenhouse gas emissions (in tonnes of CO_2 per FTE)	2.0	2.3	2.5	2.9	3.3
Proportion of renewable energy in loans to energy sector (%)	57%	44%	41%	42%	–
Volume of SRI funds (in billions of EUR)	12	9	7	3	–
Gender diversity in the workforce (percentage of women)	57%	57%	57%	56%	56%
Gender diversity in the Board of Directors (percentage of women)	31%	31%	31%	31%	25%
KBC share					
Number of shares outstanding, end of period (in millions)	416.4	416.2	418.6	418.4	418.1
Parent shareholders' equity per share, end of period (in EUR)	45.3	41.4	41.6	38.1	34.5
Average share price for the financial year (in EUR)	60.8	67.4	66.5	51.0	56.8
Share price at year-end (in EUR)	67.1	56.7	71.1	58.8	57.7
Gross dividend per share (in EUR)	1.00	3.50	3.00	2.80	0.00
Basic earnings per share (in EUR)	5.85	5.98	6.03	5.68	3.80
Equity market capitalisation, end of period (in billions of EUR)	27.9	23.6	29.8	24.6	24.1
Financial ratios[1]					
Return on equity	14%	16%	17%	18%	22%
Cost/income ratio, banking	57.9%	57.5%	54.2%	55%	55%
Combined ratio, non-life insurance	90%	88%	88%	93%	91%
Credit cost ratio, banking	0.12%	-0.04%	-0.06%	0.09%	0.23%
Common equity ratio (Danish compromise method, fully loaded)[2]	17.1%	16.0%	16.3%	15.8%	14.9%

For definitions and comments, see the analyses and 'Glossary of financial ratios and terms' in this report.

1 We have applied IFRS 9 with effect from 2018. Figures since 2018 are therefore not perfectly comparable with previous years.

2 See 'Comment' on p. 137.

Our key performance indicators (KPIs) at group level

Total income Target: CAGR for 2016–2020 ≥ 2.25%	**Cost/income ratio** Target: ≤ 47% (excl. bank tax) in 2020 and ≤ 54% (incl. bank tax) in 2020	**Combined ratio** Target: ≤ 94% in 2020	**Dividend payout** Target: ≥ 50%	**Digital interaction** Target: ≥ 80% in 2020
Bank-insurance clients Target CAGR for 2016–2020 ≥ 2% in Belgium, ≥ 15% in the Czech Republic, ≥ 10% at International Markets	**Stable bank-insurance clients** Target CAGR for 2016–2020 ≥ 2% in Belgium, ≥ 15% in the Czech Republic, ≥ 15% at International Markets	**Reputation** Target: achieve the same or a higher score than the peer group average	**Client experience** Target: achieve the same or a higher score than the peer group average	**Innovation** Target: achieve the same or a higher score than the peer group average
Governance Target: achieve the same or a higher score than the peer group average	**Stakeholder interaction** Target: have a formal stakeholder interaction process in place	**Own capital target** Target: fully loaded common equity ratio of 14% (updated annually)	**Reference capital position** Target: fully loaded common equity ratio of 15.7% (updated annually)	**Position in SRI funds** Target: • 10 billion euros by year-end 2020 • 14 billion euros by year-end 2021 • 20 billion euros by year-end 2025
Renewable energy loans Target: share of renewable energy sources and biofuels in the energy-sector loan portfolio ≥ 50% in 2030	**Own greenhouse gas emissions** Target: reduction of at least • 25% between 2015 and 2020 • 50% between 2015 and 2030 • 65% between 2015 and 2040	**Coal financing** Target: complete run-down of coal-related lending*	**Own electricity consumption** Target: 90% green electricity by 2030	

KPI definitions and scores are provided in the 'Our strategy' section, as are the key regulatory capital and liquidity risks.

* See 'Focus on climate' in the 'Our strategy' section.

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Report of the Board of Directors

Consolidated financial statements

Welcome

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

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

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

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

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

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

NOTE: see the press release (published at www.kbc.com on 30 March 2020) for information on our dividend and the share buyback plan.

Company annual accounts and additional information

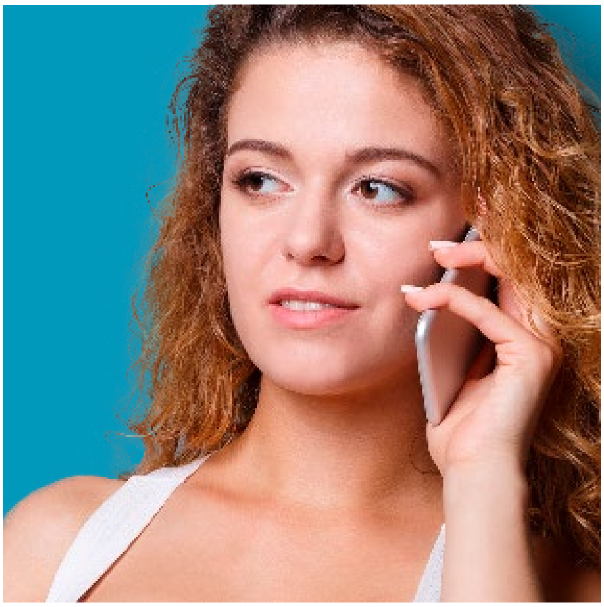
Dear Reader,

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

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

Johan Thijs
Chief Executive Officer

Thomas Leysen
Chairman of the Board of Directors



Report of the Board of Directors

KBC at a glance

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

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

Approximately 12 million clients

Approximately 41 000 employees

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

Omnichannel approach: approximately 1 300 bank branches, insurance sales via own agents and other channels, various mobile and online channels

In addition to our annual report, you will find more detailed information in separate reports at www.kbc.com.

Annual Report

- Provides information on the business model, strategy, sustainability, governance, financial performance, risks and capital. We apply the principles of integrated reporting wherever possible.
- www.kbc.com > Investor Relations > Reports > Annual Reports

Sustainability Report

- Focuses on our sustainability strategy. Contains detailed non-financial data and is prepared according to GRI Standards (Core option).
- www.kbc.com > Corporate Sustainability > Reporting

Risk Report

- Provides greater detail on the group's risk and capital management.
- www.kbc.com > Investor Relations > Reports > Risk Reports

Report to Society

- Looks more closely at how KBC accepts its role in society.
- www.kbc.com > Corporate Sustainability > Reporting

Our goal and our ambition

Goal	Through our activities, we want to help our clients to both realise and protect their dreams and projects.
Ambition	We want to be the reference for bank-insurance in all our core markets.
Strategy	Our strategy rests on four principles: • We place our clients at the centre of everything we do. • We look to offer our clients a unique bank-insurance experience. • We focus on sustainable and profitable growth. • We meet our responsibility to society and local economies. We put our strategy into practice within a stringent risk, capital and liquidity management framework.
Sustainability	To us, corporate sustainability means the ability to live up to the expectations of all our stakeholders and to meet our obligations, not just today but also in the future. Our sustainability strategy – promoted and implemented by all our employees and geared towards the local economy and society – consists of financial resilience and our three cornerstones: • encouraging responsible behaviour on the part of our employees; • enhancing our positive impact on society; • limiting any negative impact we might have on society.

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

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

These reporting frameworks emphasise materiality and relevance in reporting. Our efforts to determine which subjects are important to our stakeholders include carrying out a materiality analysis (see 'Stakeholder interaction and materiality analysis' at the back of this report).

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

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

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.

We continued in the same vein at the start of February 2020, when we announced the acquisition of OTP Banka Slovensko. This deal will allow us to further consolidate our position on the Slovakian 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. And at the end of 2019, we signed an agreement for the sale of our 50% stake in the Slovenian life insurer NLB Vita. This marks our complete withdrawal from Slovenia, which is not a core market for us.

Johan Thijs

Thomas Leysen

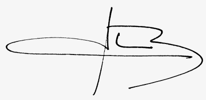
Net earnings and solvency turned out strong once again

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, higher net fee and commission income and a stronger contribution from our insurance business, 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 2 489 million euros. In November 2019, we paid 1 euro per share out of this figure as an advance on the dividend. However, in line with the recommendations made by the ECB on dividend payments, we will not be paying a final dividend for 2019. Our common equity ratio comes to a solid 17.1%.

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 exceptionally 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.

Thomas Leysen: One last personal word to sign off. As announced, I will be stepping down as Chairman of KBC's Board of Directors in May 2020 after having spent nine years in the job. In the years following the crisis, I tried to use my experience as an entrepreneur as much as possible on behalf of KBC. I sought above all to contribute to the formulation of a targeted strategy, to accelerate the digital transformation and to promote sustainable thinking across the group as a whole. Although KBC will not be spared the consequences of Covid-19, our group is in a strong – and in many respects – enviable position. Therefore, I feel that I can confidently hand the baton on to Koenraad Debackere, who will take over the chair later in the year. I offer the new Chairman my very best wishes and I am certain that in the years ahead, he will be the driving force behind accomplishing KBC's ambition of being the reference for bank-insurance in all its core markets.



Johan Thijs
Chief Executive Officer

Thomas Leysen
Chairman of the Board of Directors

See also boxed text on page 3

Our business model

In this section, we describe how we create sustainable value, the characteristics of our model, the conditions in which we pursue our activities, and what types of capital we use for that purpose.

As a bank-insurer, we have a direct influence on climate change through our own energy consumption, although this is relatively limited compared to industrial firms. More important is our indirect influence, through lending, holding an investment portfolio, providing investments to clients and insuring counterparties who can have a direct impact on the climate.
We ourselves also feel the impact of climate change as a bank-insurer. Examples include higher levels of claims under the insurance we provide and the impact on our loans or investments when relevant counterparties are affected by climate change or the transition to a lower-carbon and circular society.
We actively adjust our business model, not only to reduce or prevent adverse consequences, but also to contribute actively by launching sustainable products and services. We closely track our performance in this regard, to which end we apply specific targets, which are explained elsewhere in this report.

Like to know more?

See 'Focus on climate' in the 'Our strategy' section.

How do we create sustainable value?

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

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 (see the 'How do we manage our risks?' section). In the process, we also pay close attention to areas such as cyber risk, anti-corruption measures and climate change risks (see boxed text).

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.

How do we create value?

	Raw materials
Financial capital	Total equity of 20 billion euros 203 billion euros in deposits and debt securities
Staff and brand	Approximately 41 000 employees Strong brands in all core countries Capacity to innovate
Infrastructure	1 278 bank branches, various distribution channels for insurance Various electronic distribution platforms, apps and underlying ICT systems
Clients and other stakeholders	Almost 12 million clients in 6 core countries Suppliers, government, regulators and other stakeholders
Environment and society	Direct use of electricity, gas, water, paper, etc. More important indirect impact through lending, investment portfolio, funds, insurance, etc.

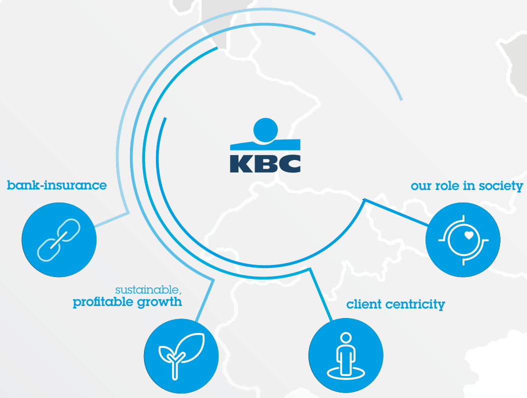
Activities

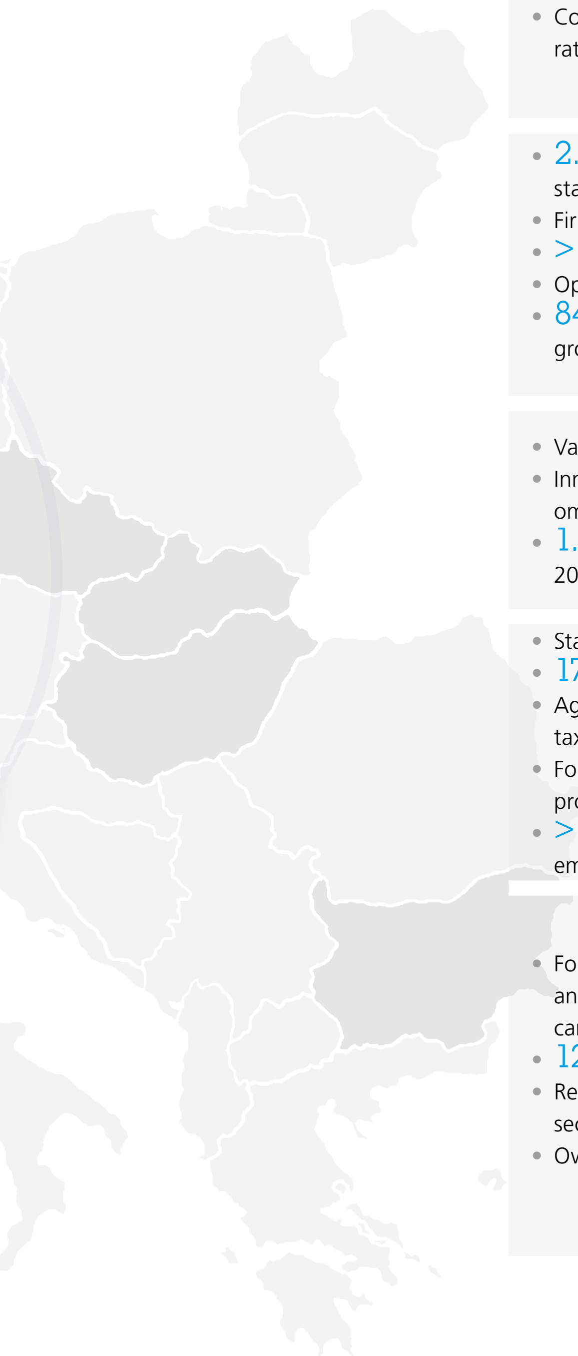
Core activities

Lending – Deposits – Insurance

Investments – Asset management

Payments – Other financial services





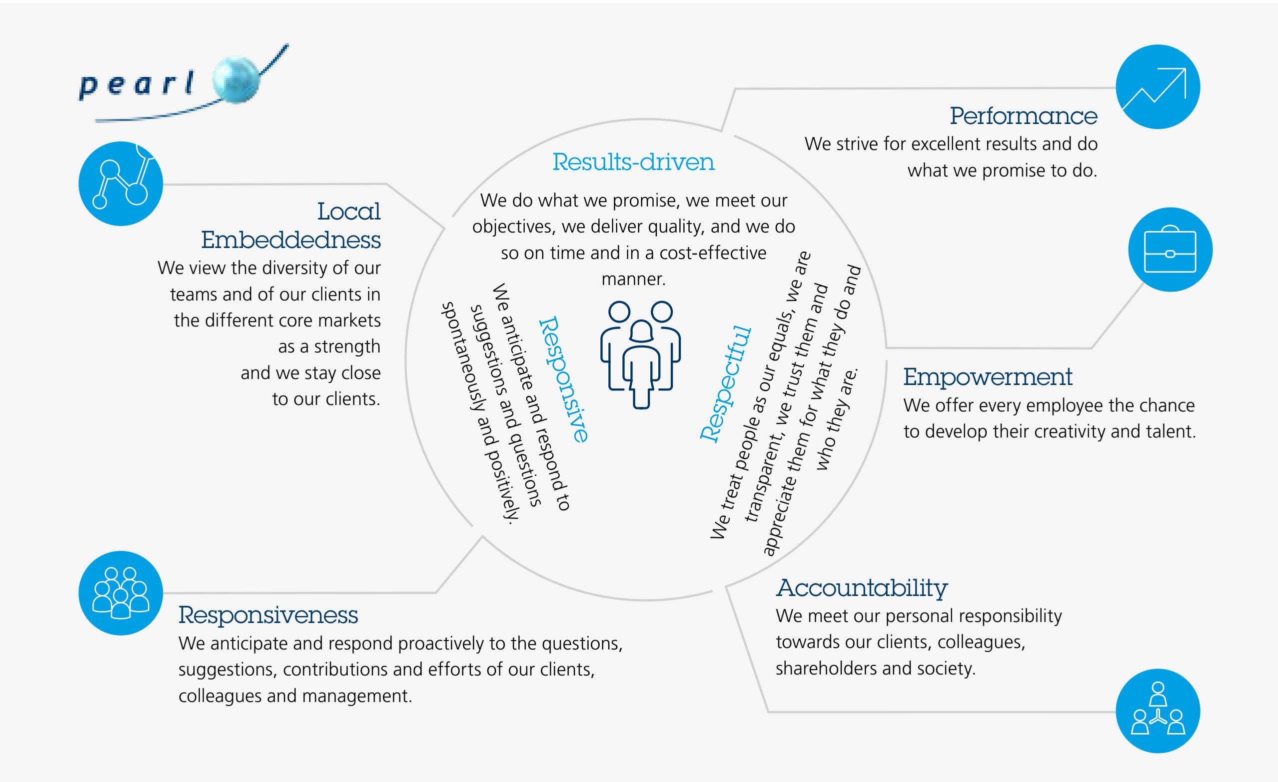
Output and outcomes (selection)	Targets (explained in the 'Our strategy' section)
• Net profit of 2.5 billion euros • Robust capital and liquidity ratios • Cost/income ratio of 57.9% and combined ratio of 90%	• Growth of total income • Cost/income ratio • Combined ratio • Common equity ratio
• 2.4 billion euros in remuneration paid to our staff • Firmly embedded PEARL business culture • > 161 000 training days • Optimisation of group-wide governance • 84% of employees (in Belgium) understand the group's strategic focus	• Reputation score
• Various new electronic applications • Innovative group digital strategy within an omnichannel approach • 1.5-billion-euro investment in digitalisation in 2017–2020	• Digital interaction • Innovation score
• Stakeholder interaction process • 175-billion-euro loan portfolio • Aggregate 1.1 billion euros paid in income taxes and bank taxes • Focus on financial literacy initiatives and promoting entrepreneurship • > 26 000 hours of voluntary work put in by employees during working hours (estimate)	• Client experience score • Governance score • Growth of bank-insurance clients • Stakeholder interaction process
• Focus on environmental awareness initiatives and the issue of demographic ageing and health care • 12 billion euros in KBC AM SRI funds • Renewable energy: 57% of lending to energy sector • Own CO_2 emissions: -50% compared to 2015	• Reduction in own CO_2 emissions • Volume of SRI funds • Share of renewable energy loans • Run-down coal financing • Share of green electricity

What makes us who we are?

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

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

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



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

What differentiates us from our peers?

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

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

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

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

Our shareholder structure
A special feature of our shareholder structure is the core shareholder syndicate consisting of Cera, KBC Ancora, MRBB and the other core shareholders, which together held roughly 40% of our shares at the end of 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

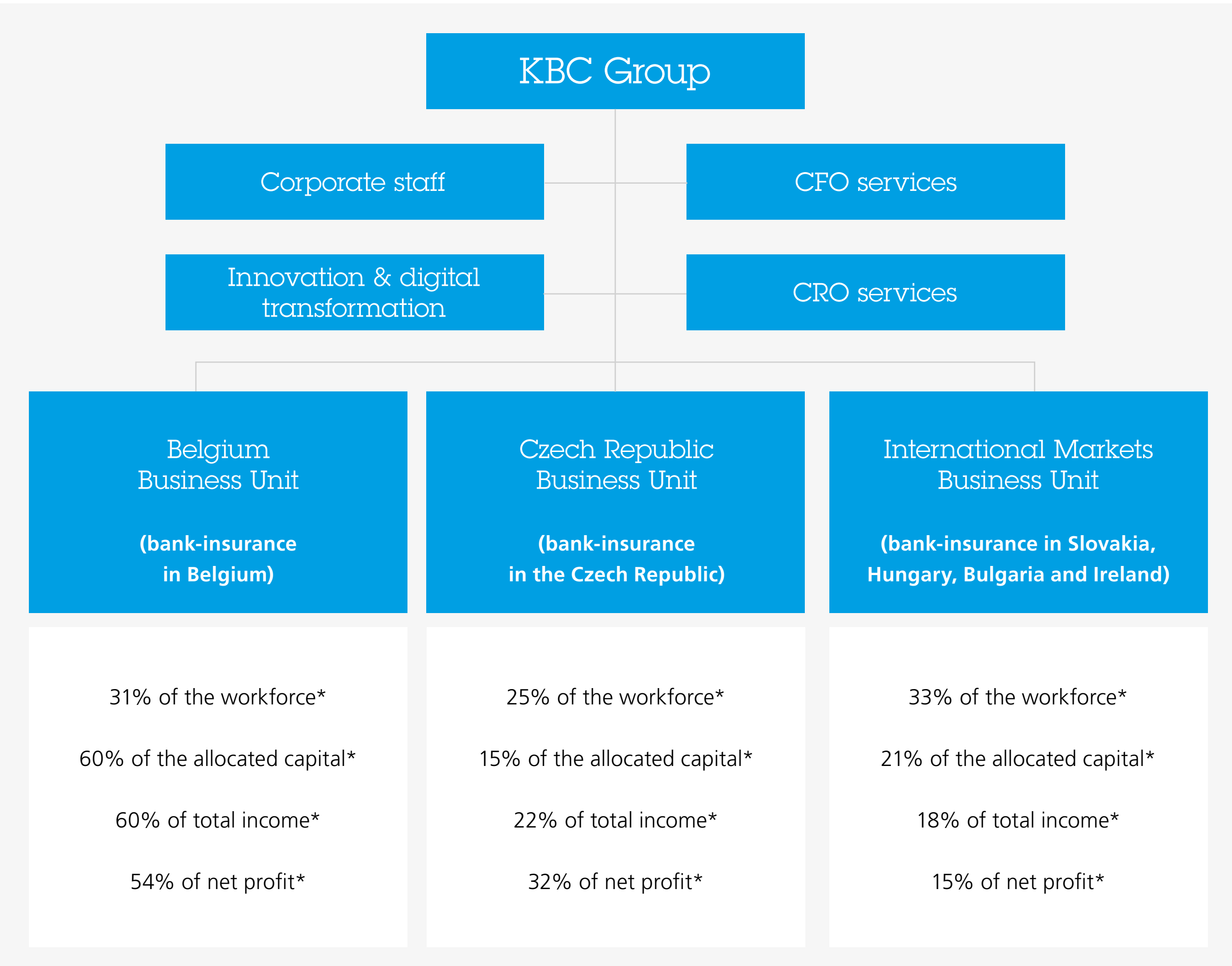
Like to know more?

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

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

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

The most important matters discussed by the Board of Directors in 2019 are summarised in the 'Corporate governance statement'. We also deal with our remuneration policy for senior management in that section. The principle underpinning this policy – and indeed the remuneration of all our staff – is that good performance deserves to be recognised. It is only fair that every employee who works hard is properly rewarded for their efforts, including by means of limited variable remuneration as part of an attractive and balanced remuneration policy.

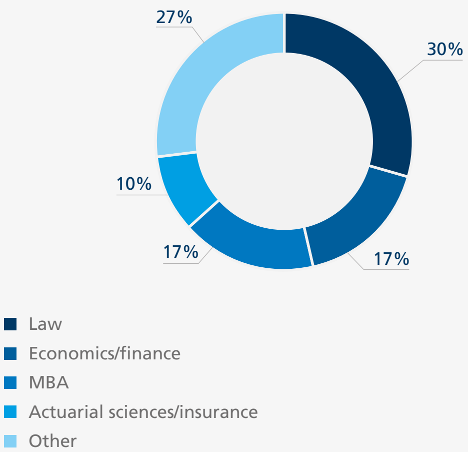


* Figures for 2019. A proportion of our employees work in other countries or in group functions. We also allocate part of our capital and income to the Group Centre (see below).

Composition of the Board of Directors (year-end 2019)

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

Qualifications held by members of the Board of Directors (year-end 2019)

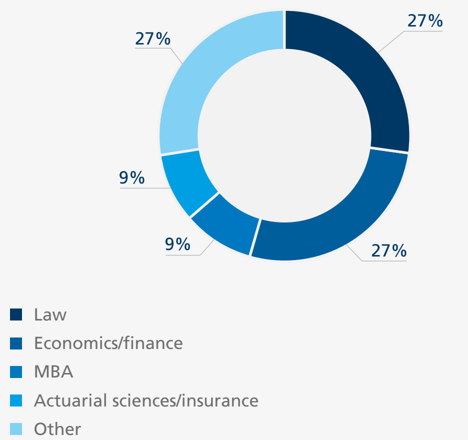


Rough breakdown based on all qualifications (several individuals have more than one degree)

Composition of the Executive Committee (year-end 2019)

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

Qualifications held by members of the Executive Committee (year-end 2019)



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

Like to know more?

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

In what environment do we operate?

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

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 hit a record 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 there will be a severe downturn in world economic growth in 2020 and that the recovery will start in the second half of the year at the earliest. As an open economy, Europe is fairly vulnerable to the direct and indirect economic consequences of the coronavirus crisis. The policy response to the 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 coronavirus crisis, the Fed surprisingly made successive rate cuts 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 coronavirus 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 radical 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 coronavirus 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.

What are our main challenges?

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 (such as the coronavirus crisis), 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.

Topics from our materiality analysis*

- Climate change and environmental impact of financial services
- Financial resilience
- Local community and economy
- Responsible finance and investing

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.

Topics from our materiality analysis*

- Digitalisation
- Data security and customer privacy
- Fair and transparent communication
- Customer engagement and satisfaction
- Corporate culture
- Talent attraction and retention and workforce diversity and inclusion

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 2020–2021 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.

Topics from our materiality analysis*

- Data security and customer privacy
- Fair and transparent communication
- Financial resilience
- Business ethics
- Climate change and environmental impact of financial services

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.

Topics from our materiality analysis*

- Data security and customer privacy
- Digitalisation

* See 'Stakeholder interaction and materiality analysis' in the 'Company annual accounts and additional information' section.

Market conditions in our core markets in 2019

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%, well down on its 2018 level.
- Forecast real GDP growth* of -9.5% in 2020 and +12.3% in 2021

KBC 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
- 112-billion-euro loan portfolio[2] and 131 billion euros in deposits and debt securities
- Net result of 1 344 million euros

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* of -10% in 2020 and +4% in 2021

KBC 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
- 32-billion-euro loan portfolio and 40 billion euros in deposits and debt securities
- Net result of 789 million euros

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* of -10% in 2020 and +5% in 2021

KBC 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
- 8-billion-euro loan portfolio and 6 billion euros in deposits and debt securities
- Net result of 79 million euros

* 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. This will be reflected in sharp negative annual 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.

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* of -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
- 5-billion-euro loan portfolio and 8 billion euros in deposits and debt securities
- Net result of 173 million euros

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* of -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
- 4-billion-euro loan portfolio and 4 billion euros in deposits and debt securities
- Net result of 93 million euros

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* of -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
- Net result of 29 million euros

Like to know more?

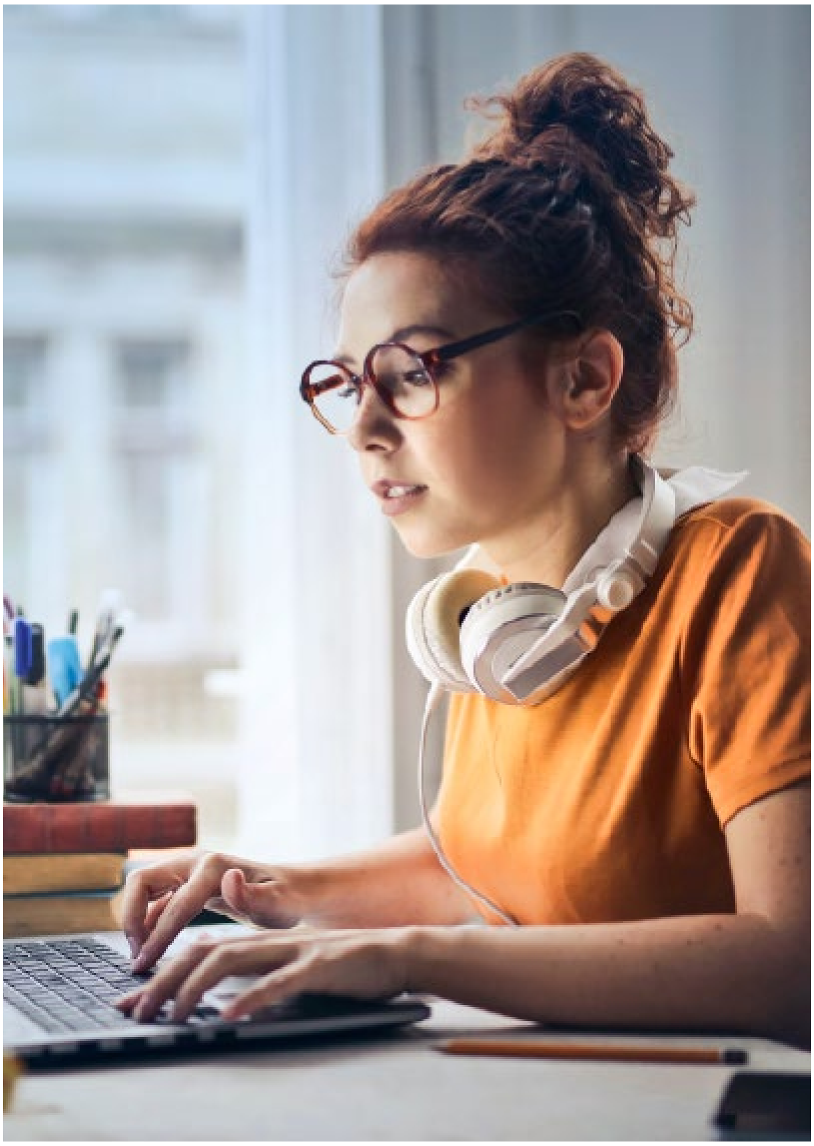
More information on market conditions in each country and the methodology is provided in the 'Our business units' section.

Our employees, capital, network and relationships

Our value creation	Our model	Our environment	Our capitals

Main challenges

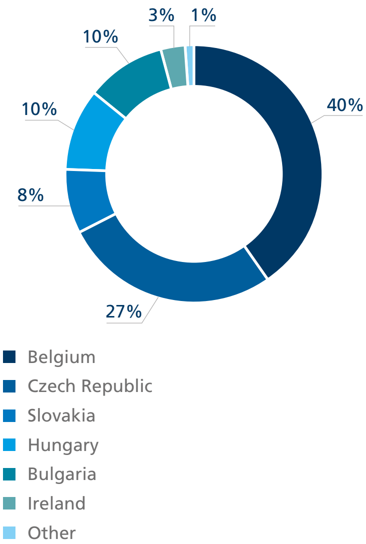
- Enhancing the resilience and employability of our staff in a rapidly changing environment.
- Optimising group-wide governance
- Investing in future-proof skills within a culture of continuous learning.
- Focusing on coaching and inspiring leadership
- Targeting and pursuing specialist profiles
- Paying attention to health, well-being and diversity



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 2019, 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.

Breakdown of workforce by country/region
(year-end 2019)



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. In the Czech Republic, we aim to keep compulsory redundancies 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. Starting in 2020, we will carry out a new, group-wide survey on engagement.

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 (see table below for figures).

Number of staff, KBC group	31-12-2019	31-12-2018
Total workforce*		
Absolute number	41 058	41 622
FTEs	37 854	38 368
Breakdown, in % (based on FTEs)*		
Belgium	40%	40%
Central and Eastern Europe	55%	55%
Rest of the world	5%	5%
Belgium Business Unit	31%	31%
Czech Republic Business Unit	25%	25%
International Markets Business Unit	33%	34%
Group Functions and Group Centre	11%	10%
Gender diversity (% of women, based on absolute numbers)		
In total workforce	57%	57%
In middle and junior management	43%	42%
In senior management (top 300)	21%	20%
On the Executive Committee	14%	14%
On the Board of Directors	31%	31%
Additional information		
Proportion of part-time workers (as % of total workforce)	17%	17%
Average age (years)	43	42
Average seniority (years)	13	13
Number of days absent through illness per employee	9	9
Staff turnover (as % of total workforce)	13%	13%
Internal labour mobility (as % of total workforce)	23%	22%
Investment in training and development (in millions of EUR)	30	30
Number of training days per employee	4.1	4.2

* Please note that flexible DPP and DPC contracts (temporary contracts primarily for students) in the Czech Republic and Slovakia have also been included in the totals (but not in the other breakdowns in the table). The gender diversity figures relate to the period 1 October [t-1]–30 September [t].

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).

Our capital

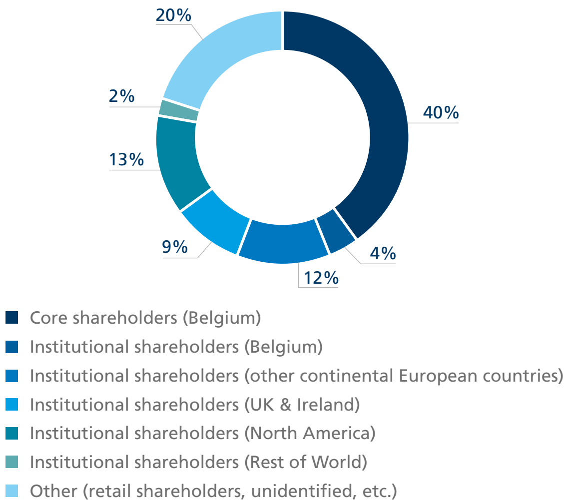
Our activities are only possible if we have a solid capital base. At year-end 2019, our total equity came to 20.4 billion euros Our capital was represented by 416 394 642 shares at year-end 2019, an increase of 238 966 shares on the previous year, due to the capital increase reserved for staff in December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

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

We aim to pay out at least 50% of the available consolidated profit as dividend (dividends on shares and coupon on the additional tier-1 instruments combined). Barring exceptional or unforeseen circumstances, we will pay an interim dividend of 1 euro per share annually in November of the current financial year as an advance on the total, plus a final dividend after the Annual General Meeting of Shareholders (also see the information on the reference capital position in 'We aim to achieve our ambitions within a stringent risk management framework').

In November 2019, 1 euro per share was paid in the form of an interim dividend. However, in line with the recommendations made by the ECB on dividend payments, a final dividend will not be paid for 2019.

Breakdown of shareholder structure by country/region
(September 2019, own estimates)



KBC share	2019	2018
Number of shares outstanding at year-end (in millions)	416.4	416.2
Share price for the financial year*		
Highest price (in EUR)	67.9	77.8
Lowest price (in EUR)	50.9	55.3
Average price (in EUR)	60.8	67.4
Closing price (in EUR)	67.1	56.7
Difference between closing price at financial year-end and previous financial year-end	+18%	-20%
Equity market capitalisation at year-end (in billions of EUR)	27.9	23.6
Average daily volume traded on Euronext Brussels (source: Bloomberg)		
In millions of shares	0.8	0.7
In millions of EUR	46	49
Equity per share (in EUR)	45.3	41.4

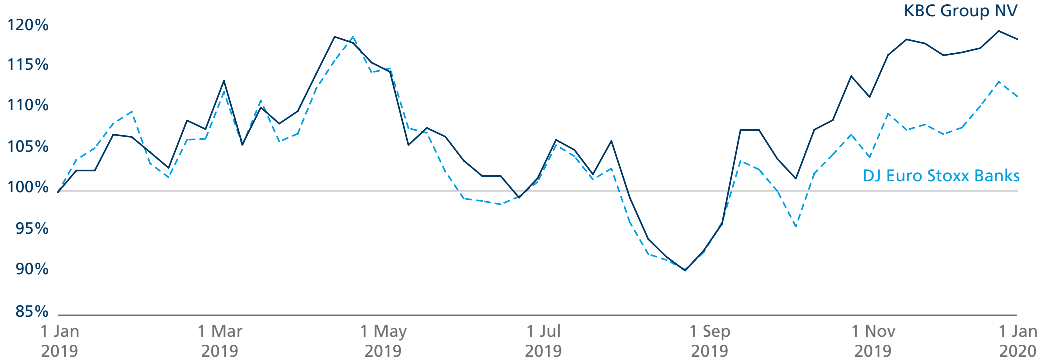
* Based on closing prices and rounded to one decimal place.

Shareholder structure of KBC Group NV (31 December 2019)*	Number of shares at the time of disclosure	Percentage of the current number of shares
KBC Ancora	77 516 380	18.6%
Cera	11 127 166	2.7%
MRBB	47 887 696	11.5%
Other core shareholders	31 113 727	7.5%
Subtotal for core shareholders	167 644 969	40.3%
Free float	248 749 673	59.7%
Total	416 394 642	100.0%

* Based on the most recent notifications made under the transparency rules or (if they are more recent) on disclosures made under the Act on public takeover bids or other information.

KBC share price over one year

(31 December 2018 = 100%, end-of-week prices)



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

Ratings[1] (30-03-2020)	Long-term debt rating	Outlook/watch/ review	Short-term debt rating
Fitch			
KBC Bank NV	A+	(Negative outlook)	F1
KBC Group NV	A	(Negative outlook)	F1
Moody's			
KBC Bank NV[2]	A1	(Stable outlook)	P-1
KBC Group NV	Baa1	(Stable outlook)	P-2
Standard & Poor's			
KBC Bank NV	A+	(Stable outlook)	A-1
KBC Insurance NV	A	(Stable outlook)	–
KBC Group NV	A-	(Stable outlook)	A-2

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

2 Long-term deposit rating of Aa3.

Our network and our relationships

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

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

Investor relations

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

Investor Relations	2019
Number of roadshows	45
Number of reverse roadshows	15
Number of international conferences	7
Number of sell-side analysts tracking KBC*	27
Sell-side analysts' recommendations for the KBC share (at year-end 2019)	
Buy/Outperform	63%
Hold/Neutral	26%
Sell/Underperform	11%
KBC Investor Relations app	

* A list of these analysts can be found at www.kbc.com.

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

Our strategy

Our strategy rests on four principles:

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

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

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

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

The client is at the centre of our business culture

client centricity	bank-insurance	sustainable profitable growth	role in society

Within a stringent risk, capital and liquidity management framework

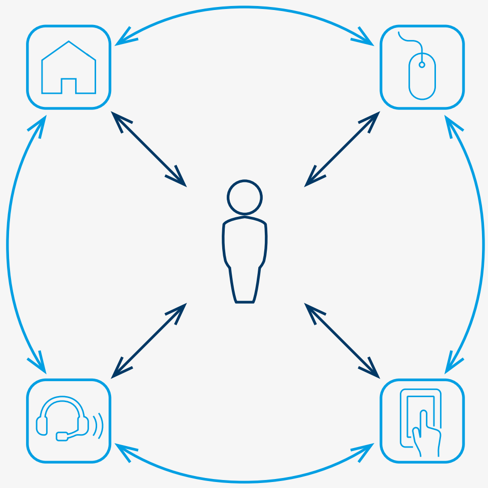
Main challenges

- Aligning business model with shifting client behaviour and digital world
- Simplifying processes, systems and products
- Protecting data and privacy
- Communicating clearly and transparently with clients

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.

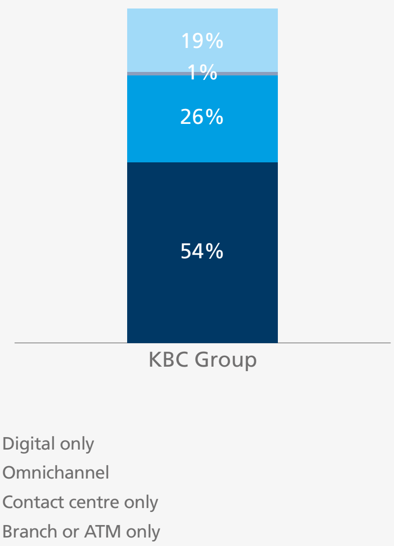
Everyone knows that the digital dimension has assumed overwhelming importance in the financial world in recent years. This has had a powerful effect on client behaviour too. Today's clients expect even faster, not to say immediate service. They dislike complexity, want as much convenience as possible 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.

Omnichannel approach
(clients broken down by contact channel*)



* Approach based on client contact in the last quarter of 2019. Excluding Bulgaria and Postal Savings Bank (Czech Republic).

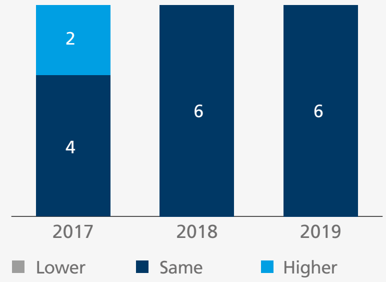
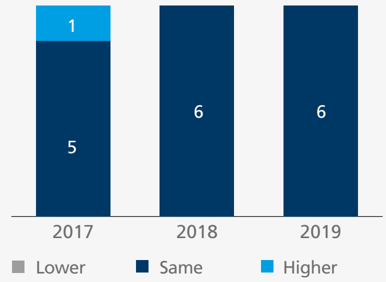
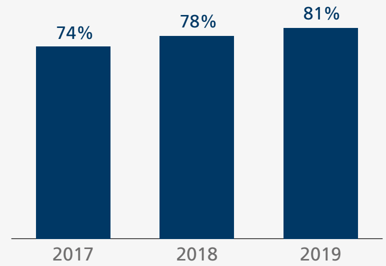
Privacy and data protection are an integral part of our profession as a bank-insurer. Digitalisation provides us with a multiplicity of data, which means we know our clients better and can advise them more effectively. But it goes without saying that clients only accept us analysing their data once they 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 in the 'What are our main challenges' section.

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

KPI	Description	Target and result	
Reputation index	The index reflects the overall public attitude towards the company and is influenced by the performance of seven manageable reputation drivers, which are also measured in the study. The survey is performed by Ipsos.	Target: achieve the same or a higher score than the peer group average[1] per country. 2019 result: all countries scored in line with the peer group average.	**KBC score for reputation index** (number of core countries where the KBC entity records a higher/same/lower score than/as the peer group average) 
Client experience	Client experience is measured on the basis of responses to statements such as: 'offers quality products and services', 'offers transparent products and services', 'is easy to interact with', 'offers good value for money' and 'understands client needs'. The survey is performed by Ipsos.	Target: achieve the same or a higher score than the peer group average[1] per country. 2019 result: all countries scored in line with the peer group average.	**KBC score for client experience** (number of core countries where the KBC entity records a higher/same/lower score than/as the peer group average) 
Digital interaction	Proportion of clients who interact with KBC via at least one of the non-physical channels (digital or advisory centre)[2].	Target: ≥ 80% in 2020 2019 result: 81%	**Digital interaction** 

1 In 2019, the financial benchmarks in Belgium were: BNP Paribas Fortis, ING, Argenta, Ethias, AG Insurance, Belfius, Baloise, Crelan; in the Czech Republic: Air Bank, Moneta Money Bank, Česká spořitelna, Komerční banka, Kooperativa pojišťovna, Česká pojišťovna, Fio banka, Česká pošta, Burinka, Modra Pyramida ; in Hungary: OTP Bank, Erste Bank Hungary, Budapest Bank, CIB Bank, Raiffeisen Bank Hungary, UniCredit Bank Hungary; in Slovakia: Slovenská sporiteľňa, VÚB Banka, Tatra banka, Prima banka, Poštová Banka, Unicredit Bank, Allianz; in Ireland: Permanent TSB, Bank of Ireland, Ulster Bank, AIB, EBS; in Bulgaria: UniCredit Bulbank, DSK Bank, Allianz Bank, Central Cooperative Bank, Bulstrad Vienna Insurance, Armeec, Allianz Insurance, First Investment Bank. The scores relate to the KBC brand (banking and insurance) in Belgium, the ČSOB brand (banking) in the Czech Republic, the ČSOB brand (banking) in Slovakia, the K&H brand (banking) in Hungary, the KBC brand in Ireland and the UBB and DZI brands in Bulgaria. Limited changes in scope can occur year-on-year.

2 Excluding Bulgaria and Postal Savings Bank (Czech Republic). Excluding non-active clients. Including clients who – in addition to using non-physical channels – are also in contact with KBC via the branches. Weighted by the number of active clients per country. The ratio relates to the final quarter of 2019.

We offer our clients a unique bank-insurance experience

client centricity	bank-insurance	sustainable profitable growth	role in society

Within a stringent risk, capital and liquidity management framework

Main challenges

- Having seamless collaboration between data, communication and sales channels
- Having an integrated distribution model in place at Central European entities
- Increasing commercial synergies and bank-insurance clients

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.

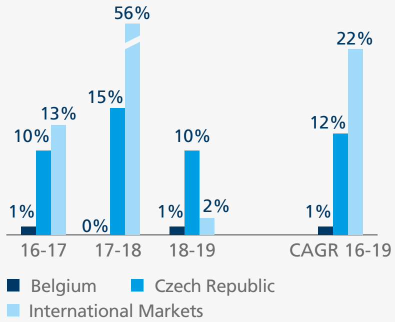
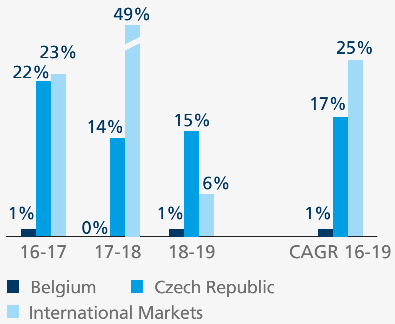
As stated earlier, we do everything we can to integrate our channels (bank branches and insurance agencies, contact centres, self-service terminals, the website, our home banking application and mobile apps). Because we are both a bank and an insurer, we can commit ourselves completely to this integrated 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 below).
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 figures for each business unit are set out in the tables below.

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

KPI	Description	Target and result	
CAGR of bank-insurance clients	Compound annual growth rate (CAGR) of the number of clients holding at least 1 banking and 1 insurance product from the group[1]	Target CAGR for 2016–2020 ≥ 2% in Belgium, ≥ 15% in the Czech Republic, ≥ 10% at International Markets CAGR for 2016–2019: +1% in Belgium, +12% in the Czech Republic and +22%[2] at International Markets	Growth of bank-insurance clients 
CAGR of stable bank-insurance clients	Compound annual growth rate of the number of clients holding at least 2 banking and 2 insurance products from the group (3 and 3 for Belgium)[1]	Target CAGR for 2016–2020 ≥ 2% in Belgium, ≥ 15% in the Czech Republic, ≥ 15% at International Markets CAGR for 2016–2019: +1% in Belgium, +17% in the Czech Republic and +25%[2] at International Markets	Growth of stable bank-insurance clients 

1 Based on a list of previously selected products.
2 Increase partially attributable to the inclusion of UBB Life in the figures with effect from 2018.

We focus on sustainable and profitable growth

client centricity	bank-insurance	sustainable profitable growth	role in society

Within a stringent risk, capital and liquidity management framework

Main challenges

- Developing long-term relationships with clients
- Further optimising presence in core countries
- Diversifying income base
- Driving up partnerships and co-operation agreements

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.

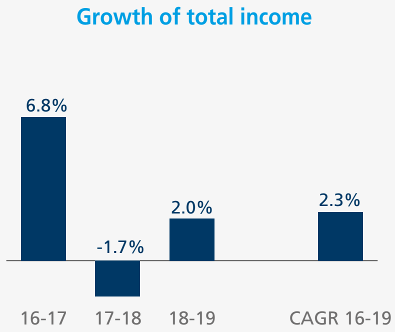
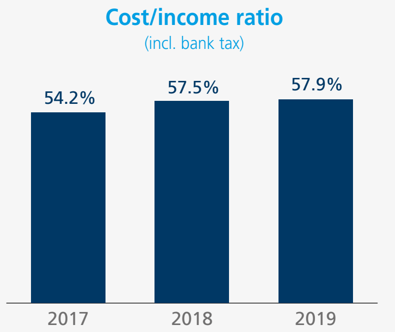
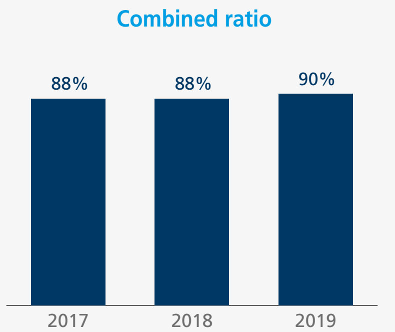
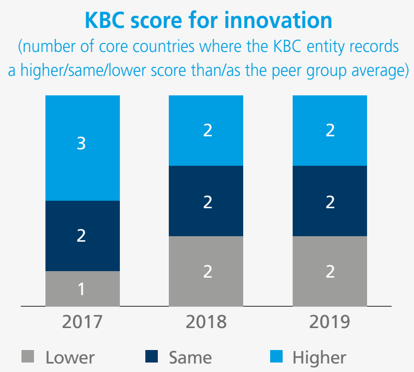
Sustainable and long-term thinking also means concentrating on the local economies of our core markets. Our geographical footprint remains firmly focused on our core countries. We view our presence in these countries as a long-term commitment and want to consolidate our presence there by means of organic 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 transaction had an impact of -0.3 percentage points on our common equity ratio. What's more, 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'. We monitor our long-term performance and our focus on the real economy and sustainability via a number of Key Performance Indicators (KPIs), the most important of which are listed in the following table.

KPI	Description	Target and result	
CAGR of total income	Compound annual growth rate (CAGR) of total income. The calculation excludes fluctuations in value of the derivatives used for asset/ liability management purposes.	Target CAGR for total income 2016–2020 ≥ 2.25% CAGR for 2016–2019: +2.32%	
Cost/income ratio	[operating expenses of the banking activities] / [total income of the banking activities]. The ratio is calculated both including and excluding special bank taxes.	Target for cost/income ratio (excl./incl. bank tax): ≤ 47%/≤ 54% in 2020 2019 result (excl./incl. bank tax): 50.7%/57.9%	
Combined ratio	[technical insurance charges, including the internal cost of settling claims / earned insurance premiums] + [operating expenses / written insurance premiums] (for non-life insurance, and data after reinsurance).	Target for combined ratio: ≤ 94% in 2020 2019 result: 90%	
Innovation	Innovation relates to: 'launches innovative products/services faster than competitors', 'continuously innovates to improve client experience', 'exceeds client expectations', 'uses advanced technologies'. The survey is performed by Ipsos.	Target: achieve the same or a higher score than the peer group average per country*. 2019 result: the scores in Belgium and Ireland were above the peer group average. Those in Slovakia and Hungary were in line with the peer group average. The scores in Bulgaria and the Czech Republic were below the peer group average.	

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

Like to know more?

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

Our role in society

client centricity	bank-insurance	sustainable profitable growth	role in society

Within a stringent risk, capital and liquidity management framework

Main challenges

- Integrating sustainability in key processes and business activities
- Implementing and reporting on the recommendations and rules set out by the TCFD, EU Action Plan on Sustainable Finance, etc.
- Tracking and analysing evolving sustainable business trends
- Continuing the commitment to responsible behaviour at all levels of our business

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.

You can find more information on how we engage with stakeholders and how we select the topics on which we report under 'Stakeholder interaction and materiality analysis' at the back of this report.

Compass for Responsible Behaviour

Responsible behaviour is tricky to define and so we have specifically decided not to draw up detailed guidelines for it, but to set out the underlying principles instead. These are presented in 'Compass for Responsible Behaviour'.
This is not an all-embracing document listing every situation with which employees might be confronted in their daily work, as there needs to be room for common sense and a professional, multidimensional awareness that goes beyond statistics. The guide focuses on the principles to be respected, which have to be translated into every decision and action we take.

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

Our stakeholders' trust depends entirely on responsible behaviour on the part of every employee. We therefore expect all our employees to behave responsibly, which means this theme comes high on our agenda every year.

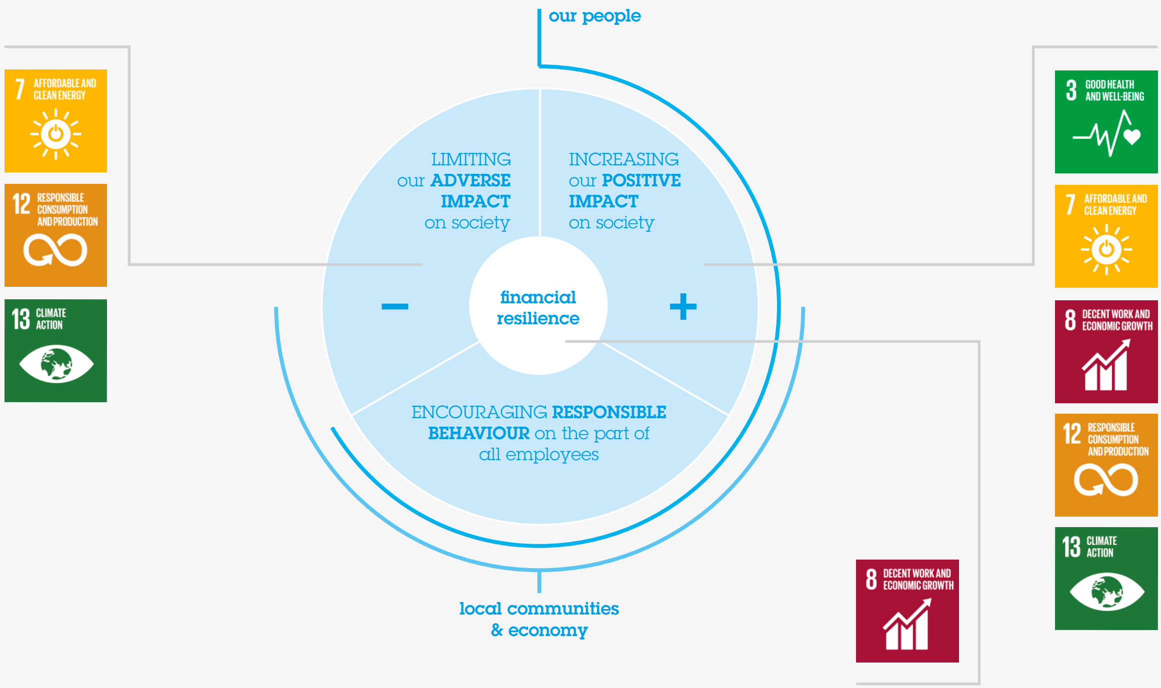
The basis of responsible behaviour is integrity, which requires honesty, fairness, transparency and confidentiality, as well as a healthy awareness of risk. Integrity and ethical values are also reflected in our Code of Conduct for KBC Group Employees. More information in this regard is provided in the 'Corporate governance statement' section.

Responsible behaviour is especially relevant for a bank-insurer when it comes to appropriate advice and sales. We pay particular attention, therefore, to training (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.

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

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 on www.kbc.com shortly after the annual report.



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. You can find more information and examples in the following diagram.

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

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

Our focus areas

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.

Examples

- '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.

Entrepreneurship

- Contributing to economic growth by supporting innovative ideas and projects.

Examples

- 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.

Environmental awareness

- Reducing our ecological footprint through a diverse range of initiatives and objectives.
- Developing products and services that can make a positive contribution to the environment.

Examples

- 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.

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.

Examples

- 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.

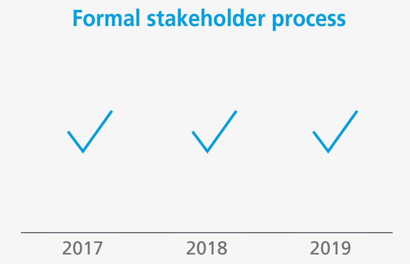
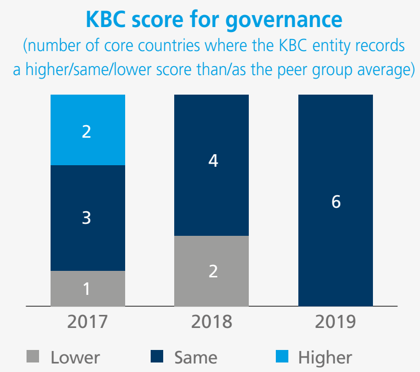
Business units and countries: Sustainability is anchored in the core activities.

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 of these KPIs are listed in the table. Specific environment and climate-related targets are listed further in the section on climate. You will find more details about the tracking and development of these and other indicators in our Sustainability Report.

KPI	Description	Target and result	
Formal stakeholder process	Does the group have a formal process to interact with its stakeholders?	Target: have a stakeholder interaction process in place 2019 result: OK	
Governance	'Governance' refers to the statements: 'behaves ethically', 'is open and transparent', 'acts as an accountable company', 'is a responsive company', 'complies with laws, regulations and industry policies'. The survey is performed by Ipsos.	Target: achieve the same or a higher score than the peer group average per country.* 2019 result: all countries scored in line with the peer group average.	
Environment and climate-related targets	• Reduction in own CO_2 emissions • Position in SRI funds • Renewable energy loans • Financing of coal-related activities • Own green electricity consumption	See 'Focus on climate'.	

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

Focus on climate

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).

Johan Thijs
Chief Executive Officer

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 elsewhere in this 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.
- 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 space of 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 (see 'Stakeholder action and materiality analysis'). 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.

Examples of sustainability-related products and services (KBC group)

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 Onderlinge 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

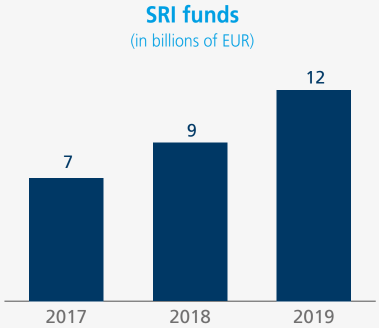
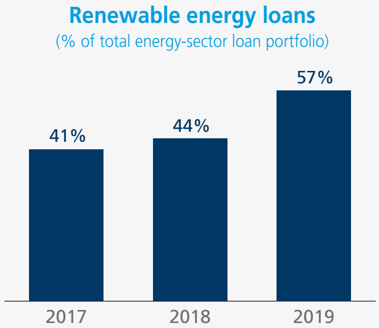
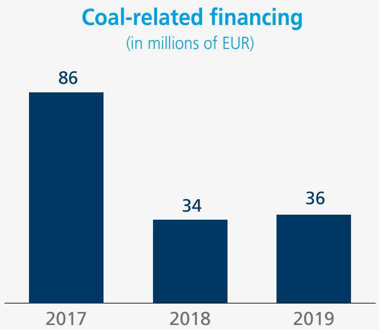
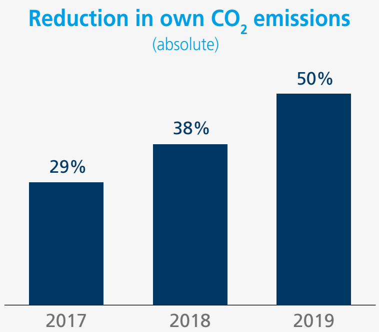
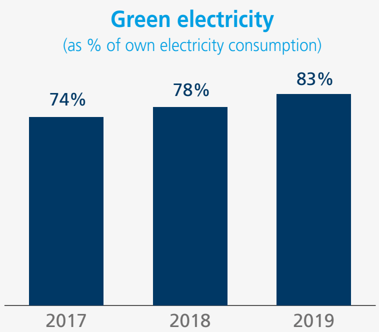
More information on how we address climate-related risks can be found under 'Climate-related risks' in the 'How do we manage our risks?' section.

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 shown in the table. It relates to targets on limiting our own direct environmental impact (reducing our own greenhouse gas emissions and our use of green electricity) 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.

- The target for the volume of SRI funds was raised from 10 billion euros by 2020 to 14 billion euros by 2021 and 20 billion euros by 2025.
- We have set a new long-term reduction target for our own greenhouse gas emissions. The goal now is to achieve a reduction of at least 65% between 2015 and 2040.
- We introduced a new target for green energy. By 2030, at least 90% of our electricity consumption must come from renewable energy.

KPI	Description	Target and result	
Position in SRI funds	Volume of SRI funds at KBC Asset Management	Target: 10 billion euros by year-end 2020 14 billion euros by year-end 2021 20 billion euros by year-end 2025 2019 result: 12 billion euros[1]	
Renewable energy loans	[outstanding amount of loans to businesses in the renewable energy and biofuels sectors] / [total outstanding energy-sector loan portfolio]	Target: ≥ 50% by 2030 2019 result: 57%[3]	
Financing of coal-related activities	Loans to coal-related activities	Target: reduce financing of coal sector and coal-fired power generation to zero by 2023[2] 2019 result: 36 million euros remaining[3]	
Reduction in own CO_2e emissions	Reduction in own greenhouse-gas emissions (in absolute terms and per FTE) compared to 2015 and excluding commuter travel.	Target: reduce emissions by ≥ 25% between 2015 and 2020 reduce emissions by ≥ 50% between 2015 and 2030 reduce emissions by ≥ 65% between 2015 and 2040 2015–2019 result: -50% (absolute) and -48% (per FTE)	
Own green electricity consump-tion	[Green electricity] / [total electricity consumption]	Target: 90% green electricity by 2030 2019 result: 83%	

1 Not including KBC pension funds.

2 We exclude 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. Detailed information on this matter is provided in the KBC Energy Policy, which is available at www.kbc.com. KBC will continue to review its policy on coal in 2020 as part of its heightened climate ambition and the new commitments entered into in this regard in 2019. This could broaden the scope of reporting in the future.

3 Excluding UBB in Bulgaria.

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: The focus is on the loan portfolio, in which the following climate-sensitive industrial sectors (at the highest aggregate level) are identified on account of their relative size (see table).

Most climate-sensitive industrial sectors* – outstanding loan amounts (in billions of EUR)**, KBC group**	**2019**
Real estate	11.2
Building and construction	6.8
Agriculture, farming, fishing	4.7
Automotive	4.6
Food production	3.0
Electricity	2.8
Metals	2.5
Chemicals	2.2
Total	37.8

* Reporting limited to sectors representing over 5% of industrial loans designated as climate-sensitive at year-end 2019. Although climate change could have an impact on all industries and sectors, the climate-sensitive industrial sectors were selected on the basis of a number of factors, including the TCFD recommendations (2017), pending more standardised frameworks and analyses (see the Sustainability Report for more details).

- 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. The first results of the pilot projects that commenced in 2019 will be published in the Sustainability Report. 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.

Reference to the TFCD recommendations

TFCD reporting recommendations	Included in section and sub-section of this annual report
Governance (oversight of administrative bodies, management role)	'Our strategy'/'Our sustainability governance' 'Our strategy'/'Focus on climate'
Strategy (climate risks and opportunities; impact of climate risks and opportunities on operations, strategy and planning; resilience of strategy and organisation taking account of different climate scenarios)	'Our strategy'/'Focus on climate' 'Our business model'
Risk management (identification and evaluation processes; management processes; integration in general risk management)	'How do we manage our risks?'/'Climate-related risks'
Benchmarks and targets (benchmarks used for evaluation; Scope 1, 2 and 3 greenhouse gas emissions and related risks; targets and performance)	'Our strategy'/'Focus on climate'

Focus on human rights

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

client centricity	bank-insurance	sustainable profitable growth	role in society

Within a stringent risk, capital and liquidity management framework

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

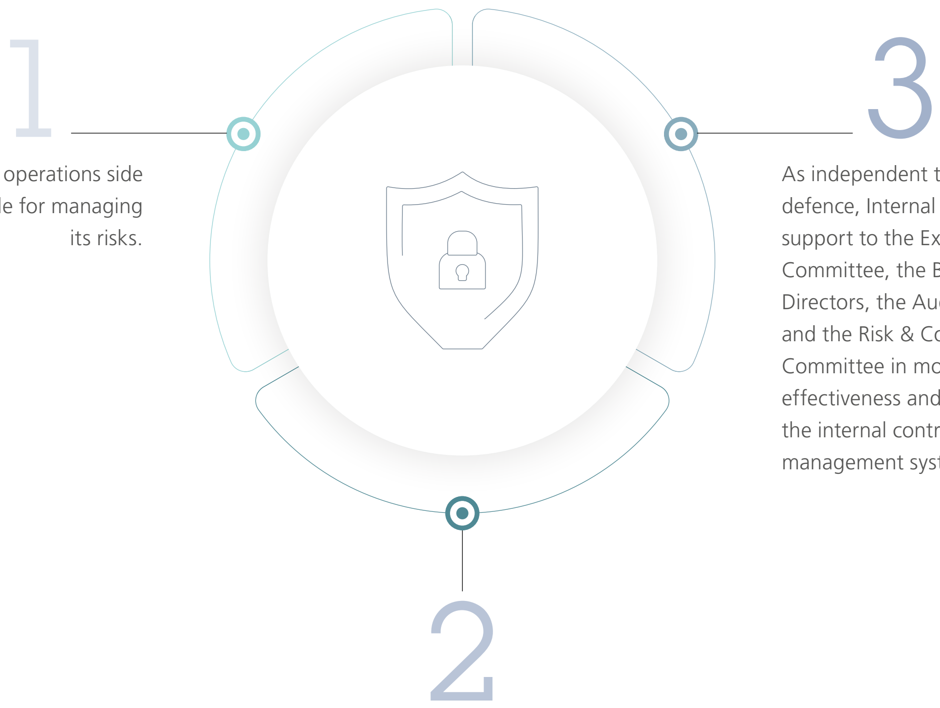
- We perform risk scans to identify all key risks.
- We define our risk appetite in a clear manner.
- We translate that into strict limit tracking per activity and business unit.
- We monitor the risk profile of existing and new products via a Product Approval Process.
- We challenge the results of the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

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 risk and compliance risk.

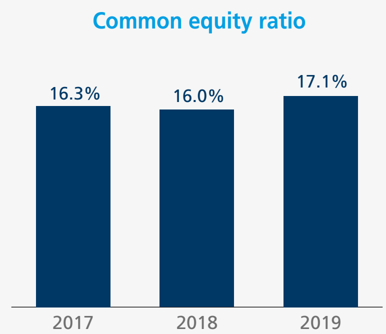
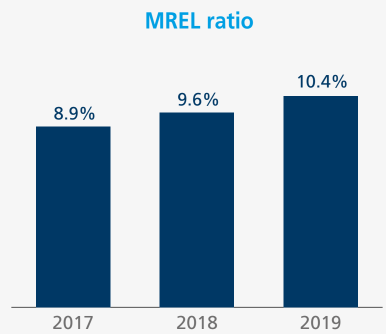
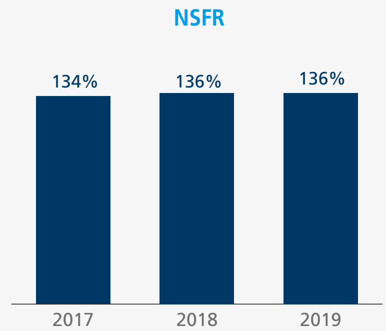
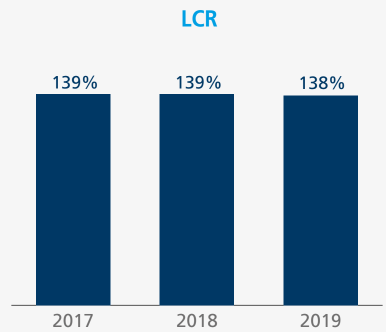
A list of these risks can be found in the following table.

'Three Lines of Defence' model



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.

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

Regulatory ratios	Description	Target and result	
Common equity ratio	[common equity tier-1 capital] / [total weighted risks]. The calculation shown here is on a fully-loaded basis and according to the Danish compromise method.	Target: see the ‘How do we manage our capital?’ section 2019 result: 17.1%[1]	
MREL ratio	[own funds and eligible liabilities] / [total liabilities and own funds (TLOF], hybrid view[2]	Target: ≥ 9.67% by year-end 2021 2019 result: 10.4%	
Net stable funding ratio (NSFR)	[available amount of stable funding] / [required amount of stable funding]	Target: ≥ 100% 2019 result: 136%	
Liquidity coverage ratio (LCR)	[stock of high-quality liquid assets] / [total net cash outflows over the next 30 calendar days]	Target: ≥ 100% 2019 result: 138%	

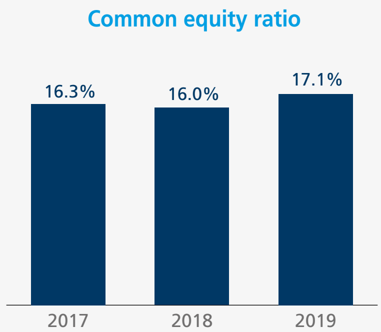
1 See ‘Comment’ on page 137.
2 See the ‘How do we manage our capital?’ section.

Like to know more?

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

We aim to be one of the better capitalised financial institutions in Europe. Each year, therefore, we assess the common equity ratios of a group of European banks that are active in the retail, SME, and corporate client segments. We then position ourselves relative to the median fully loaded common equity ratio of that group. This capital policy is encapsulated in an 'own capital target', which amounted to 14% in 2019 (updated annually). We also intend to maintain a flexible buffer of up to 2% of common equity on top of this for potential mergers and acquisitions that would strengthen our position in our core markets. The acquisition of the remaining 45% stake in ČMSS (see 'We focus on sustainable and profitable growth') had an impact of roughly -0.3 percentage points on the common equity ratio, causing the M&A buffer to fall to 1.70%. This buffer is added to our own capital target, giving us a 'Reference capital position' of 15.7% in 2019.

Dividend for 2019: an interim dividend of 1 euro per share was paid in November 2019. However, in line with the recommendations made by the ECB on dividend payments, a final dividend will not be paid for 2019.

KPI	Description	Target and result	
Own capital target and reference capital position	[fully loaded common equity tier-1 ratio of the peer group]. Plus a buffer for mergers and acquisitions when calculating the reference capital position.	Target: own capital target of 14% and reference capital position of 15.7% in 2019 (updated annually) 2019 result: 17.1%*	

* See 'Comment' on page 137.

Our financial report

- Consolidated net profit of 2 489 million euros in 2019.
- Higher net interest income and net fee and commission income.
- Higher contribution made by technical insurance results.
- Lower trading and fair value income.
- Other net income favoured by one-off item.
- Growth in lending and deposits, increased sales of non-life insurance and life insurance.
- Combined ratio for non-life insurance of 90% and cost/income ratio for banking activities of 57.9%.
- Higher impairment charges for loans: net increase in 2019 as opposed to a net reversal in 2018.
- Robust solvency.

Consolidated income statement, KBC group (simplified, in millions of EUR)	**2019**	**2018**
Net interest income	4 618	4 543
Non-life insurance (before reinsurance)	756	760
Earned premiums	*1 721*	*1 582*
Technical charges	*-966*	*-822*
Life insurance (before reinsurance)	-6	-18
Earned premiums	*1 323*	*1 359*
Technical charges	*-1 329*	*-1 377*
Ceded reinsurance result	-25	-41
Dividend income	82	82
Net result from financial instruments at fair value through profit or loss[1]	181	231
Net realised result from debt instruments at fair value through other comprehensive income	6	9
Net fee and commission income	1 734	1 719
Other net income	282	226
Total income	7 629	7 512
Operating expenses	-4 303	-4 234
Impairment	-217	17
on financial assets at amortised cost and at fair value through other comprehensive income[2]	*-203*	*62*
Share in results of associated companies and joint ventures	7	16
Result before tax	3 116	3 310
Income tax expense	-627	-740
Result after tax	2 489	2 570
Result after tax, attributable to minority interests	0	0
Result after tax, attributable to equity holders of the parent (net result)	**2 489**	**2 570**
Return on equity	14%	16%
Result after tax on average total assets	0.9%	0.9%
Cost/income ratio, banking	57.9%	57.5%
Combined ratio, non-life insurance	90%	88%
Credit cost ratio, banking	0.12%	-0.04%

1 Also referred to as 'Trading and fair value income'.
2 Also referred to as 'Loan loss impairment'.

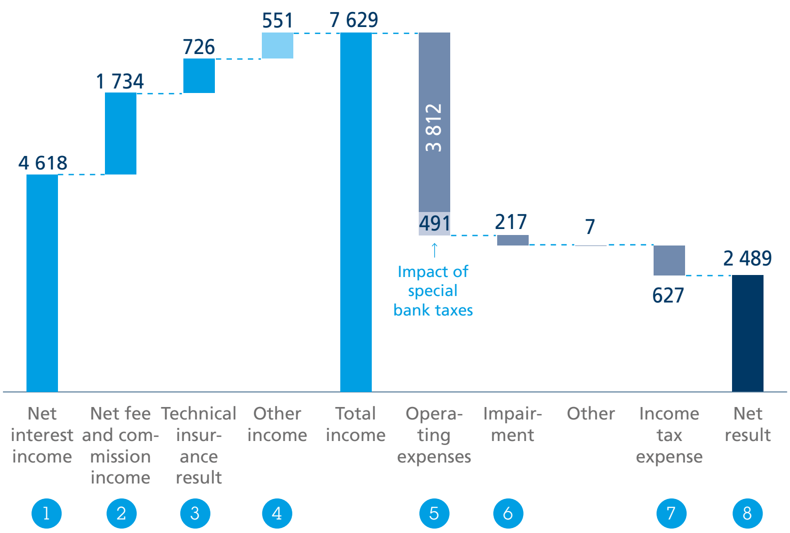
Key consolidated balance sheet, solvency and liquidity figures,[1] KBC group (in millions of EUR)	**2019**	**2018**
Total assets	290 735	283 808
Loans and advances to customers (excluding reverse repos)	155 816	147 052
Securities (equity and debt instruments)	65 633	62 708
Deposits from customers and debt securities (excluding repos)	203 369	194 291
Technical provisions (before reinsurance) and liabilities under investment contracts, insurance	32 170	31 273
Risk-weighted assets (Basel III, fully loaded)	99 071	94 875
Total equity	20 365	19 633
Common equity ratio (Basel III, Danish compromise method): fully loaded[2]	17.1%	16.0%
Leverage ratio (Basel III, Danish compromise method): fully loaded	6.8%	6.1%
Liquidity coverage ratio (LCR)	138%	139%
Net stable funding ratio (NSFR)	136%	136%

1 For a definition of the ratios, see 'Glossary of financial ratios and terms'.
2 See 'Comment' on page 137.

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.

Our financial result in 2019

Achievement of net result for 2019
(in millions of EUR)



Net interest income 1

Our net interest income came to 4 618 million euros in 2019, up 2% 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 156 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 203 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 2

Our net fee and commission income came to 1 734 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 (chiefly management fees for investment funds and unit-linked life insurance products) declined and distribution fees rose (primarily on insurance sales). At the end of 2019, our total assets under management 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).

Insurance premiums and technical charges 3

Our technical insurance result (earned premiums less technical charges plus the ceded reinsurance result) amounted to 726 million euros.
Non-life insurance contributed 734 million euros to this result, up 2% on the year-earlier figure, due to growth in premium income (+9%) and a higher reinsurance result, which was partly offset by an increase in technical charges (+17%: primary attributable to an increased amount of larger claims). The combined ratio at group level amounted to an excellent 90% compared to 88% in 2018.
Life insurance accounted for -9 million euros of the technical insurance result, compared to the year-earlier figure of -20 million euros. However, in compliance with IFRS, certain types of life insurance (i.e. unit-linked products) have been excluded from the figures for premiums and technical charges in the life insurance business. If the premium income from such products is included, premium income from the life insurance business totalled around 1.8 billion euros, roughly 2% more than in 2018. The increase occurred primarily in Belgium by unit-linked life insurance products. For the group as a whole, products offering guaranteed rates accounted for 60% of premium income from the life insurance business in 2019, and unit-linked products for 40%.

Other income 4

Other income came to an aggregate 551 million euros, as opposed to 548 million euros in 2018. The 2019 figure includes 82 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 181 million euros in trading and fair value income. The latter figure was down 49 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 a higher result from shares at the insurance business and the impact of various fair value adjustments.
Lastly, other income also included 282 million euros in other net income in 2019. This is 55 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 5

Our expenses amounted to 4 303 million euros in 2019, a limited increase of 1.6% 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 6% to 491 million euros, most notably in Ireland, Belgium and the Czech Republic). Adjusted for these two factors, costs remained roughly unchanged on their 2018 level, reflecting our strict management of costs.
As a result, the cost/income ratio of our banking activities came to 57.9%, compared to 57.5% in 2018. The ratio was 57.7% for the Belgium Business Unit, 44.4% for the Czech Republic Business Unit and 69.7% for the International Markets Business Unit. If we exclude a number of non-operating and exceptional items (see the 'Glossary of financial ratios and terms' at the end of this report for more

information), the cost/income ratio came to 58.3%, compared to 57.4% in 2018.

Impairment 6

There was a net increase in loan loss impairment charges totalling 203 million euros in 2019, compared to a net reversal of 62 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 writing 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 14 million euros in 2019. The figure in 2018 was 45 million euros, which related significantly to the impact of revising the residual values of car leases in the Czech Republic.

Income tax expense 7

Our income tax expense came to 627 million euros in 2019, compared to a year-earlier figure of 740 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 and direct supervisory expenses. In 2019, these amounted to 491 million euros (up 6%) and 36 million euros (up 10%), respectively, and are recognised in 'Operating expenses'.

Net results per business unit 8

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

Analysis of the balance sheet in 2019

Total assets 1

At the end of 2019, our consolidated total assets came to 291 billion euros, up 2% year-on-year. Risk-weighted assets (Basel III, fully loaded) increased by 4% to 99 billion euros. More information in this regard can be found in the 'How do we manage our capital?' section.

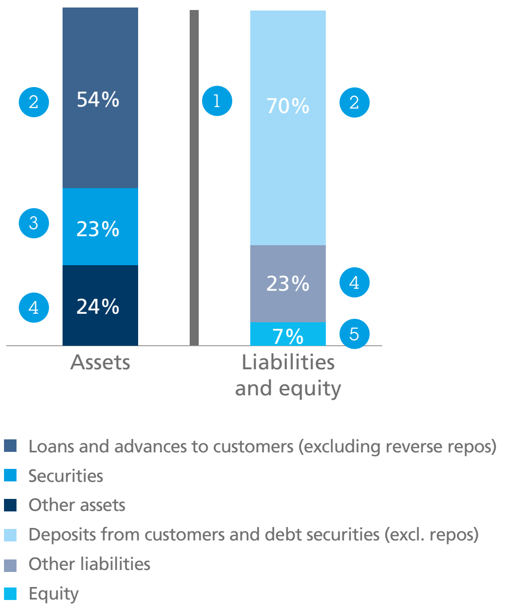
Loans and deposits 2

Our core banking business is to attract deposits and use them to provide loans. This clearly explains the importance of the figure for loans and advances to customers on the assets side of our balance sheet (156 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 (69 billion euros) and mortgage loans (68 billion euros). On the liabilities side, our customer deposits (deposits from customers and debt securities, excluding repos) grew by 5% to 203 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 3

We also hold a portfolio of securities at the bank and at the insurer (where it serves primarily as an investment in the insurance context, especially life insurance), which totalled roughly 66 billion euros at year-end 2019. Approximately 30% of the portfolio relates to the insurance activities and some 70% to the banking activities. The total securities portfolio comprised 4% shares and 96% bonds (with bonds increasing by 2.7 billion euros in 2019). Roughly 80% of these bonds at year-end 2019 consisted of government paper, the most important being Belgian,

Balance sheet components
(year-end 2019)



Czech, French, Hungarian, Slovak, Spanish and Italian. A detailed list of these bonds is provided in the 'How do we manage our risks?' section.

Other assets and other liabilities 4

Other important items on the assets side of the balance sheet were loans and advances to credit institutions and investment firms (5 billion euros, 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), investment-linked life insurance contracts (15 billion euros, up almost 1 billion euros year-on-year) 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 the technical provisions and

liabilities under the insurer's investment contracts (an aggregate 32 billion euros, roughly 1 billion euros more year-on-year), 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 5

On 31 December 2019, our total equity came to 20.4 billion euros. This figure included 18.9 billion euros in parent shareholders' equity and 1.5 billion euros in additional tier-1 instruments. Total equity rose by 0.7 billion euros in 2019, with the most important components in this respect being the inclusion of the annual profit (+2.5 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 final dividend for 2018 in May and an interim dividend in November 2019 (an aggregate -1.5 billion euros), changes in the revaluation reserves (+0.6 billion euros) and various smaller items.

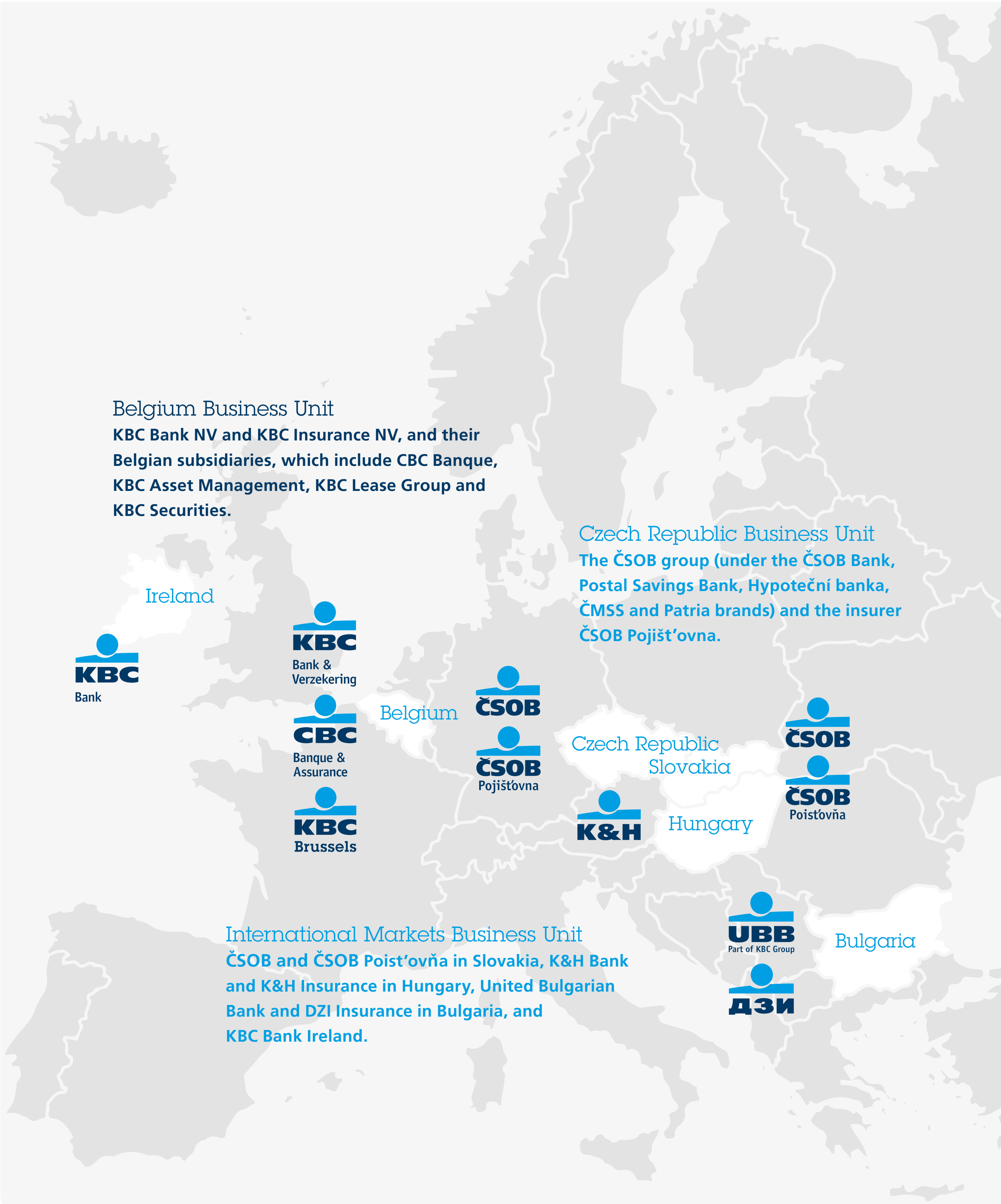
On 31 December 2019, our fully loaded common equity ratio (Basel III, under the Danish compromise) stood at 17.1% (see 'Comment' on page 137), compared to 16.0% in 2018. Our leverage ratio came to an excellent 6.8%.

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%.

Additional information and guidance

- We review the consolidated results in this section of the annual report. A review of the non-consolidated results and balance sheet is provided in the 'Company annual accounts and additional information' section.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was – on balance – very limited.
- Information on financial instruments, hedge accounting and the use thereof is provided in the 'Consolidated financial statements' section (Notes 1.2, 3.3 and 4.1–4.8 among others) and in the 'How do we manage our risks?' section.
- We expect Basel IV (effective from 2022) to increase our risk-weighted assets by approximately 8 billion euros (on a fully loaded basis at the end of 2019), which will have a negative impact of about 1.2% on the common equity ratio.
- As regards our dividend policy, see 'Our employees, capital, network and relationships' in the 'Our business model' section.
- For information on significant post-balance-sheet events, see Note 6.8 of the 'Consolidated financial statements'.

Our business units



Belgium Business Unit

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

Czech Republic Business Unit

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

International Markets Business Unit

ČSOB and ČSOB Poist'ovňa in Slovakia, K&H Bank and K&H Insurance in Hungary, United Bulgarian Bank and DZI Insurance in Bulgaria, and KBC Bank Ireland.

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	225 bank branches	117 bank branches	208 bank branches	183 bank branches	16 bank branches
	355 insurance agencies	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through various channels	Insurance sold through partnerships
	Online channels	Online channels	Online channels	Online channels	Online channels	Online channels
Clients (millions, estimate)	3.5	4.2	0.6	1.6	1.3	0.3
Loan portfolio (in billions of EUR)	112	32	8	5	4	10
Deposits and debt securities (in billions of EUR)	131	40	6	8	4	5
Market share (estimate)						
- banking products	20%	21%	10%	10%	10%	9%[2]
- investment funds	30%	24%	7%	13%	16%	–
- life insurance	13%	8%	3%	3%	23%	–
- non-life insurance	9%	8%	4%	8%	10%	–
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. In Belgium, the life insurance market share is based on reserves; for the other countries, it is based on premiums. Loan portfolio: see 'How do we manage our risks?'. Deposits and debt securities: deposits from customers and debt securities (excluding repos). The number of bank branches 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

The macroeconomic context in 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 again 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.

Figures for forecast GDP growth in 2020 can be found under 'Market conditions in our core markets in 2019'.

Specific objectives

- To focus on an omnichannel approach and invest in the seamless integration of our different distribution channels (branches, agencies, KBC Live, 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 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.

- 'Best Bank in Belgium and in Western Europe' (Euromoney)
- 'Bank of the Year 2019' (Bankshopper.be)
- 'Best Private Banker in Belgium' (Euromoney)
- 'Best Trade Finance Provider in Belgium' (Global Finance)
- 'Best Workplaces in Belgium' (Great Place to Work®)
- 'Best CEO, CFO and Investor Relations in Belgium' (Extel Survey)
- 'Best Digital Bank' and 'Most Innovative Bank' (Spaargids.be)
- Top spot in Belgium for the www.kbc.com corporate website (Webranking by Comprend)
- etc.

A few achievements in 2019

client centricity

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 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 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) as well as non-banking applications. Recent examples of the latter are the possibility of paying for parking or public transport tickets, 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.

sustainable profitable growth

For several years now, we have been active in Brussels under the separate KBC Brussels brand, which has a metropolitan, innovative image and a tailored network. We continued to modernise the branch network in 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.

bank-insurance

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.

role in society

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.

Contribution to group result

Net result		
Net result 1 344 million euros (-7%)	**Net interest income** 2 516 million euros (-2%)	**Cost/income ratio** 57.7% (57.9%)
	Technical insurance result* 397 million euros (+2%)	**Combined ratio** 89% (87%)
	Net fee and commission income 1 182 million euros (+0%)	**Credit cost ratio** 0.22% (0.09%)
	Operating expenses 2 485 million euros (+0%)	**Impaired loans** ratio 2.4% (2.6%)
	Impairment on loans 241 million euros (+165%)	**Return on allocated capital** 20% (22%)

Figures for 2019 (the figures in brackets are for, or indicate the difference with, 2018). A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated financial statements' section.
* Earned premiums - technical charges + ceded reinsurance result.

In 2019, the Belgium Business Unit recorded a net result of 1 344 million euros, compared with 1 450 million euros a year earlier.

Net interest income (2 516 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 (101 billion euros, excluding reverse repos) rose by 2% and deposits from customers and debt securities (131 billion euros, excluding repos) were at roughly the same level (figures calculated based on an unchanged scope).

At 1 182 million euros, our net fee and commission income was stable year-on-year. Higher fees 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) and higher rates for distribution fees on insurance sales (due to increased sales of insurance products).

The technical result from our insurance activities in Belgium came to 397 million euros. In the non-life segment, premium income grew by 4% (with growth in almost all classes), while claims rose by 14% (due primarily to major claims) and the reinsurance result increased. The combined ratio for our non-life insurance business came to 89%. Our life insurance sales – including investment contracts without a discretionary participation feature, which are excluded from the IFRS figures – amounted to 1.5 billion euros, up 5% on the year-earlier figure. This growth was accounted for primarily by unit-linked life-insurance products.

The other income items chiefly comprised the dividends we received on securities held in our portfolios (78 million euros), trading and fair-value income (177 million euros; up on 2018 due primarily to a higher contribution from the dealing room, various market value adjustments and results from shares at the insurance company) and other income (187 million euros). Besides mainly the usual items (results from KBC Autolease, VAB, etc.), 'other income' also included a number of smaller one-off items.

Our costs in Belgium were broadly stable at 2 485 million euros, 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 for our banking activities came to 57.7%, compared with 57.9% in 2018.

We recorded 241 million euros in loan loss impairment charges, as opposed to 91 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 'Glossary of financial ratios and terms' 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).

Czech Republic

The macroeconomic context in the 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 appears to be coming to an end, given the slowdown in growth, which will also gradually begin to weigh on inflation.

Figures for forecast GDP growth in 2020 can be found under 'Market conditions in our core markets in 2019'.

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 Robotic Process Automation (RPA) and Intelligent Process Automation (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, to leverage our position as market leader in home finance and to focus even more strongly on growing the volume and profitability of our insurance offering.
- 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.

- 'Best Bank in the Czech Republic' (Euromoney)
- 'Best Bank in the Czech Republic' (The Banker)
- ČSOB Private Banking: 'Best Private Bank in the Czech Republic' (PWM – The Banker)
- ČSOB Pojišťovna: runner-up for 'Non-Life Insurance Company in the Czech Republic' (Hospodářské noviny Awards)
- 'Best Trade Finance Provider in the Czech Republic' (Global Finance)
- etc.

A few achievements in 2019

client centricity

We again 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.

sustainable profitable growth

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. The deal had an impact of -0.3 percentage points on KBC's common equity ratio. 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 28% in 2019 and our deposits by 22%. With an unchanged scope (i.e. without the impact of consolidating ČMSS), lending increased by 5% and deposits by 3%.

bank-insurance

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%.

role in society

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 earlier 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. For instance, we launched the ČSOB EU Smart Energy Credit for SMEs, with the support of the European Investment Bank (EIB).
As far as promoting entrepreneurship is concerned, we took inspiration from the success of Start it @KBC in Belgium and 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. And in collaboration with the Sue Ryder Home advisory centre, we launched the online portal 'Don't get lost in old age', which provides elderly people and their families with lots of practical information and professional advice.

Contribution to group result

Net result		
Net result 789 million euros (+21%)	**Net interest income** 1 277 million euros (+22%)	**Cost/income ratio** 44.4% (46.6%)
	Technical insurance result* 164 million euros (+7%)	**Combined ratio** 94% (97%)
	Net fee and commission income 254 million euros (-1%)	**Credit cost ratio** 0.04% (0.03%)
	Operating expenses 770 million euros (+6%)	**Impaired loans** ratio 2.3% (2.4%)
	Impairment on loans 12 million euros (+48%)	**Return on allocated capital** 47% (39%)

Figures for 2019 (the figures in brackets are for, or indicate the difference with, 2018). A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated financial statements' section.
* Earned premiums - technical charges + ceded reinsurance result.

In 2019, the Czech Republic Business Unit recorded a net profit of 789 million euros, compared with 654 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 (1 277 million euros) rose by 22%, 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 (fully consolidated as of mid-2019), 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 (254 million euros) declined slightly by 1%, The decrease in the contribution from our asset management activities and banking services was almost entirely offset by the positive impact of the consolidation of ČMSS from June 2019.

The technical result from our insurance activities in the Czech Republic came to 164 million euros in 2019, up 7% on the year-earlier figure. Non-life premium income grew by 14%, but there was also a 15% increase in technical charges. The combined ratio for our Czech non-life insurance business amounted to 94%. Sales of life insurance ended the year at 0.2 billion euros, 12% lower than the figure for 2018 owing to weaker sales of unit-linked life-insurance products.

The other income items chiefly comprised trading and fair value income and other income (a combined 17 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 770 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 44.4%, compared with 46.6% 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).

International Markets

The macroeconomic context in Slovakia, Hungary, Bulgaria and Ireland

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 exhibited by Poland in this respect. 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.

Figures for forecast GDP growth in 2020 can be found under 'Market conditions in our core markets in 2019'.

- K&H in Hungary, ČSOB in Slovakia and UBB in Bulgaria: 'Best Trade Finance Provider' (Global Finance)
- K&H in Hungary: 'Best Bank in Hungary' (Euromoney)
- K&H in Hungary: 'Best Bank in Hungary' (The Banker)
- UBB in Bulgaria: winner of the 'Big Innovation of the Year' prize (B2B Awards).
- UBB in Bulgaria: 'Bank of the Year' (Bank of the Year Association)
- KBC Bank Ireland: 'Best Mobile App Experience' (Bonkers.ie)
- etc.

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. We also aim to expand our insurance activities substantially, primarily through sales at bank branches and, for non-life insurance, via both online and traditional brokers.
- To maintain our robust growth in strategic products in Slovakia (i.e. home loans, consumer finance, SME funding, leasing and insurance), partly through cross-selling to ČSOB group clients and via digital channels. Other priorities include the sale of funds and increased fee income.
- To focus – as regards the banking business in Bulgaria – on increasing our share of the lending market in all segments, while applying a robust risk framework. Our insurer, DZI, is likewise maintaining its goal of growing faster than the market in both life and non-life insurance, via the bank and other channels.
- To further implement our 'Digital First' strategy in Ireland in order to ensure an outstanding client experience. We aim to differentiate ourselves through the instant and proactive delivery of products and services and through a high level of accessibility (including mobile and contact centre). We 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

client centricity

As in Belgium and the Czech Republic, we look constantly at how we can apply new technologies in order to further align the service we offer to meet the needs of our clients in Slovakia, Hungary, Bulgaria and Ireland. 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 operating models, business processes and enterprise architecture across these countries 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.

sustainable profitable growth

Our deposits continued to grow in all the Central European core countries. The same goes for lending, which also saw a further improvement in quality. This was reflected, for instance, by a reduction in the proportion of impaired loans in the portfolio for the entire business unit (see below). 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.
Nova Ljubljanska banka and KBC Insurance signed an agreement at the end of 2019 to sell their respective stakes in the Slovenian 50/50 life insurance joint venture NLB Vita to Sava Re, meaning that KBC will completely withdraw from Slovenia, which is not one of its core markets. The transaction, which is expected to conclude in the second quarter of 2020, is subject to the approval of the regulatory institutions and will have a negligible impact on our results. 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).

bank-insurance

The number of bank-insurance clients for the business unit as a whole – i.e. clients with at least one banking and one insurance product from our group in their portfolio – increased by roughly 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 of ten new home loans taken out in Bulgaria and Slovakia, and more than seven out of ten such loans taken out in Hungary.

role in society

We link our social projects to financial literacy, environmental responsibility, entrepreneurship and health. 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 and ensures that clients are able to make informed choices.

Contribution to group result

Net result
379 million euros
(-29%)

Slovakia
79 million euros (-4%)

Hungary
173 million euros (-12%)

Bulgaria
93 million euros (-3%)

Ireland
29 million euros (-81%)

Net interest income
863 million euros (-4%)

Technical insurance result*
164 million euros (+17%)

Net fee and commission income
301 million euros (+6%)

Operating expenses
932 million euros (+3%)

Impairment on loans
18-million-euro impairment reversal
(127-million-euro reversal)

Cost/income ratio
69.7% (64.7%)

Combined ratio
88% (90%)

Credit cost ratio
-0.07% (-0.46%)

Impaired loans ratio
8.5% (12.2%)

Return on allocated capital
16% (24%)

Figures for 2019 (the figures in brackets are for, or indicate the difference with, 2018). A detailed breakdown of the income statement for each business unit and each country can be found in 'Note 2.2: Results by segment' in the 'Consolidated financial statements' section.
* Earned premiums - technical charges + ceded reinsurance result.

In 2019, the net result at our International Markets Business Unit amounted to 379 million euros, as opposed to 533 million euros a year earlier. Hungary accounted for 173 million euros of this figure, Slovakia for 79 million euros, Bulgaria for 93 million euros and Ireland for 29 million euros.

Net interest income for the business unit as a whole came to 863 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) rose by 6% on their year-earlier level (with an unchanged scope, i.e. without taking account of the sale of the corporate loan portfolio in Ireland or exchange rate movements in Hungary). The figures 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 (301 million euros) went up by 6%, due primarily to higher fees for our banking services (mainly for payments in Hungary).

The business unit's technical insurance results, which are confined to Hungary, Slovakia and Bulgaria, came to 164 million euros, up 17% on the figure for 2018. In the non-life segment, premium income increased by 24% (with growth in all countries), claims incurred rose by 30% and the ceded reinsurance result improved slightly. The combined ratio for the business unit's overall non-life activities amounted to 88%. Sales of life insurance – including investment contracts without a discretionary participation feature, which are excluded from the IFRS figures – came to 137 million euros, down slightly on the figure for 2018 (-3%), due primarily to lower sales of unit-linked life insurance products in Slovakia and Hungary.

The other income items chiefly comprised trading and fair value income (48 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 3% to 932 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 -23 million euros, compared with -67 million euros a year earlier.

This consisted of:

- Traditional items, such as the operating expenses of our group's holding-company activities, certain costs related to capital and liquidity management and funding and other costs related to the holding of participating interests (-97 million euros in 2019 as opposed to -68 million euros in 2018). The lower result reflected a number of factors, including reduced income generated by reinvestments, lower realised capital gains and technical items. The figure for 2019 includes the positive impact of a one-off item under 'Income tax expense', linked to the new hedging policy of foreign exchange participations (see also Note 3.12 in the 'Consolidated annual accounts').
- The results of the remaining companies scheduled for run-down, including the portfolio of the former Antwerp Diamond Bank, KBC Finance Ireland, etc. (24 million euros in 2019 compared with 58 million euros in 2018). This decline was chiefly attributable to the former Antwerp Diamond Bank, due in part to the run-down of the portfolio and lower loan loss impairment releases.
- Other items (51 million euros in 2019 compared with -57 million euros in 2018). The higher result partly reflected positive market value adjustments in 2019 as opposed to negative adjustments in 2018. The 2018 figure also included the negative effect of a legal case (-38 million euros).

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

How do we manage our risks?

Mainly active in banking, insurance and asset management, we are exposed to a number of typical industry-specific risks such as credit risk, movements in interest rates and exchange rates, liquidity risk, insurance underwriting risk, operational and other non-financial risks.
In this section, we focus on our risk governance model and the most material sector-specific risks we face. The general 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', the 'Other credit exposure, banking' table, the 'Investment portfolio of KBC group insurance entities' table and the 'Credit exposure to (re) insurance companies by risk class' table;
- parts of the 'Market risk in trading activities' section: the introduction, 'Managing market risk' and 'Risk analysis and quantification';
- parts of the 'Market risk in non-trading activities' section: the introduction, 'Managing market risk in non-trading activities', 'Interest rate risk' (except for the 'Impact of a parallel 10-basis-point increase in the swap curve for the KBC group' table and the 'Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities' table), the 'Exposure to sovereign bonds' table and 'Foreign exchange risk';
- parts of the 'Liquidity risk' section: the introduction, 'Managing liquidity risk' and 'Maturity analysis';
- the 'Technical insurance risk' section.

Risk governance

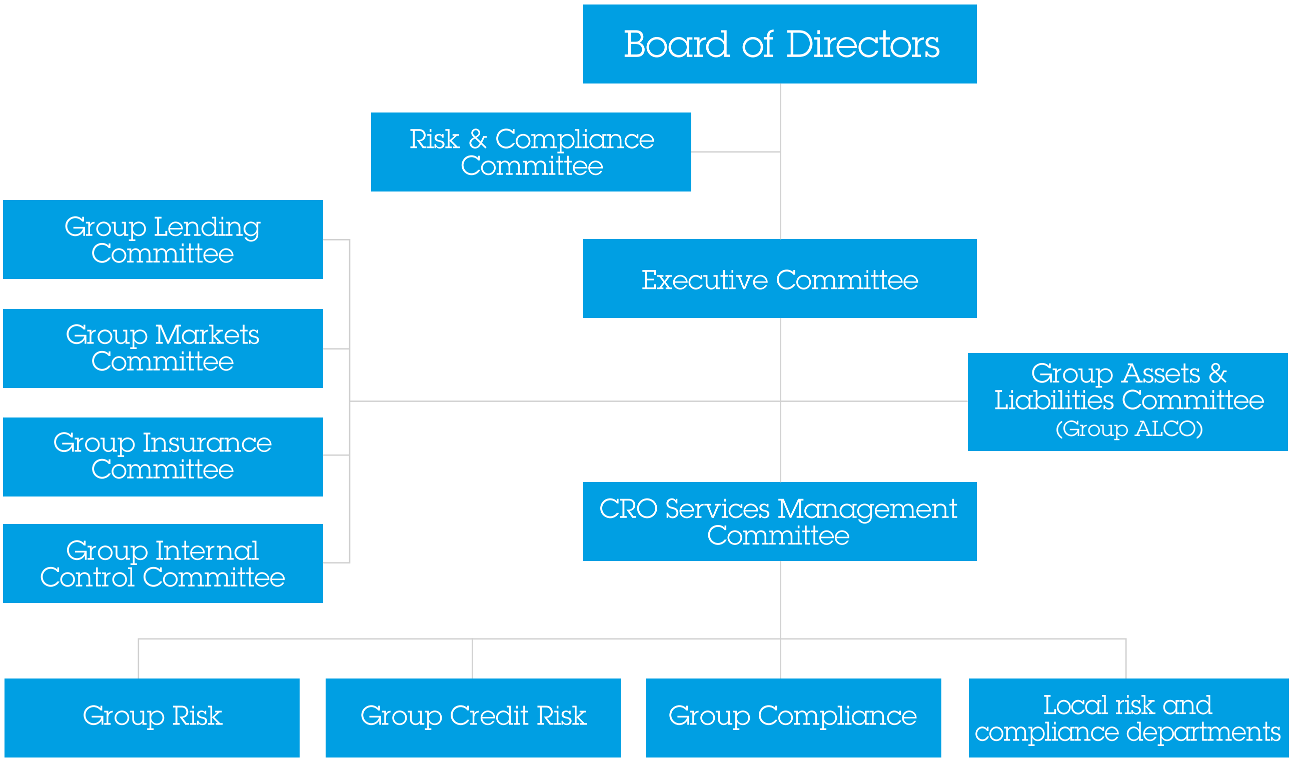
Main elements in our risk governance model:

- The Board of Directors, assisted by the Risk & Compliance Committee (RCC), which decides on and supervises the risk appetite – including the risk strategy – each year. It is also responsible for the development of a sound and consistent group-wide risk culture, based on a full understanding of the risks the group faces and how they are managed, as well as 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.

Relevant risk management bodies:

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

- In order to strengthen the voice of the risk function and to ensure that the decision-making bodies of the business entities are appropriately challenged on matters of risk management and receive expert advice, KBC has deployed independent Chief Risk Officers (CROs) throughout the group according to a logical segmentation based on entity and/or business unit. Close collaboration with the business is assured since they take part in the local decision-making process and, if necessary, can exercise a 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 has been established at group level. Most of these competence centres are extended virtual teams made up of 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.

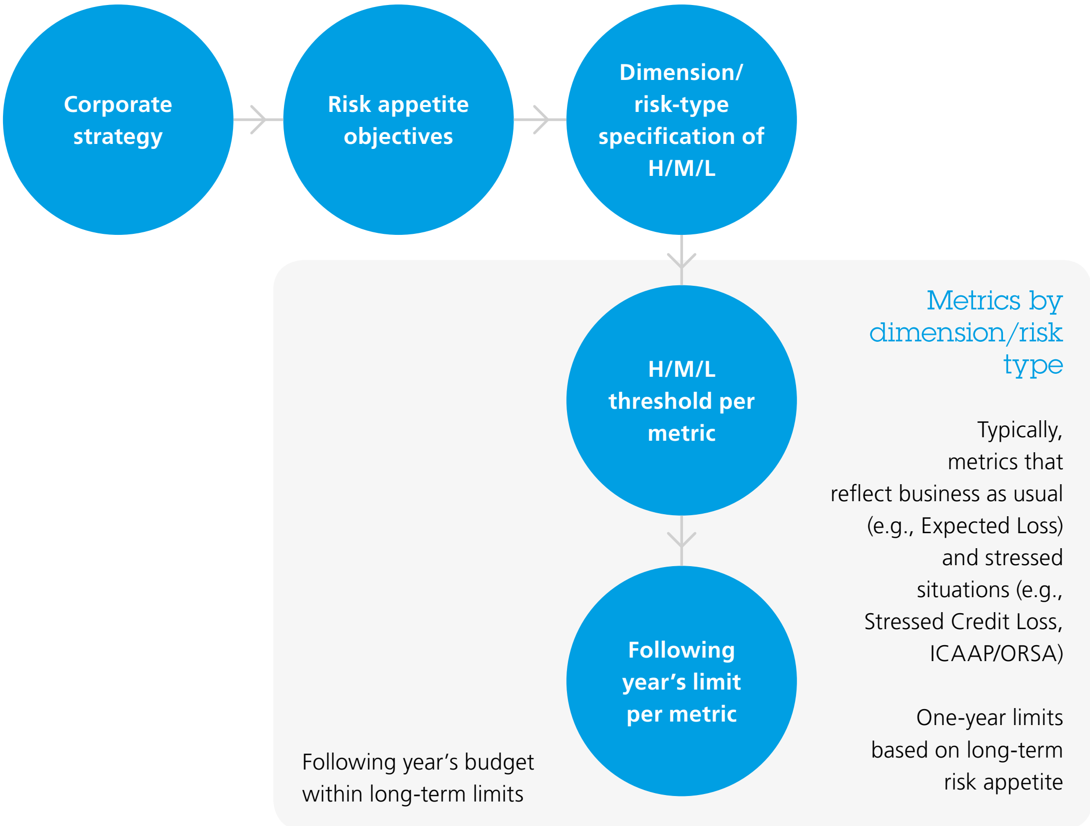
The ability to accept risk (also referred to as risk-taking capacity) is limited both by financial constraints (available capital, liquidity profile, etc.) and non-financial constraints (regulations, laws, etc.), whereas the willingness to accept risk depends on the interests of the various stakeholders (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. Lastly, 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.

Long-term planning & risk appetite setting



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.

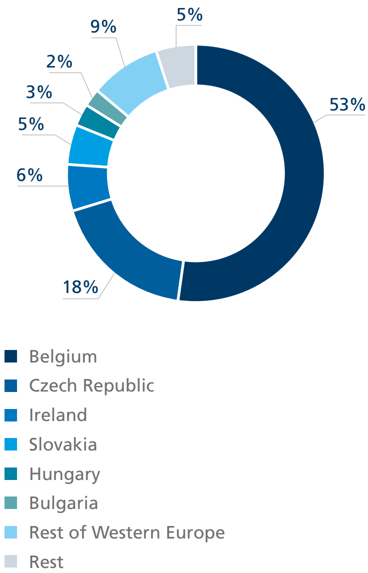
Credit risk exposure in the banking activities arising from lending and investing

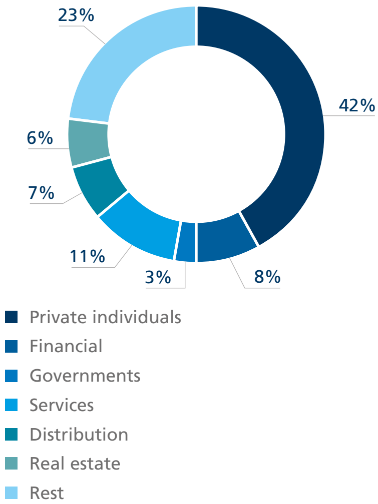
In the following sections, we take a closer look at the credit risk exposure of the entities of the KBC group.

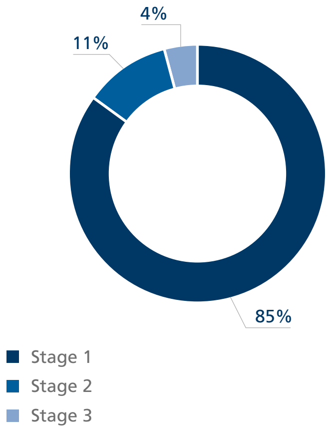
Credit risk arises in both the banking and insurance activities of the group. As regards the banking activities, the main source of credit risk is the bank's loan portfolio. It includes all the loans and guarantees that KBC has granted to individuals, companies, governments and banks. Debt securities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

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'.

Composition of loan and investment portfolio (31-12-2019)







Loan and investment portfolio, banking

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 and investment portfolio, banking		
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		
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 loan portfolio

Impaired loans by sector (as a % of impaired loan portfolio)[1]		
Private individuals	38.1%	43.0%
Distribution	18.6%	13.2%
Services	7.9%	6.9%
Real estate	7.8%	9.1%
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: -104 million 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 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%*	*0.2%*	*3.1%*
Bulgaria	*1.6%*	*0.2%*	*0.2%*	*2.0%*	*1.5%*	*0.2%*	*0.2%*	*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%	–	66.0%	63.1%	3.7%	–	66.8%
PD 5–9	22.6%	7.9%	–	30.4%	20.8%	8.1%	–	28.9%
PD 10–12	–	–	3.5%	3.5%	–	–	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*								
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*								
PD 1–4	0.9%	0.5%	–	1.4%	–	–	–	–
PD 5–9	3.9%	8.4%	–	12.3%	–	–	–	–
PD 10–12	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

* 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:

- At the end of 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	100.0%
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**

		Movements					
Gross carrying value	**Opening balance**	**Loans which have become forborne**	**Loans which are no longer considered to be forborne**	**Repayments**	**Write-offs**	**Other[1]**	**Closing balance**
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
		Movements					
Impairment	**Opening balance**	**Existing impairment on loans which have become forborne**	**Decrease in impairment because loans are no longer forborne**	**Increase in impairment on forborne loans**	**Decrease in impairment on forborne loans**	**Other[2]**	**Closing balance**
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	2.4%	10.5%	19.9%	46.2%	23.4%
Of which KBC Bank Ireland	20.6%	1.0%	27.8%	45.6%	25.5%
By client segment[1]					
Private individuals[2]	3.9%	8.8%	24.9%	41.5%	24.8%
SMEs	1.1%	26.0%	12.1%	33.4%	28.5%
Corporations[3]	1.5%	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 in the banking activities

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 of the combined banking and insurance activities 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 using the internal model method for interest rate and foreign exchange derivatives in the Belgium Business Unit. For inflation, equity and commodity derivatives, 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, banking (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.

Credit risk exposure in the insurance activities

For the insurance activities, credit exposure exists primarily in the investment portfolio (towards issuers of debt instruments) and towards reinsurance companies. We have guidelines in place for the purpose of controlling credit risk within the investment portfolio with regard to, for instance, portfolio composition and ratings. The upper part of the table below shows the market value of the investment portfolio of the insurance entities broken down by asset type under Solvency II, while the lower part provides more details of the bond and other fixed-income security components of the portfolio.

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

1 The total carrying value amounted to 37 053 million euros at year-end 2019 and to 35 275 million euros at year-end 2018. Figures differ from those appearing in Note 4.1 of the 'Consolidated financial statements' section, due to asset class reporting under Solvency II.

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

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

4 Including covered bonds and non-bank financial companies.

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

Credit exposure to (re)insurance companies by risk class[1]: Exposure at Default (EAD) and Expected Loss (EL)[2] (in millions of EUR)	**EAD 2019**	**EL 2019**	**EAD 2018**	**EL 2018**
AAA up to and including A-	218	0.09	188	0.08
BBB+ up to and including BB-	11	0.01	11	0.01
Below BB-	0	0	0	0
Unrated	1	0.01	1	0.02
Total	230	0.11	200	0.11

1 Based on internal ratings.
2 EAD figures are audited, whereas EL figures are unaudited.

Structured credit exposure (banking and insurance portfolios)

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 6 447 million euros at the end of 2018 to 6 809 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

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

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

Managing market risk in non-trading activities

Management of the ALM risk strategy at KBC is the responsibility of the Group Executive Committee, assisted by the Group ALCO, which has representatives from both the business side and the risk function. 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 the KBC group (in millions of EUR)	Impact on value[1] 2019	2018
Banking	-96	-65
Insurance	23	16
Total	-73	-49

[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, banking activities* (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), banking activities
(in millions of EUR)

	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2019	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.

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

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

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

Expected cashflows (not discounted), life insurance activities (in millions of EUR)	**0–5 years**	**5–10 years**	**10–15 years**	**15–20 years**	**> 20 years**	**Total**
31-12-2019						
Fixed-income assets backing liabilities, guaranteed component	7 073	3 797	1 923	1 875	880	15 548
Liabilities, guaranteed component	5 599	3 602	2 358	1 789	2 978	16 326
Difference in expected cashflows	1 474	195	-435	86	-2 099	-778
Mean duration of assets						7.29 years
Mean duration of liabilities						10.03 years
31-12-2018						
Fixed-income assets backing liabilities, guaranteed component	6 978	4 388	1 679	1 597	799	15 442
Liabilities, guaranteed component	5 513	3 923	2 338	2 008	2 606	16 389
Difference in expected cashflows	1 465	465	-659	-411	-1 807	-947
Mean duration of assets						6.55 years
Mean duration of liabilities						9.20 years

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

Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities	31-12-2019	31-12-2018
5.00% and higher	3%	3%
More than 4.25% up to and including 4.99%	8%	9%
More than 3.50% up to and including 4.25%	5%	5%
More than 3.00% up to and including 3.50%	10%	10%
More than 2.50% up to and including 3.00%	4%	6%
2.50% and lower	69%	65%
0.00%	2%	2%
Total	100%	100%

Credit spread risk

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

Exposure to sovereign bonds at year-end 2019, carrying value[1] (in millions of EUR)

Total (by portfolio)

	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	10 852	3 794	344	14 991	*15 336*	-821
Czech Republic	5 492	1 071	481	7 044	*6 534*	-375
Hungary	2 495	371	60	2 927	*2 479*	-157
Slovakia	2 468	386	0	2 854	*2 909*	-172
Bulgaria	599	666	17	1 282	*1 137*	-80
Ireland	1 302	234	0	1 536	*1 247*	-89
Other countries						
France	4 282	2 082	24	6 388	*6 068*	-449
Spain	1 828	682	0	2 510	*2 646*	-133
Italy	778	1 124	0	1 902	*1 974*	-84
Poland	1 278	414	9	1 701	*1 670*	-66
US	1 016	0	0	1 016	*1 018*	-42
Germany	694	113	3	810	*788*	-42
Austria	439	235	0	674	*699*	-41
Rest[2]	3 501	1 199	210	4 909	*3 786*	-149
Total carrying value	37 024	12 370	1 149	50 542	*48 292*	–
Total nominal value	35 271	10 826	1 118	47 216	*45 516*	–

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.

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).

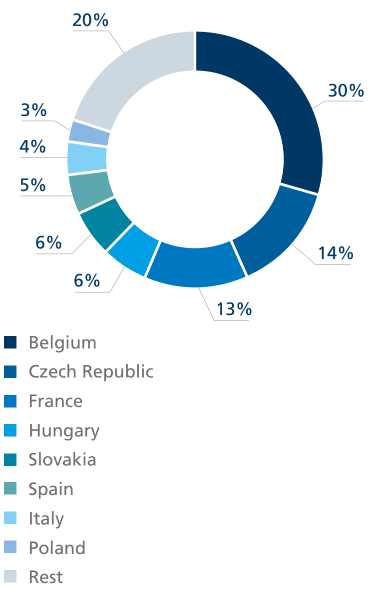
Revaluation reserve at fair value through other comprehensive income (FVOCI) at year-end 2019:

- The carrying value of the total government bond portfolio measured at FVOCI incorporated a revaluation reserve of 1.1 billion euros, before tax (424 million euros for Belgium, 207 million euros for France, 91 million euros for Italy, 55 million euros for Bulgaria and 358 million euros for the other countries combined).

At year-end 2019, Belgian sovereign bonds accounted for 30% 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 -821 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 (72%; impact only upon realisation). The remaining part is classified as 'FVOCI' (25%; no impact on profit or loss); the impact of a 100-basis-point increase on IFRS unrealised gains is -173 million euros (after tax) for FVOCI assets.

Government bonds by country
(carrying value at 31-12-2019)



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	-198	-146
Bonds rated AA+, AA, AA-	-137	-141
Bonds rated A+, A, A-	-112	-110
Bonds rated BBB+, BBB, BBB-	-64	-52
Non-investment grade and non-rated bonds	-36	-25
Total carrying value (excluding trading portfolio)	12 452	11 989

Equity risk

The main exposure to equity is within our insurance business, where the ALM strategies are based on a risk-return evaluation, taking into account the market risk attached to open equity positions. A large part of the equity portfolio is held as an economic hedge for long-term liabilities. Apart from the insurance entities, smaller equity portfolios are also held by other group entities, e.g., KBC Bank and KBC Asset Management. More information on total non-trading equity exposures is provided below.

Equity portfolio of the KBC group (breakdown by sector, in %)	Banking activities		Insurance activities		Group	
	31-12-2019	31-12-2018	31-12-2019	31-12-2018	31-12-2019	31-12-2018
Financials	58%	46%	23%	24%	28%	27%
Consumer non-cyclical	0%	1%	9%	10%	8%	9%
Communication	0%	0%	3%	3%	2%	2%
Energy	0%	0%	4%	6%	3%	5%
Industrials	26%	36%	43%	38%	41%	38%
Utilities	0%	0%	3%	2%	2%	2%
Consumer cyclical	4%	7%	11%	12%	10%	11%
Materials	0%	0%	4%	5%	4%	4%
Other and not specified	11%	10%	0%	0%	2%	2%
Total	100%	100%	100%	100%	100%	100%
In billions of EUR	0.26	0.26	1.45	1.33	1.70[1]	1.59
of which unlisted	0.22	0.21	0.08	0.08[2]	0.31	0.29

1 The main reason for the difference between the 1.7 billion euros in this table and the 2.52 billion euros for 'Equity instruments' in Note 4.1 of the 'Consolidated financial statements' section is that shares in the trading book (0.83 billion euros) are excluded above, but included in the table in Note 4.1.

2 The unlisted amount for 2018 has been restated from 0.01 billion euros to 0.08 billion euros for the insurance activites and from 0.22 billion euros to 0.29 billion euros at group level.

Impact of a 25% drop in equity prices (in millions of EUR)	Impact on value	
	2019	2018
Banking activities	-64	-65
Insurance activities	-362	-332
Total	-426	-396

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
Banking activities	–	–	27	16
Insurance activities	117	110	370	173
Total	117	110	396	189

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**
Bank portfolios	-92	-94
Insurance portfolios	-98	-81
Total	-190	-175

Inflation risk

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

In 2019, the undiscounted value of the inflation-sensitive cashflows was estimated at 561 million euros, against which a 369-million-euro portfolio of indexed bonds was held. In the years ahead, investments in inflation-linked bonds will be increased further. The banking activities are not exposed to a significant inflation risk.

Foreign exchange risk

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

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

Impact of a 10% decrease in currency value* (in millions of EUR)		**Impact on value Banking**		**Impact on value Insurance**
	31-12-2019	**31-12-2018**	**31-12-2019**	**31-12-2018**
CZK	-200.41	-0.67	-17.17	-0.10
HUF	-77.79	0.00	-4.55	0.00
BGN	-34.68	0.00	-8.76	-0.01
RON	-2.22	-2.33	0.00	0.00
USD	-1.61	-0.64	-32.74	-29.66
CHF	0.01	0.00	-8.10	-7.72
GBP	0.01	0.03	-16.22	-16.16
SEK	0.02	0.00	-1.67	-2.46
DKK	0.27	0.00	-1.65	-1.18

* Exposure for currencies where the impact exceeds 1 million euros in Banking or Insurance.

Capital sensitivity to market movements

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

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

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

IFRS impact caused by	**31-12-2019**	**31-12-2018**
+100-basis-point parallel shift in interest rates	0.1%	-0.0%
+100-basis-point parallel shift in spread	-0.2%	-0.2%
-25% in equity prices	-0.3%	-0.2%
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 realisation (unwinding of funding due to liquidation, dividend payments or other decreases in net asset value).

Hedge effectiveness

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

Effectiveness testing

For interest rates, several prospective and retrospective tests are performed to ensure the relationship between the hedged item and the hedging instrument qualifies for the hedge accounting strategy.
Prospective tests are mostly based either on a sensitivity analysis (verifying if the basis point value of the hedged portfolio relative to the hedging instrument stays within the 80–125% interval) or volume tests (if the principal amount of hedge-eligible items exceeds the notional volume of hedging instruments expected to be repriced or repaid in each specified time bucket).
For macro cashflow hedges, extensive forward-looking analyses 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

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

Managing operational risk

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

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

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

The building blocks for managing operational risks

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

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

- 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 promoting integrity, 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 wilful or negligent misconduct.

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 has come about 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/ performance 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 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.

Regulatory capital requirements

For operational risk (including compliance risk), we use the Standardised approach under Basel III. Operational risk capital at KBC group level totalled 910 million euros at the end of 2019 and 887 million euros at the end of 2018. The increase was accounted for by the acquisition of the remaining stake in ČMSS (resulting in a higher amount of risk weighted assets for ČSOB Bank in the Czech Republic) along with higher year-on-year average income at KBC Bank NV and ČSOB Bank in the Czech Republic.

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. KBC duly started working with EUREX Frankfurt back 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.

Coronavirus

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 group entity concerned. Besides monitoring increased operational risk, we are keeping a very close eye on the related macroeconomic impact, including the impact on KBC's home markets from decreasing GDP growth in China at a time when its economy is already in a fragile state. The financial markets also appear to be highly sensitive to the risks relating to the coronavirus, with stock markets, interest rates and oil prices all falling. A broad range of companies may be directly affected due, for instance, to their reliance on imports or exports, their exposure to vulnerable sectors and – for Central European borrowers – their link with the German economy, leading to a potential worsening of their credit profile. The coronavirus might also affect KBC's insurance business, as pandemics/epidemics are usually covered by our insurance policies, though reinsurance cover is available for mortality risk at KBC Insurance NV.

Climate-related risks

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

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

Governance

The KBC Risk Management Framework is supported by 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 Group Risk and Group Credit Risk 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 not only 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/ORSA and external reports. Stress testing will also be used as a key tool to gain insights into climate-related vulnerabilities.

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

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

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.

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

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 the KBC group (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.

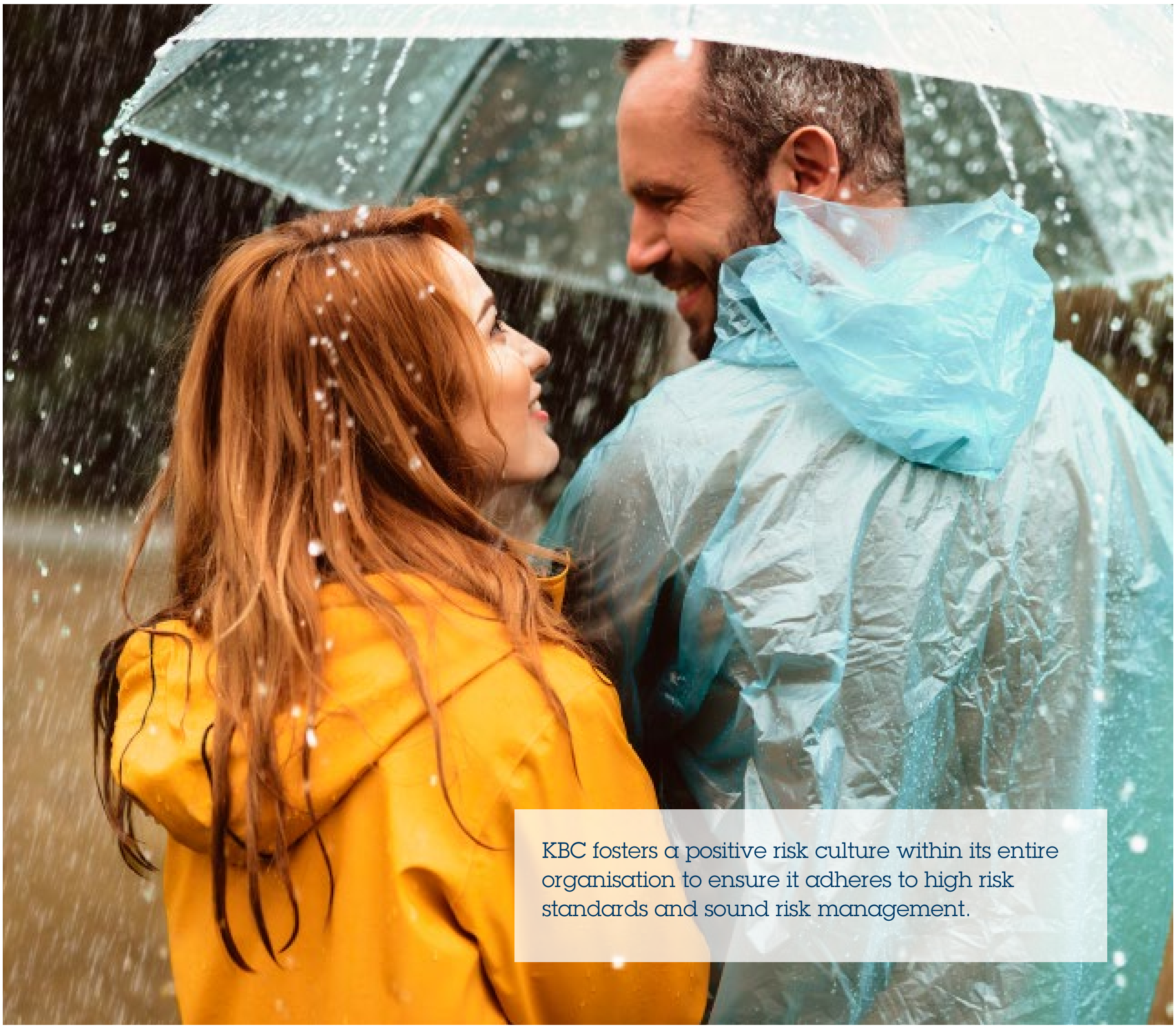
Trading regulatory capital requirements by risk type (in millions of EUR)		Interest rate risk	Equity risk	FX risk	Commodity risk	Total
31-12-2019						
Market risks assessed by the Internal model	HVaR SVaR	38 79	6 24	7 20	– –	51 122
Market risks assessed by the Standardised approach		8	7	19*	0	34
Total		125	36	46	0	207
31-12-2018						
Market risks assessed by the Internal model	HVaR SVaR	46 99	7 46	4 8	– –	58 153
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 16 million euros in capital requirements for foreign exchange risk in the banking book, although it 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 49 million euros lower (611 million euros 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.



KBC fosters a positive risk culture within its entire organisation to ensure it adheres to high risk standards and sound risk management.

Liquidity risk

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

The principal objective of our liquidity management is to be able to fund the group and to enable the core business activities of the group to continue to generate revenue, even under adverse circumstances. Since the financial crisis, there has been a greater focus on liquidity risk management throughout the industry, 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.

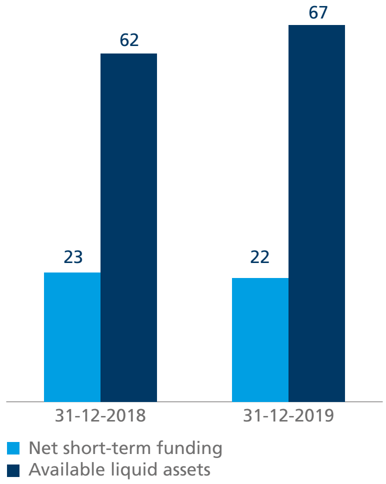
Typical for the banking operations of a bank-insurance group, funding sources generally have a shorter maturity than the assets that are funded, leading to a negative net liquidity gap in the shorter time buckets and a positive net liquidity gap in the longer term buckets. This creates liquidity risk 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, the KBC group 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.

Unsecured short-term funding compared to liquid assets

(in billions of EUR)



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	82%	77%
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%	-9%
Certificates of deposit	–	5%	7%
Total equity	Including AT1 issues	10%	9%
Total		100%	100%
in billions of EUR		214	212

1 Some 76% of this funding relates to private individuals and SMEs (year-end 2019).

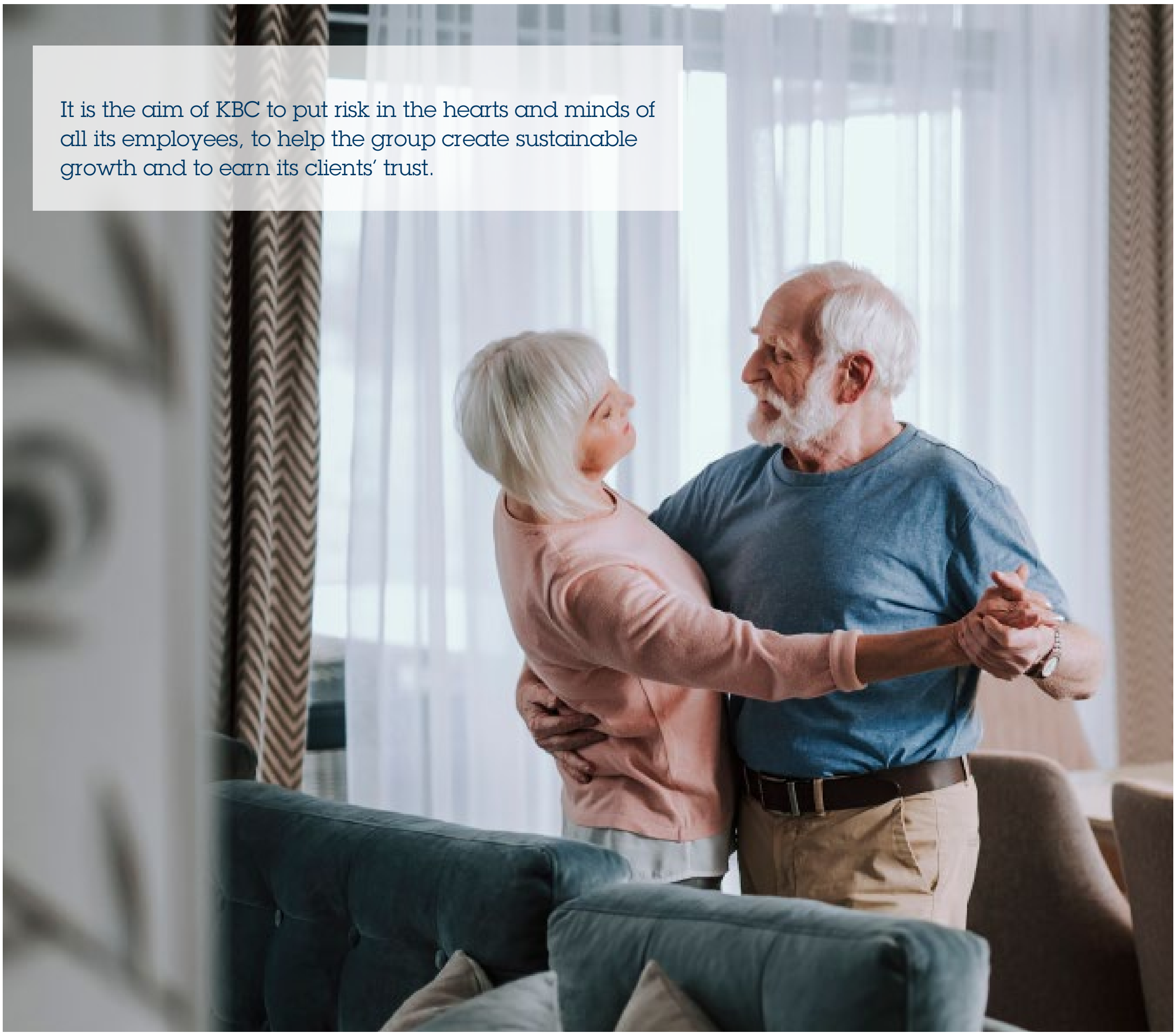
2 Negative on account of KBC carrying out more reverse repo transactions than repo transactions.

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 participated in TLTRO III for 2.5 billion euros.

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%.



Technical insurance risk

Technical insurance risks stem from uncertainty about the frequency and severity of losses. All these risks are kept under control through appropriate underwriting, pricing, claims reserving, reinsurance and claims handling policies of line management and through independent insurance risk management.

Managing technical insurance risk

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

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

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

Risk modelling

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

- future claims that will occur over a predefined time horizon, as well as the claims settlement pattern;
- the future settlement of claims (whether already reported to the insurer or not) that have occurred in the past but have not yet been fully settled;
- the impact of the reinsurance programme on these claims.

The Group risk function uses these models to steer the group's insurance entities towards creating more shareholder value, support decisions on reinsurance, calculate the *ex post* profitability of specific sub-portfolios and set off capital requirements against the relevant return in pricing insurance policies.

Reinsurance

The insurance portfolios are protected against the impact of large claims or the accumulation of losses by:

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

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

The independent insurance risk management function is responsible for:

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

Adequacy of technical provisions

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

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

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

- The claims-settlement figures incorporate all amounts that can be allocated to individual claims, including the Incurred But Not Reported (IBNR) and Incurred But Not Enough Reserved (IBNER) provisions, and the external claims handling expenses, but do not include internal claims settlement expenses and provisions for amounts expected to be recovered.
- All provisions for claims to be paid at the close of 2019 have been included and are before reinsurance, adjusted to eliminate intercompany amounts related to KBC Group Re.

The loss triangles are provided in the table below. The first row in the table shows the total claims burden (claims paid plus provisions) for the claims that occurred during a particular year, as estimated at the end of the year of occurrence. The following rows indicate the situation at the end of the subsequent calendar years. We restated the amounts to reflect exchange rates at year-end 2019.

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

Actuarial function

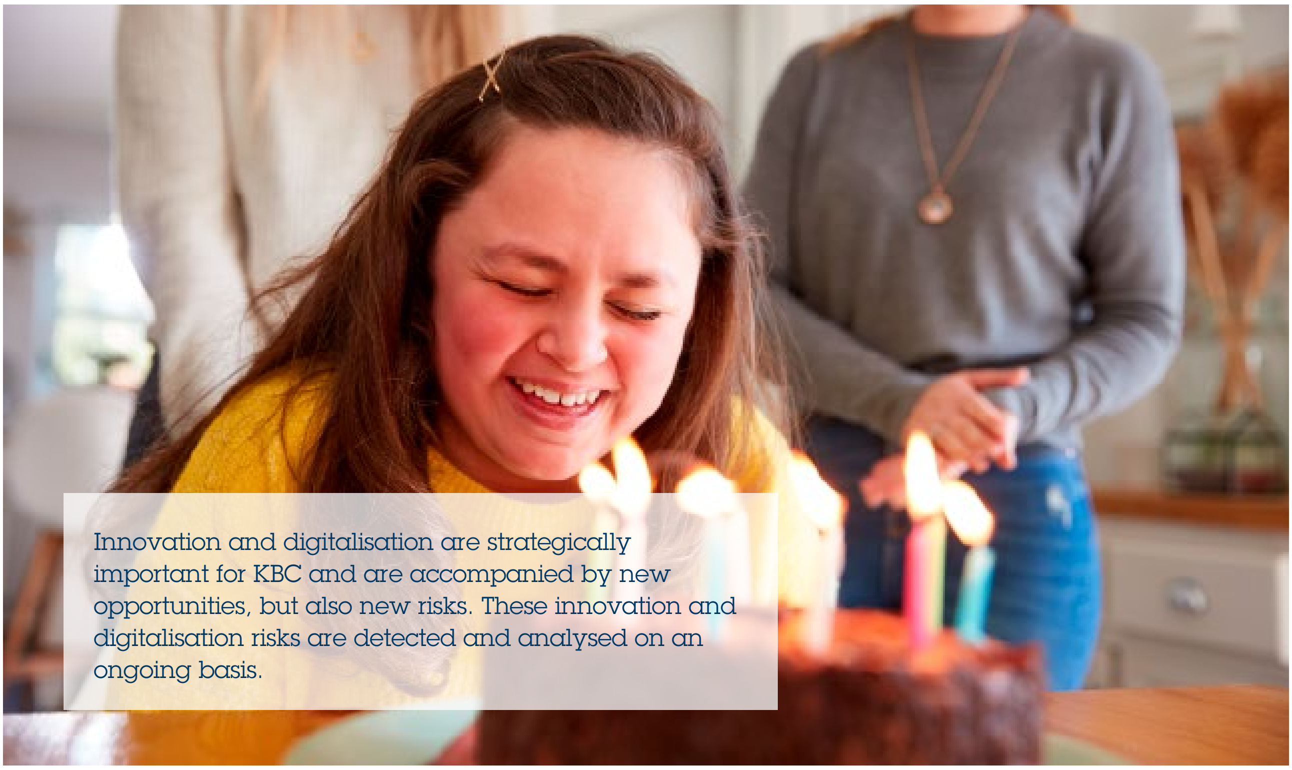
Solvency II requires an actuarial function to be installed in each insurance entity and at insurance group level. An actuarial function holder is appointed to take charge of the actuarial function's activities. Basically, the task of such a function is to ensure that the company's Board of Directors or Supervisory Board is fully informed in an independent manner. The actuarial function:

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

Regulatory capital

Solvency II sets out the regulatory capital requirements for the insurance companies. Solvency II results and more detailed information on ratios are provided under 'Solvency of KBC Bank and KBC Insurance separately' in the 'How do we manage our capital?' section.

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



How do we manage our capital?

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

Solvency at KBC group level

Solvency requirements

We report the solvency of the group, the bank and the insurance company based on IFRS data and according to the rules imposed by the regulator. For the KBC group, this implies that we calculate our solvency ratios based on CRR/CRD IV, which has gradually been implemented since 2014 (phasing-in).

The general rule under CRR/CRD IV for insurance participations is that an insurance participation is deducted from common equity at group level, unless the competent authority grants permission to apply a risk weighting instead (Danish compromise). KBC received such permission from the supervisory authority and hence reports its solvency on the basis of a 370% risk weighting being applied to the holdings of own fund instruments of the insurance company (a historical carrying value of 2 469 million euros), after having deconsolidated KBC Insurance from the group figures.

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). In addition, CRR/CRD IV requires a capital conservation buffer of 2.5%. Prompted by the recent Covid-19 pandemic, the ECB announced that banks would temporarily be able to use their capital conservation buffers to finance households and businesses experiencing temporary difficulties.

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 (applicable as 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 in its core markets with regard to the countercyclical buffer requirement. When aggregated, that corresponds to a countercyclical buffer at KBC group level of around 0.30% (situation at 27 March 2020).

For Belgian systemic financial institutions, the NBB had already announced its systemic capital buffers at an earlier date. For the KBC group, this means that an additional capital buffer of 1.5% of CET1 is required.

Altogether, this brings the fully loaded CET1 requirement (under the Danish compromise) to 10.55%, with an additional pillar 2 guidance (P2G) of 1%. The table summarises the regulatory capital requirements at KBC Group level (consolidated).

Regulatory capital requirements, KBC Group (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)		4.30%		4.45%
of which Capital conservation buffer	2.50%		2.50%	
Buffer for systemically important institutions (O-SII)	1.50%		1.50%	
Entity-specific countercyclical buffer	0.30%		0.45%	
Overall Capital Requirement (OCR)		14.05%		14.20%
of which CET1		10.55%		10.70%
of which CET1 excluding capital conservation buffer (temporary ECB measure)		8.05%		

KBC aims to be one of the better capitalised financial institutions in Europe. Each year, therefore, we assess the common equity ratios of a peer group of European banks that are active in the retail, SME, and corporate client segments, and then position ourselves relative to the median fully loaded CET1 ratio of that peer group. We reflect this ambition in an 'own capital target', which amounts to 14% of common equity. On top of this, KBC wants to maintain a flexible additional buffer of up to 2% common equity for potential add-on mergers and acquisitions in our core markets. Any M&A opportunity will be assessed subject to very strict financial and strategic criteria. Following the acquisition of the remaining 45% stake in ČMSS (Czech Republic) in 2019, the M&A buffer now stands at 1.7%. This buffer is additional to the 'own capital target' and, together, they form the reference capital position, which stands at 15.7%.

Comment
In line with ECB recommendations, no final dividend will be paid for 2019 (originally it had been planned to pay a final dividend of 2.5 euros per share).
The resulting change in the amount of profit for 2019 that has been used to calculate common equity is still subject to the approval of the ECB.

Solvency figures under CRR/CRD IV

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

Solvency at group level (consolidated; under CRR/CRD IV, Danish compromise method, fully loaded)

(in millions of EUR)	31-12-2019	31-12-2018
Total regulatory capital, after profit appropriation	**20 419**	**18 217**
Tier-1 capital	**18 489**	**16 150**
Common equity[1]	**16 989**	**15 150**
Parent shareholders' equity (after deconsolidating KBC Insurance)	17 933	16 992
Intangible fixed assets, incl. deferred tax impact (-)	-726	-584
Goodwill on consolidation, incl. deferred tax impact (-)	-766	-602
Minority interests	0	0
Hedging reserve, cashflow hedges (-)	1 331	1 263
Valuation differences in financial liabilities at fair value – own credit risk (-)	-9	-14
Value adjustment due to requirements for prudent valuation (-)[2]	-54	-63
Dividend payout (-)	-0	-1 040
Coupon on AT1 instruments (-)	-11	-7
Deduction with regard to financing provided to shareholders (-)	-57	-91
Deduction with regard to irrevocable payment commitments (-)	-45	-32
IRB provision shortfall (-)	-140	-100
Deferred tax assets on losses carried forward (-)	-467	-571
Additional going concern capital	**1 500**	**1 000**
Grandfathered innovative hybrid tier-1 instruments	0	0
Grandfathered non-innovative hybrid tier-1 instruments	0	0
CRR-compliant AT1 instruments	1 500	1 000
Minority interests to be included in additional going concern capital	0	0
Tier-2 capital	**1 930**	**2 067**
IRB provision excess (+)	130	204
Subordinated liabilities	1 800	1 864
Subordinated loans to non-consolidated financial sector entities (-)	0	0
Minority interests to be included in tier-2 capital	0	0
Total weighted risk volume	**99 071**	**94 875**
Banking	89 838	85 474
Credit risk	75 786	71 224
IRB Advanced approach	62 055	57 930
IRB Foundation approach	2 772	3 121
Standardised approach	6 485	6 215
Counterparty credit risk	3 049	2 630
Other assets	1 425	1 328
Market risk	2 713	3 198
Operational risk	11 340	11 051
Insurance	9 133	9 133
Holding-company activities and elimination of intercompany transactions	99	268
Solvency ratios		
Common equity ratio (or CET1 ratio)[3]	17.1%	16.0%
Tier-1 ratio	18.7%	17.0%
Total capital ratio	20.6%	19.2%

1 Audited figures (excluding 'IRB provision shortfall' and 'Value adjustment due to requirements for prudent valuation').
2 CRR ensures that prudent valuation is reflected in the calculation of available capital. This means that the fair value of all assets measured at fair value and impacting the available capital (by means of fair value changes in P&L or equity) need to be brought back to their prudent value. The difference between the fair value and the prudent value (also called the 'additional value adjustment' or AVA) must be deducted from the CET1 ratio.
3 See 'Comment' on p. 137.

Solvency at group level (consolidated; CRR/CRD IV, deduction method, fully loaded) (in millions of EUR)	31-12-2019	31-12-2018
Common equity	16 224	14 199
Total weighted risk volume	94 196	89 537
Common equity ratio	17.2%	15.9%

Maximum Distributable Amount

Amounts for distribution (dividend payments, payments related to additional tier-1 instruments or variable remuneration) are limited when the combined buffer requirements described above are breached. This limitation is referred to as Maximum Distributable Amount (MDA) thresholds. The table below provides an overview of KBC's buffers compared to these thresholds, both on an actual basis (i.e. relative to the regulatory targets that apply on the reporting date) and on a fully loaded basis (i.e. relative to the regulatory targets that will apply going forward).

Buffer compared to the Overall Capital Requirement (consolidated; under CRR/CRD IV, Danish compromise method)	31-12-2019		31-12-2018	
	Fully loaded	Actual	Fully loaded	Actual
CET1 Pillar 1 minimum	4.50%	4.50%	4.50%	4.50%
Pillar 2 requirement	1.75%	1.75%	1.75%	1.75%
Capital conservation buffer	2.50%	2.50%	2.50%	1.88%
Buffer for systemically important institutions (O-SII)	1.50%	1.50%	1.50%	1.50%
Entity-specific countercyclical buffer	0.30%	0.43%	0.45%	0.24%
Overall Capital Requirement (OCR) (A)*	10.55%	10.68%	10.70%	9.87%
CET1 used to satisfy shortfall in AT1 bucket (B)	0.00%	0.00%	0.45%	0.45%
CET1 used to satisfy shortfall in T2 bucket (C)	0.05%	0.05%	0.00%	0.00%
CET1 requirement for MDA (A+B+C)	10.60%	10.74%	11.15%	10.32%
CET1 capital (in millions of EUR)	16 989	16 989	15 150	15 150
CET1 buffer (= buffer compared to MDA) (in millions of EUR)	6 486	6 353	4 575	5 363

* Situation as at 27 March 2020. No account has been taken of changes that were announced after that date.

Solvency figures under FICOD

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

Solvency at group level (consolidated; FICOD method)

(in millions of EUR)	31-12-2019	31-12-2018
Common equity	17 651	15 885
Total weighted risk volume	111 526	106 380
Common equity ratio	15.8%	14.9%

Leverage ratio

Leverage ratio at group level (consolidated; under CRR/CRD IV, Danish compromise method)

(in millions of EUR)	31-12-2019	31-12-2018
Tier-1 capital	18 489	16 150
Total exposure	273 029	266 594
Total assets	290 735	283 808
Deconsolidation of KBC Insurance	-33 243	-31 375
Adjustment for derivatives	-2 882	-3 105
Adjustment for regulatory corrections in determining tier-1 capital	-2 254	-2 043
Adjustment for securities financing transaction exposures	638	408
Off-balance sheet exposures	20 035	18 900
Leverage ratio	6.8%	6.1%

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).

Minimum requirement for own funds and eligible liabilities (MREL)

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

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

It is crucial that there are adequate liabilities eligible for bail-in. This is measured by the minimum requirement for own funds and eligible liabilities (MREL). The SRB defines the minimum MREL level for KBC.

The table below provides the MREL as a percentage of Total Liabilities and Own Funds (TLOF), based on the 'consolidated view'. The 'consolidated view' includes own funds and MREL eligible liabilities issued by KBC Group NV (point of entry) and other group entities (including KBC IFIMA). On this basis, the SRB/NBB required KBC Group NV to achieve a MREL ratio of 9.76% as a percentage of TLOF.

MREL: consolidated view

(in millions of EUR)	31-12-2019	31-12-2018
Own funds and eligible liabilities	26 979	24 711
CET1 capital (consolidated, CRR/CRD IV, Danish compromise method)	16 989	15 150
AT1 capital (consolidated, CRR/CRD IV)	1 500	1 000
T2 capital (consolidated, CRR/CRD IV)	1 930	2 068
Subordinated liabilities (not included in AT1 & T2)	523	2 022
Senior debt (nominal amount, remaining maturity > 1 year)	6 037	4 473
Total Liabilities and Own Funds (TLOF)	249 850	245 225
MREL as a % of TLOF	10.8%	10.1%

In December 2019, the SRB informed KBC that the 9.76% target under the 'consolidated' approach was no longer valid and that it was being replaced by a new target of 9.67% as a percentage of TLOF under the so-called 'hybrid approach'. This approach excludes MREL eligible liabilities that have not been issued by KBC Group NV (insofar as they do not constitute own funds) and requires tier-2 capital downstreamed by KBC Group NV to KBC Insurance to be deducted from MREL (in line with the treatment under CRR/CRD). Given this more restrictive definition of MREL, SRB decided to introduce a transition period, with the new target applying as of 31 December 2021.

MREL: hybrid view

(in millions of EUR)	31-12-2019	31-12-2018
Own funds and eligible liabilities	25 944	23 637
CET1 capital (consolidated, CRR/CRD IV, Danish compromise method)	16 989	15 150
AT1 instruments (consolidated, CRR/CRD IV)	1 500	1 000
T2 instruments (consolidated, CRR/CRD IV)	1 930	2 068
Subordinated liabilities (issued by KBC Group NV but not included in AT1 & T2)	0	1 400
Senior debt (issued by KBC Group NV, nominal amount, remaining maturity > 1 year)	5 525	4 020
Total Liabilities and Own Funds (TLOF)	249 850	245 225
MREL as a % of TLOF	10.4%	9.6%

Solvency of KBC Bank and KBC Insurance separately

In the table below, we have provided solvency information for KBC Bank and KBC Insurance, separately. As is the case for KBC Group NV, the solvency of KBC Bank is calculated based on CRR/CRD IV. The solvency of KBC Insurance is calculated on the basis of Solvency II.

Solvency, KBC Bank*

(CRR/CRD IV, in millions of EUR)	31-12-2019	31-12-2018
Total regulatory capital, after profit appropriation	16 660	15 749
Tier-1 capital	14 704	13 625
Of which common equity	13 204	12 618
Tier-2 capital	1 957	2 124
Total weighted risks	89 838	85 474
Common equity ratio	14.7%	14.8%
Tier-1 ratio	16.4%	15.9%
Total capital ratio	18.5%	18.4%

* The amount of profit for 2019 that has been used to calculate common equity is still subject to the approval of the ECB.

Solvency, KBC Insurance

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

ICAAP and ORSA

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

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

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

Stress testing

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

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

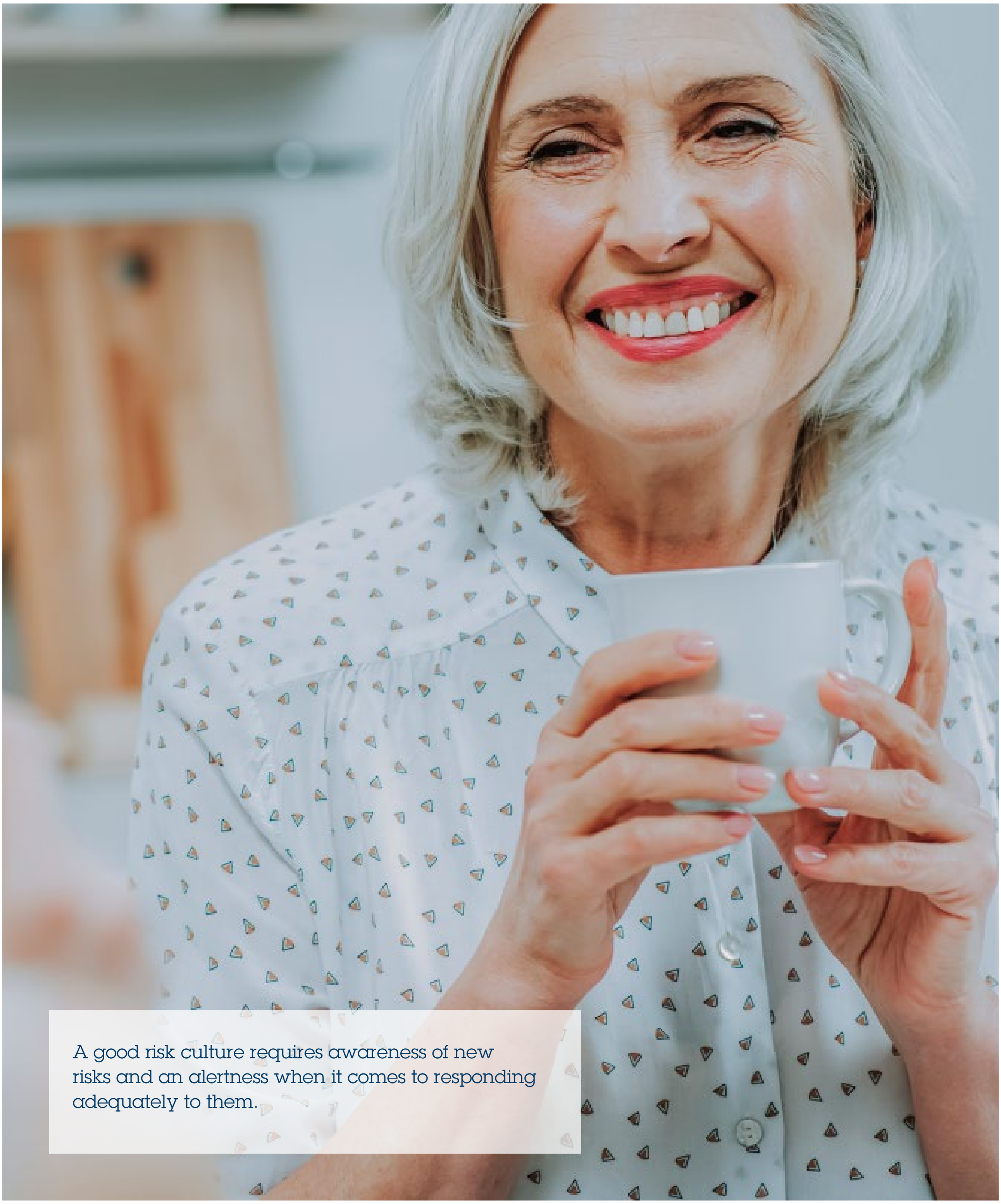
As such, it is an important tool in identifying sources of vulnerability and hence in assessing whether our capital is adequate to cover the risks we face. That is why the APC also includes sensitivities to critical assumptions used in the base case plan. In addition, APC is complemented by a dedicated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

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

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

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

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


A good risk culture requires awareness of new risks and an alertness when it comes to responding adequately to them.

Corporate governance statement

The main aspects of our corporate governance policy are set out in the *Corporate Governance Charter* of KBC Group NV (the 'Charter', which is published at www.kbc.com). Until year-end 2019, we used the 2009 version of the Corporate Governance Code as our benchmark but, with effect from 1 January 2020, we are adopting the 2020 version of the Belgian *Corporate Governance Code* ('Code 2020'). It can be downloaded at www.corporategovernancecommittee.be. More factual information regarding corporate governance and on the application of certain statutory provisions is contained in this corporate governance statement.

Unless otherwise indicated, the period dealt with runs from 1 January 2019 to 31 December 2019.

A number of terms have been abbreviated as follows in this section of the annual report:
- Board of Directors: Board
- Executive Committee: EC
- Audit Committee: AC
- Risk & Compliance Committee: RCC

Composition of the Board and its committees

The following table shows the members of the Board and its committees on 31 December 2019*. A list of the external offices held by all members of the Board is provided at www.kbc.com, as is a brief CV for each director. The number of meetings attended is shown in the columns relating to the committees.

Name	Primary responsibility	Period served on the Board in 2019	Expiry date of current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors	EC	AC	RCC	Nomination Committee	Remuneration Committee
Number of meetings in 2019				10					6	9	4	5
Thomas Leysen	Chairman of the Board	Full year	2023	10	■		■				4 (c)	5 (c)
Philippe Vlerick	Deputy Chairman of the Board CEO, Vlerick Group	Full year	2021	10	■	■					4	5
Johan Thijs	President of the EC and Executive Director, KBC	Full year	2020	10				■ (c)				
Alain Bostoen	CEO, Christeyns Group	Full year	2023	10	■	■						
Katelijn Callewaert	Managing Director, Cera and KBC Ancora	Full year	2021	10	■	■						
Koenraad Debackere	General Manager, KU Leuven	8 months	2023	6	■							
Sonja De Becker	Chairperson, MRBB	Full year	2020	9	■	■					4	
Franky Depickere	Managing Director/CEO, Cera and KBC Ancora	Full year	2023	10	■	■				9 (c)	4	
Frank Donck	Managing Director, 3D	Full year	2023	10	■	■			6	8		
Júlia Király	Professor, International Business School of Budapest	Full year	2022	10	■		■		6			5
Vladimira Papirnik	Retired Partner, Squire Patton Boggs (US) LLP	Full year	2020	10	■		■		6	9	4	
Theodoros Roussis	CEO, Ravago Group	Full year	2020	9	■	■						
Hendrik (Rik) Scheerlinck	Executive Director, KBC	Full year	2021	9				■				
Christine Van Rijsseghem	Executive Director, KBC	Full year	2022	10				■				
Matthieu Vanhove	Director and Senior Manager, Cera	Full year	2021	10	■	■						
Marc Wittemans	Managing Director/CEO, MRBB	Full year	2022	10	■	■			6 (c)	9		

* Walter Nonneman, who was a non-executive director until 2 May 2019, attended four Board meetings.
Statutory auditor: PricewaterhouseCoopers (PwC), represented by Roland Jeanquart and Tom Meuleman.
Secretary to the Board of Directors: Johan Tyteca.
(c) Chairman of this committee.

Changes in the composition of the Board in 2019

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

Changes in the composition of the Board proposed to the General Meeting on 7 May 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 vested with the authority to act in the capacity of independent director within the meaning of and in line with the criteria set out in Article 7:87 of the Companies and Associations Code and in the 2020 version of the Belgian Corporate Governance Code, for the remaining term of his office (i.e. until after the General Meeting of 2023). Until 1 December 2019, he had – in the capacity of 'external director' – been a non-executive director on the Board of Directors of Cera and had represented Cera on the Board of KBC Group NV. The termination of this office means that he is now able to act as an independent director at KBC Group NV. His independence of mind, academic background and personal focus on integrity ensure that the duties of his office will be performed with complete independence. The Board, after giving due consideration to the advice of the Nomination Committee, is therefore convinced that he will carry out his director's duties completely independently. The Board will appoint him as Chairman of the Board of KBC Group 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 Vladimira Papirnik be re-appointed as an independent director for a new four-year term of office and that Sonja De Becker, Theodoros Roussis and Johan Thijs be re-appointed as directors likewise for a new four-year term.
- On the advice of the Nomination Committee, the Board will propose that Erik Clinck be appointed as director for a four-year term of office that will end after the General Meeting of 2024. He will succeed Matthieu Vanhove, who intends to resign his directorship following the General Meeting. The Board would like to express its gratitude to Matthieu for his contribution to the Board's work.
- On the advice of the Nomination Committee, the Board will propose that Liesbet Okkerse be appointed as director for a four-year term of office that will end after the General Meeting of 2024.

Brief CV for the proposed new directors:

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

Like to know more?

The corporate governance charter can be found under 'Corporate Governance' at www.kbc.com. The agenda for the General Meeting of 7 May 2020, as well as director CVs, are available at www.kbc.com.

He has been a member of the Board of Directors of Cera Beheersmaatschappij – in the capacity of ‘external director’ – and Chairman of its Audit Committee since 29 November 2019.

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

The Group Executive Committee (EC)

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

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

The composition of the EC remained unchanged in 2019.

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

Governance model

On 31 December 2019, the Board of KBC Group NV had 16 members, namely:

- its Chairman, who is an independent director;
- two other independent directors;
- three members of the EC, i.e. the Group CEO, the Group CFO and the Group CRO;
- nine representatives of the core shareholders;
- one non-executive director.

With effect from 7 May 2020, the Board of KBC Group NV will have 16 members, namely:

- three independent directors;
- three members of the EC, i.e. the Group CEO, the Group CFO and the Group CRO;
- ten representatives of the core shareholders.

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

The core shareholders (Cera, KBC Ancora, MRBB and the other core shareholders) have concluded a shareholder agreement in order to ensure shareholder stability and a long-term focus for the management of KBC Group NV, as well as to support and co-ordinate its general policy. To this end, the core shareholders act in concert at the General Meeting of KBC Group NV and were represented on its Board by nine directors at year-end 2019.

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

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

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

Diversity policy

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

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

The policy also stipulates that:

- at least one-third of the Board's members must be of a different gender than the other members;
- the members of the Board must be of different nationalities, with due account being taken of the different geographical areas where KBC is active;
- at least three directors must be independent within the meaning of and in line with the criteria set out in Article 7:87 of the Companies and Associations Code;
- three members of the EC must also sit on the Board (in accordance with the Belgian Act on the status and supervision of credit institutions).

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

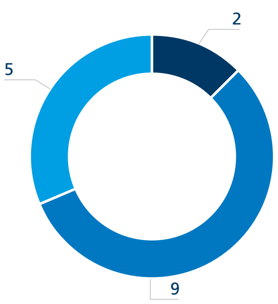
The policy also stipulates that the EC should have a balanced composition to ensure that it – as a whole – has suitable expertise regarding the financial sector and, in particular, the requisite know-how relating to all areas in which KBC operates.

The policy also stipulates that:

- at least one member of the EC must be of a different gender than the other members;

Composition of the Board of Directors

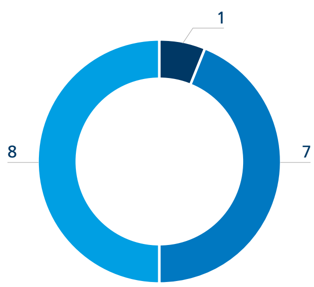
Number of years on the Board



- 0-2 years
- 3-10 years
- More than 10 years

(average: 9 years)

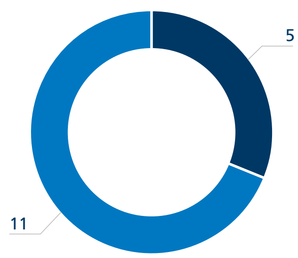
Age



- 41-50 years of age
- 51-60 years of age
- Older than 60 years

(average: 59 years of age)

Gender



- Female
- Male

- the EC should strive towards achieving diversity in terms of the nationality and age of its members;
- all members of the EC must have the necessary financial knowledge, professional integrity and management experience, but have followed different career paths.

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

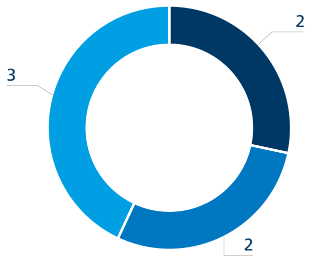
The Nomination Committee regularly checked to see whether this policy was being applied in practice and established that this was the case in 2019. Our aim in the years ahead is to further increase diversity in the composition of the EC. As far as the Board is concerned, it should be noted that the Board of Directors of KBC Group NV meets regularly with the Boards of Directors of KBC Bank and KBC Insurance. The two additional independent directors on each of these two boards provide extra expertise and diversity.

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

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

Composition of the Executive Committee

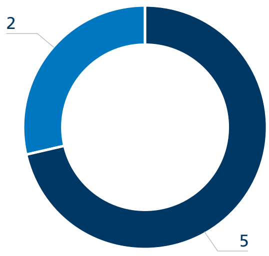
Number of years on the EC



- 0-2 years
- 3-10 years
- More than 10 years

(average: 7 years)

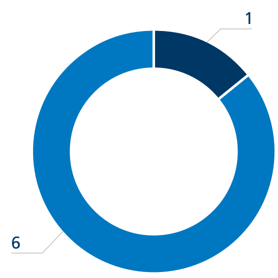
Age



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

(average: 58 years of age)

Gender



- Female
- Male

AC: application of Articles 3:6 § 1, 9° and 3:32 § 1, second paragraph, 6° of the Companies and Associations Code

On 31 December 2019, the AC had two independent directors within the meaning of and in line with the criteria set out in Article 7:87 of the Companies and Associations Code and in the Code.

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

The other members of the AC are:

- Marc Wittemans (non-executive director), who holds a Master’s Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences. He is Managing Director of MRBB CVBA, the holding company of the Boerenbond (farmers' union), and is the Chairman of the AC.
- Frank Donck (non-executive director), who holds a Master's Degree in Law (UGent) and a Master’s Degree in Finance (Vlerick Business School). He is Managing Director of 3D NV, Chairman of Atenor Group NV, and independent director at Barco NV and Elia System Operator NV. He also holds directorships at several unlisted companies. Mr Donck is a member of the Belgian Corporate Governance Commission.

It can be concluded on the basis of the profiles and competences of the members of the AC that the committee is constructed and has the requisite skills and experience in accordance with the requirements of the Charter and of Article 7:99 of the Companies and Associations Code.

RCC: application of section 6.3.6 of the Charter

On 31 December 2019, the RCC of KBC Group NV had one independent director within the meaning of and in line with the criteria set out in Article 7:87 of the Companies and Associations Code and in the Code:

- Vladimira Papirnik (see CV above).

The other members of the RCC are:

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

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

Application of and non-compliance with the 2009 version of the Governance Code

Until 31 December 2019, KBC Group NV was subject to the 2009 version of the Belgian Governance Code ('Code 2009'). The corporate governance statement included in the annual report must indicate whether any provisions of Code 2009 have not been complied with and state the reasons for non-compliance (the 'comply-or-explain principle). This information is provided below.

Provision 5.2./4 of Appendix C to Code 2009 specifies that at least a majority of the members of the AC should be independent. Provision 5.3./1 of Appendix D to Code 2009 stipulates that the Board should set up a nomination committee composed of a majority of independent non-executive directors.

At year-end 2019, the AC was composed of four non-executive directors, two of whom were independent and two who represented the core shareholders. Independent directors were, therefore, in the minority on this committee.

On 31 December 2019, the Nomination Committee was composed of five directors, one of whom was the Chairman of the Board (who is also an independent director), a second independent director, and three who represented the core shareholders. Therefore, two independent directors sit on this committee. Furthermore, an independent director of KBC Bank is invited to attend every meeting of the Nomination Committee. In this way, three independent directors are involved in its activities.

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

Implementation of the 2020 version of the Governance Code

At its General Meeting of 2 May 2019, KBC Group NV became the first listed company in Belgium to opt for application of the new Companies and Associations Code. The amended Articles of Association took effect on 1 June 2019. The Board brought the Corporate Governance Charter into line with the Articles of Association at its meeting of 18 June 2019.

On 17 May 2019, the Royal Decree of 12 May 2019 concerning the corporate governance code to be complied with by listed companies was published in the Belgian Official Gazette. The decree states that the 2020 version of the Belgian Corporate Governance Code ('Code 2020') is the sole benchmark within the meaning of Article 3:6, § 2 of the Companies and Associations Code. On 19 December 2019, the Board decided to adopt Code 2020 with effect from 1 January 2020 and also brought the Corporate Governance Charter into line with it on the same date.

Further deliberations will be held in 2020 on how certain Code 2020 rules are to be implemented.

Statutory auditor

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

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

Report on the activities of the Board and its committees in 2019

Board of Directors (Board)

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

- the strategy and operations in the business units/countries (Belgium, the Czech Republic, Slovakia, Bulgaria and Hungary);
- the IT strategy and digital transformation;
- implementing the insurance strategy;
- the remuneration policy;
- the ICAAP-ILAAP Report;
- the Risk Appetite Statement;
- the risk reports;
- the compliance reports and the Compliance function;
- the KBC Group Recovery Plan.

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

Sustainability parameters have been incorporated into the KBC Sustainability Dashboard to enable the situation within the KBC group to be monitored and adjustments to be made, where necessary. The Board assesses the performance of these parameters twice a year.

Audit Committee (AC)

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

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

The AC also examined:

- the Statement of effective management with regard to the assessment of internal control systems and the monitoring of the resulting action plans;
- intra-group conflicts of interest;
- the results of inspections performed by the supervisory authorities and the action plans drawn up by management;
- the updated Internal Audit Charter for 2019;
- the evaluation of the internal audit function.

Risk & Compliance Committee (RCC)

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

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

In addition, the following special reports were dealt with:

- the Statement of effective management with regard to the assessment of internal control systems and the monitoring of the resulting action plans;
- the ICAAP-ILAAP Report for 2019;
- the KBC Recovery Plan for 2019;
- the Risk Appetite Statement;
- Information Security and Cyber Risk;
- the risk-related elements of remuneration policy and the pricing of products offered to clients;
- the results of inspections performed by the supervisory authorities and the action plans drawn up by management;
- Compliance Risk Appetite;
- the updated Compliance Charter for 2019;
- the updated Integrity Policy for 2019;
- the Compliance Annual Report to the Board for 2019;
- the annual Data Protection Officer Report.

Nomination Committee

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

The main matters dealt with were:

- the suitability policy of the KBC group;
- appointments and re-appointments to the Board;
- the diversity policy;
- succession planning for the Board and the EC.

Remuneration Committee

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

The main matters dealt with were:

- the assessment of the criteria for evaluating the EC in 2018;
- the criteria for evaluating the EC in 2019;
- the annual remuneration review;
- the remuneration paid to members of the EC;
- risk-adjusted profit for 2018;
- a number of individual severance payments and retention payments;
- the impact of the new Companies Act, the new Corporate Governance Code and the Shareholder Rights Directive on remuneration, remuneration policy and the remuneration report.

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

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

Under the leadership of its Chairman and assisted by the Nomination Committee, the Board evaluates at least once every three years its own performance, how it interacts with the EC, and also its scope, composition and operations, as well as that of the committees.

Each Board committee carries out an evaluation of its own composition and workings at least once every three years, before reporting its findings and, where necessary, making proposals to the Board.

Directors who are nominated for re-appointment are subject to an individual evaluation regarding their attendance at Board and committee meetings and their contribution to and constructive involvement in discussions and decision-making. This evaluation is conducted by the Nomination Committee.

On the initiative of the President of the EC, the full EC discusses its objectives and assesses its performance once a year. Each year, the President of the EC evaluates each member of the EC individually, after which the evaluations are discussed in the Remuneration Committee and approved by the Board. The individual evaluation of the President is performed by the Chairman of the Board in consultation with the Remuneration Committee before being approved by the Board.

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

The Board worked out an arrangement regarding transactions and other contractual ties between the company (including its affiliated companies) and its directors, not covered by the conflict of interest rule set out in Articles 523 or 524*ter* of the Companies Code (until 31 May 2019) and Articles 7:115 and 7:117 § 1 of the Companies and Associations Code (from 1 June 2019). It has been incorporated into the Charter. There were no transactions that required this arrangement to be applied during the 2019 financial year.

Measures regarding insider dealing and market manipulation

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

Conflicts of interest that fall within the scope of Article 523, 524 or 524*ter* of the Companies Code (until 31 May 2019) and Article 7:115, 7:116 or 7:117 of the Companies and Associations Code (from 1 June 2019)

There were no conflicts of interest that required the application of Article 523, 524 or 524*ter* of the Companies Code or the application of Article 7:115, 7:116 or 7:117 of the Companies and Associations Code.

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 and Associations Code and – based on a proposal by the EC – decides on the overall risk appetite. It appoints the members of the EC.
- 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 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, which is provided each year (1 277 staff members took this course).
Furthermore, some 81% of our top 300 senior managers had completed the KBC University responsible business course (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 KBC employees, tied agents and their staff have a basic moral duty – and 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 KBC employees, tied agents and their staff in Belgium. 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, compliance and actuarial 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.

The actuarial function is an independent function that ensures additional quality control by providing expert technical actuarial advice to the Board, the RCC and the EC, as well as to the KBC Insurance group and all reinsurance and insurance entities within the group. Such advice covers the calculation of the technical provisions for insurance liabilities, the reinsurance policy and underwriting risk. The independence of this function is supported by its modified status, as described in the 'Actuarial Function Charter'.

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 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. More information on these committees is provided elsewhere in this section.

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

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

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

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

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

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

1 Capital structure on 31 December 2019

The share capital was fully paid up and was represented by 416 394 642 shares of no nominal value. More information on the group's capital can be found in the 'Company annual accounts and additional information' section.

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

Each year, KBC Group NV carries out a capital increase reserved for its employees and the employees of certain of its Belgian subsidiaries. If the issue price of the new shares is less than the closing price, the employee may not transfer these new shares for two years, starting from the payment date, unless he or she dies. The shares subscribed to by employees under the capital increase decided upon by the Board in November 2019 are blocked until 18 December 2021. The shares issued under the capital increase in 2018 also remain blocked (up to and including 19 December 2020).

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

3 Holders of any securities with special control rights

None.

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

None.

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

The voting rights attached to the shares held by KBC Group NV and its direct and indirect subsidiaries are suspended. At 31 December 2019, these rights were suspended for 38 607 shares.

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

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

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

- KBC Ancora Comm.VA: 77 516 380
- Cera CVBA: 11 127 166
- MRBB CVBA: 47 887 696
- Other core shareholders: 31 113 727

That is a total of 167 644 969 KBC Group NV shares representing an equal number of voting rights, or 40.26% of the total number of such rights on 31 December 2019.
A shareholder agreement was concluded between these core shareholders in order to ensure shareholder stability and guarantee continuity within KBC Group NV, as well as to support and co-ordinate its general policy. To this end, the core shareholders act in concert at the General Meeting of KBC Group NV and are represented on its Board.

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

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

Appointment and replacement of members of the Board:

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

When nominating an independent director, the Board will state whether the individual meets the independence criteria of the Companies and Associations Code (Article 7:87). The General Meeting appoints directors by a simple majority of votes cast. From among its non-executive members, the Board elects a chairman and one or more deputy chairmen, if necessary. Outgoing directors are always eligible for re-appointment.
If, during the course of a financial year, a directorship falls vacant as a result of decease, resignation, dismissal or for any other reason, the remaining directors may provisionally arrange for a replacement and appoint a new director. In that case, the next General Meeting will proceed to a definitive appointment. A director appointed to replace a director whose term of office had not yet come to an end will complete this term of office, unless the General Meeting decides on a different term of office when making the definitive appointment.

Amendment of the Articles of Association:

The General Meeting is entitled to amend the Articles of Association. Accordingly, the General Meeting may only validly deliberate and take decisions about such amendments if they have been accurately proposed in the convening notice and if the shareholders present or represented at the meeting represent at least half the capital. If the latter condition is not satisfied, a second convening notice is required and the new meeting can validly deliberate and take decisions, regardless of the share of capital represented by the shareholders present or represented at the meeting. An amendment is only adopted if it receives three-quarters of the votes cast (Article 7:153 of the Companies and Associations Code).

If an amendment to the Articles of Association pertains to the object or purpose of the company, the Board must justify the proposed amendment in a detailed report that is referred to in the agenda. If this report does not appear, decisions taken at the General Meeting will be null and void. The General Meeting may only deliberate and take decisions validly on changes in the object or purpose of the company if those present represent half of the share capital. If this condition is not satisfied, a new convening notice is required. To ensure that the second meeting can deliberate and take decisions validly, it is sufficient that some of the capital is represented. An amendment will then only be adopted if it receives at least four-fifths of the votes cast, with any abstentions not being included in the numerator or the denominator (excerpt from Article 7:154 of the Companies and Associations Code).

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

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

On 13 November 2019, the Board decided to use its authorisation to increase capital by issuing shares with preferential subscription rights cancelled to employees at a price of 55.83 euros per share. On 20 December 2019, the issued share capital was increased by 838 770.66 euros (represented by 238 966 new shares). For the impact of cancelling preferential subscription rights, see 'Notes to the company annual accounts'.

As a result, the authorised capital amounted to 698 255 266.75 euros at year-end 2019, with the possibility to cancel the preferential subscription rights of existing shareholders being restricted to a maximum 289 255 266.75 euros. Consequently, when account is taken of the accounting par value of the share on 31 December 2019, a maximum of 198 933 124 new shares can still be issued, with the existing shareholders' preferential subscription rights for 82 408 908 of these shares being cancelled (i.e. 47.78% and 19.79%, respectively, of the number of shares in circulation at that time).

Pursuant to Article 7:221 § 2 of the Companies and Associations Code, KBC Bank NV – in its capacity as professional stockbroker – sold 14 482 KBC Group NV shares and purchased 2 805 such shares in 2019.

On 31 December 2019, KBC Group NV and its direct subsidiaries did not hold any KBC Group NV shares, apart from 38 605 shares held by KBC Bank NV in its capacity as professional stockbroker. These shares have an accounting par value of 3.51 euros a share and represent 0.01% of the issued share capital.

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

None.

10 Agreements between KBC and its directors or employees providing for compensation if the directors resign or are made redundant, or if employees are made redundant, without valid reason following a public takeover bid

None.

Shareholder structure on 31 December 2019

Notifications of shareholdings are provided:
- under the Act of 2 May 2007;
- under the Act on public takeover bids;
- on a voluntary basis.

A summary containing the most recent disclosures is provided under 'Our business model' in the 'Report of the Board of Directors' section.

It should be noted that the figures provided below may differ from the current number of shares in possession, as a change in the number held does not always give rise to a new notification.

Shareholder structure based on notifications received under the Act of 2 May 2007 concerning the disclosure of significant participations in issuers whose shares are admitted to trading on a regulated market

Article 10bis of the Articles of Association of KBC Group NV stipulates the threshold at which individuals must disclose their shareholdings. KBC publishes these notifications on www.kbc.com. The table provides an overview of the shareholder structure at year-end 2019, based on all the notifications received by 31 December 2019.

Shareholder structure on 31-12-2019 (based on the most recent notifications received pursuant to the Act of 2 May 2007)	Address	Number of KBC shares/voting rights (as a % of the current number of shares/voting rights)*	Notification relating to
Core shareholders			
KBC Ancora Comm.VA	Muntstraat 1, 3000 Leuven, Belgium	77 516 380 / 18.62%	1 December 2014
Cera CVBA	Muntstraat 1, 3000 Leuven, Belgium	11 127 166 / 2.67%	1 December 2014
MRBB CVBA	Diestsevest 32/5b, 3000 Leuven, Belgium	47 889 864 / 11.50%	1 December 2014
Other core shareholders	C/o Ph. Vlerick, Ronsevaalstraat 2, 8510 Bellegem, Belgium	32 020 498 / 7.69%	1 December 2014
Other shareholders			
BlackRock Inc.	55 East 52nd Street, New York, NY 10055, United States	16 474 105 / 3.96% (20 778 528 / 4.99%)	31 October 2018
FMR LLC	1209 Orange Street, Wilmington, New Castle County, Delaware 19801, United States	12 531 817 / 3.01% (12 531 817 / 3.01%)	6 September 2018

* The figures between brackets include the 'voting rights that may be acquired if the instrument is exercised' as stated under 'B) Equivalent financial instruments' in the transparency notification. Any shareholders falling below the 3% notification threshold are no longer included in the table (unless they are a core shareholder).

Disclosures under Article 74 of the Belgian Act on public takeover bids

Within the framework of this law, KBC Group NV received a number of updated disclosures at the end of August 2019. The entities and individuals referred to below act in concert.

A Disclosures by
a legal entities
b individuals holding 3% or more of securities carrying voting rights[1]

Shareholder	Shareholding (quantity)	%[2]	Shareholder	Shareholding (quantity)	%[2]
KBC Ancora Comm. VA	77 516 380	18.62%	Cecan Invest NV	397 563	0.10%
MRBB CVBA	47 887 696	11.50%	Beluval NV	361 698	0.09%
Cera CVBA	11 127 166	2.67%	Robor NV	359 606	0.09%
Plastiche Finance NV	4 480 500	1.08%	Rodep Comm. VA	305 000	0.07%
SAK AGEV	4 282 454	1.03%	Bareldam SA	260 544	0.06%
VIM CVBA	4 012 141	0.96%	Mapicius SA	215 000	0.05%
3D NV	2 461 893	0.59%	Gavel Comm. VA	200 000	0.05%
Almafin SA	1 623 127	0.39%	Ibervest	190 000	0.05%
De Berk BVBA	1 138 208	0.27%	Promark International NV	166 008	0.04%
Algimo NV	1 040 901	0.25%	SAK Iberanfra	120 107	0.03%
SAK PULA	981 450	0.24%	Efiga Invest SPRL	50 000	0.01%
Rainyve SA	950 000	0.23%	Agrobos NV	50 000	0.01%
Alia SA	937 705	0.23%	Wilig NV	42 650	0.01%
Stichting Amici Almae Matris	912 731	0.22%	Filax Stichting	38 529	0.01%
Ceco CVA	623 999	0.15%	Hendrik Van Houtte CVA	36 000	0.01%
Niramore International SA	549 131	0.13%	Kristo Van Holsbeeck BVBA	17 500	0.00%
Van Holsbeeck NV	513 823	0.12%	IBP Ravago OFP	11 333	0.00%
Cecan NV	466 002	0.11%	Isarick NV	8 885	0.00%
Sereno SA	444 408	0.11%			

B Disclosures by individuals holding less than 3% of securities carrying voting rights
(the identity of the individuals concerned does not have to be disclosed)

Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]
854 395	0.21%	102 944	0.02%	63 562	0.02%	36 655	0.01%
285 000	0.07%	89 562	0.02%	61 166	0.01%	23 131	0.01%
285 000	0.07%	81 212	0.02%	57 856	0.01%	18 957	0.00%
250 000	0.06%	75 000	0.02%	48 926	0.01%	10 542	0.00%
167 498	0.04%	71 168	0.02%	43 446	0.01%	3 431	0.00%
125 200	0.03%	70 000	0.02%	40 000	0.01%	180	0.00%

1 No such disclosures were received.

2 The calculation (%) of the total outstanding number of shares is based on the total number of shares on 31 December 2019.

Remuneration report for financial year 2019

Procedures for developing the remuneration policy and for determining the remuneration granted to individual directors and members of the EC

General: The remuneration policy for the Board and EC is based on prevailing legislation, the Corporate Governance Code and market data. The many statutory and regulatory provisions imposed on financial institutions create a highly restrictive framework that offers little scope for KBC to pursue its own policy in this regard. It is monitored and regularly checked by the Remuneration Committee – with the assistance of specialist members of staff – to see whether it complies with changes in the law, the Code, and prevailing market practices and trends. The Chairman of the Remuneration Committee informs the Board of the committee's activities and advises it of any changes to the remuneration policy and its practical implementation. The full minutes of the meetings of the Remuneration Committee are provided to the Board for information purposes. The Board may also act on its own initiative, or on a proposal from the EC, and instruct the Remuneration Committee to examine potential changes to the remuneration policy and to advise it accordingly. If required by law, the Board will submit any policy changes to the General Meeting for approval. The RCC assists the Board in drawing up a sound remuneration policy and also checks each year whether that policy is consistent with healthy and effective risk management, and whether or not the incentives in the system promote risks.

Board: On the basis of advice obtained from the Remuneration Committee, the Board decides on proposals to change the remuneration package for its members and submits such proposals for approval at the General Meeting.

EC: On the basis of advice obtained from the Remuneration Committee and taking account of the established remuneration policy, the Board determines the remuneration to be granted to members of the EC, and assesses this amount at regular intervals. The amount in question is split into a fixed component and a profit-related/performance-related component.

General framework

The policy for remunerating members of senior management (Board, EC, top management and 'risk takers') is published in the Remuneration Policy. It contains a number of group-wide principles relating primarily to the variable remuneration component. The main principles stipulate that:

- Variable remuneration must always comprise a profit-related component (at least 10% of which is based on the results of the KBC group – not applicable to ČSOB employees in the Czech Republic on account of this being explicitly prohibited by the Czech National Bank) and a performance-related component.
- At least 40% of variable remuneration awarded to top management, also known as key identified staff (KIS), may not be paid straightaway but its payment is to be spread over a period of three years. For members of the EC and for senior general managers, this is 50% (or even 60% if the variable remuneration component exceeds 200 000 euros), with its payment being spread over a period of five years.
- Half of the total amount of variable remuneration for KIS be awarded in the form of equity-related instruments (phantom stocks or other instrument specified by a local regulator), so that the longer-term effects of the policy on the value of the KBC group can also be reflected in the variable remuneration component.
- No advance payments may be made in relation to the variable component and clawback/holdback provisions are put in place.
- The variable remuneration component may not exceed half of the fixed component.
- Variable remuneration be capped at a nominal 750 000 euros.
- The criteria for assessing the performance of the EC member responsible for the risk function may not refer in any way to the results of the KBC group.
- At least one of the criteria used for assessing the performances of top management must always relate to risk.
- At least 10% of variable remuneration awarded to top management must also be subject to the achievement of targets that have been agreed beforehand in relation to the group's sustainability policy.

Risk-adjusted profit (RAP) is used to set results-based variable remuneration. For certain categories of key identified staff for whom the competent control function has taken the view that RAP is an inadequate risk-adjustment mechanism, this framework will be supplemented by additional performance indicators that are better designed to measure risk.

Clawback provisions

As already explained above, payment of the total annual variable remuneration is not only spread over time, half of it is also awarded in the form of phantom stocks that are subject to a retention period of one year (i.e. they are only converted into cash one year after being awarded). The variable remuneration component, including the deferred part, is only acquired when this can be reconciled with the financial situation of the entire institution and justified by the performances of the KBC group and the EC.

Action can be taken regarding payment of deferred amounts that have still to be acquired (malus arrangement), when:

- There is evidence of misconduct or serious error on the part of the employee (for example, a violation of the code of conduct or other internal rules, particularly in relation to risks).
- Either the net result or the risk-adjusted profit of the KBC group and/or the underlying KBC entity in the year preceding the one in which the amounts are to be acquired, has fallen by at least 50% since the year in which the variable remuneration was awarded. In such a situation, the malus arrangement will be applied to the deferred amounts that have still to be acquired (and that relate to the year they were awarded), unless the Remuneration Committee of KBC Group NV provides well-reasoned advice to the Board not to apply this arrangement. The Remuneration Committee will also provide advice on the percentage that should be applied to the malus arrangement. The Board is responsible for the final decision in this regard.
- Either the net result or the risk-adjusted profit of the KBC group, is negative in the year preceding the one in which the amounts are to be acquired. In that case, all the deferred amounts that have still to be acquired (usually in the year following the one in which the negative result was posted) will not be acquired and will therefore be relinquished.

In this regard, the Board takes a decision on the advice of the Remuneration Committee.

Variable remuneration already acquired will exceptionally be clawed back when there is:

- evidence of fraud;
- (use of) misleading information.

Remuneration awarded to non-executive directors

- The remuneration paid to non-executive directors consists solely of an annual fixed component (non-performance-related and non-results-based) plus the fee received for each meeting attended. Attendance fees constitute the main element of this remuneration package. If meetings coincide with Board meetings of KBC Bank and/or KBC Insurance, the attendance fee will be paid just once to directors sitting on more than one of these Boards. Given his duties, the Deputy Chairman receives a higher fixed component.
- In light of the considerable time he devotes to the ongoing supervision of KBC group affairs, the Chairman of the Board receives a different remuneration package that comprises solely a fixed component, which is set separately by the Remuneration Committee and approved by the Board.
- The directors sitting on the AC or RCC receive an additional fixed emolument for the work they perform in that regard. The rule likewise applies that, if meetings coincide with AC or RCC meetings of KBC Bank and/or KBC Insurance, the emolument will be paid just once to directors sitting on different committees. The chairmen of the AC and RCC receive a higher fixed emolument. Directors sitting on either the Nomination Committee or the Remuneration Committee do not receive additional remuneration for the work they perform in that regard.
- In light of the considerable time required for directors residing outside Belgium to attend Board meetings, additional remuneration (attendance fees) is paid to them for each meeting attended.
- KBC Group NV does not grant loans to directors. Loans or guarantees may, however, be granted by KBC Group NV banking subsidiaries pursuant to Article 72 of the Banking Act of 25 April 2014, meaning that loans may be granted at terms applying to clients and approved by the Board.

Individual remuneration awarded to non-executive directors of KBC Group NV

In accordance with the remuneration system described above, the non-executive directors of KBC Group NV – and, where relevant, of other companies of the KBC group in Belgium or abroad – received the amounts set out in the following table. The members of the EC who also sit on the Board as executive directors did not receive either a fixed remuneration or any attendance fees.

Remuneration per individual director (on a consolidated basis, in EUR)

	Remuneration (for FY 2019)	Remuneration for AC and RCC members (for FY 2019)	Attendance fees (for FY 2019)
Thomas Leysen	500 000	–	–
Alain Bostoen	30 000	–	50 000
Katelijn Callewaert	40 000	–	50 000
Koenraad Debackere	20 000	–	30 000
Sonja De Becker	40 000	–	45 000
Franky Depickere	65 000	130 000	56 250
Frank Donck	30 000	30 000	50 000
Júlia Király	30 000	30 000	75 000
Walter Nonneman	10 000	–	20 000
Vladimira Papirnik	30 000	30 000	75 000
Theodoros Roussis	30 000	–	45 000
Matthieu Vanhove	30 000	–	50 000
Philippe Vlerick	60 000	–	50 000
Marc Wittemans	40 000	60 000	50 000

Remuneration paid to the President and the other members of the EC

- In accordance with the KBC group's remuneration policy, individual remuneration paid to EC members comprises:
  - a fixed monthly emolument;
  - an annual, performance-related variable emolument (the amount of which depends on the performance of the EC as a whole and on the performance of the institution (assessed on the basis of pre-agreed criteria));
  - an annual, individual variable emolument based on the performance by each member of the EC and on the example they set in respecting the group's values;
  - any emolument for offices performed on behalf of KBC Group NV (exceptional).
- A quantitative risk-adjustment mechanism (called a 'risk gateway') is used to set the variable remuneration. It comprises a number of capital and liquidity parameters that have to be met before the variable remuneration component may be awarded. The parameters are set each year by the Board. If one or more of these parameters are not met, not only will this remuneration component not be awarded, but payment of deferred amounts relating to previous years will be suspended in that year, too.
- For members of the EC, the individual variable component is set on the basis of an assessment of the performance of the member in question. The Remuneration Committee (which takes due account of the assessment performed by the President of the EC), assesses each member of the EC against each of the five aspects of our corporate culture (PEARL: *Performance, Empowerment, Accountability, Responsiveness and Local Embeddedness*) and the core value of being *Respectful*. On the basis of this assessment, the Remuneration Committee proposes a percentage between 0 and 100% to the Board. The Board then decides on this final score, which ultimately determines the size of the individual variable emolument.
- On the advice of the Remuneration Committee, the Board sets the performance-related variable component on the basis of an assessment of a number of pre-agreed criteria relating to the performances of the EC and the company. These criteria are centred on four broad areas, viz. implementing strategy, realising financial plans, strengthening the risk control environment, and the satisfaction of all stakeholders (staff, clients, the Board and society). The performance of the EC in each of these four areas determines the size of the performance-related component (with each area accounting for 25% of the final outcome).
  - As regards implementing strategy – besides achieving any specific targets – the main focus is on what has been achieved in terms of client centricity, sustainability and encouraging responsible conduct, and innovation (preparing for the digital revolution).
  - The criteria for assessing whether the financial plans have been achieved comprise a number of financial parameters (return, profit, capital, and cost of credit), but also an assessment of the progress made in further implementing the bank-insurance model and income diversification.

- Strengthening the risk control environment is assessed based on stated liquidity, capital and funding criteria, implementing recommendations made by audit and the regulator, and the degree to which the quality of data has improved.
- Stakeholder satisfaction is assessed on the basis of the results from the client and employee satisfaction surveys and on the progress made in the area of sustainability. As regards the latter aspect, a sustainability dashboard that contains numerous parameters is used for measuring sustainability in a range of areas, including our banking and insurance activities (share of renewable energy loans in the loan portfolio, reducing financing of the coal sector, etc.), our role in society (including our ecological footprint), sustainable growth (e.g., managing risk, creating long-term value, etc.), reputation and HR policy.

This assessment of all these criteria is reflected in a percentage between 0% and 100% that is applied to the maximum performance-related variable emolument. The size of the variable emolument, therefore, depends to a very small extent on achieving financial results. Risk management, stakeholder management and sustainability are aspects that are at least equally important in this regard.

- When setting the variable remuneration of the CRO, financial planning achievements are not taken into account, but the relative weighting of risk-related criteria is doubled.
- The remuneration package awarded to members of the EC does not include a long-term bonus.
- Members also benefit from a retirement and survivor's pension scheme, which comprises a supplementary retirement pension or – if the insured dies while still in employment and leaves a spouse – a survivor's pension, and also provides cover in the event of disability.

Provisions concerning individual severance payments for executive directors and members of the EC of KBC Group NV

For members of the EC who have worked six years or less in the KBC group, such payments have been set at 12 months' remuneration, for those who have worked between six and nine years, they are equal to 15 months' remuneration, and for those who have worked more than nine years, they are equal to 18 months' remuneration. In this context, remuneration is taken to be the fixed remuneration component for the current year and the variable component for the last full year preceding termination of office.

Relative importance of the different components of remuneration

The variable component for 2019 is split into a performance-related variable emolument and an individual variable emolument. The performance-related variable component for the President of the EC is set between 0 and 450 000 euros and the individual variable component between 0 and 175 000 euros. The limits for these components are 275 000 euros and 108 000 euros, respectively, for the other members of the EC. As explained above, the final amount is set by the Board on the advice of the Remuneration Committee, based on an assessment of the individual and collective achievements during the previous financial year.

Characteristics of performance-related bonuses in the form of shares, options, or any other rights to acquire shares

With effect from 1 January 2017, the total amount of annual variable remuneration (i.e. both the performance-related and individual components) for members of the EC is paid over six years, with 40% being paid in the first year and the rest spread equally over the next five years. Payment of these deferred amounts is subject to the clawback provisions outlined above. Furthermore, 50% of the total annual variable remuneration is awarded in the form of equity-related instruments called phantom stocks (though not in the Czech Republic where virtual investment certificates are used), whose value is linked to the price of the KBC Group NV share. These stocks must be retained for one year after being allocated. Like the cash component of variable remuneration, they are also allocated over a six-year period. The average price of the KBC share during the first three months of the year is used to calculate the number of phantom stocks to which each member of the EC is entitled. These stocks are then converted into cash a year later on the basis of the average price of the KBC share during the first three months of that year. They are subject to the allocation and acquisition conditions described under 'Clawback provisions'.

Pension arrangements, disability cover and death cover

The members of the EC have a separate defined contribution plan that is funded entirely by KBC. When drawing up this plan, account was taken of the fact that the career of a member (and especially the President) of the EC is shorter than that of an average employee. In the pension formula, therefore, the first ten years that an individual sits on the EC are the ones in which a significant part of the supplementary pension is built up. The contribution that KBC makes to the pension plan amounts to 32% of the fixed emolument (40% for the CEO) during those first ten years, 7% for the next five years (3% for the CEO) and 3% starting from the sixteenth year of plan membership. A minimum return of 0% (capped at 8.25%) is guaranteed on the contributions. Given the specific structure of this new pension plan, funding of the plan is not spread equally over the entire career. During the first ten years, the size of the payment made into the pension fund is rather large, but declines to a fraction of what it had been previously starting from the eleventh year and even more markedly from the sixteenth year.

The plan applies to all members of the EC who are resident in Belgium. For the members who had joined the EC prior to 1 January 2016, the vested reserves built up (in the previous pension plan) by 31 December 2015 were transferred to the new plan.
The pension plan also includes a death benefit, which equals four times the amount of the fixed emolument (or, if higher, the reserves that have been built at the time of death). Where applicable, there is also an orphan's pension, comprising a one-off benefit of 197 000 euros and an annuity of 6 390 euros per year.

The invalidity benefit provided under the plan amounts to approximately 759 000 euros.

Fixed remuneration for 2019

Figures for the fixed remuneration component are given in the table.

Variable remuneration for 2019

The variable component for the members of the EC is set in the way explained above.

Based on the advice of the Remuneration Committee, the Board decided that the members of the EC should be awarded performance-related variable remuneration for 2019 that equalled 96%. (97.5% for the CRO). The relevant figures are given in the table.

In accordance with the remuneration system described above, a performance-related variable emolument of 432 000 euros and an individual variable emolument of 162 750 euros was awarded to Johan Thijs for 2019. A performance-related variable emolument of 264 000 euros was awarded to each of the other members of the EC (268 125 euros for the CRO). The individual variable emolument for each member of the EC is given in the table. Half of the variable remuneration component is paid in cash and the other half is awarded in the form of phantom stocks. As regards the cash component, 40% will be paid in 2020 and the remaining 60% spread equally over the next five years (2021 to 2025, inclusive).

Phantom stocks for 2019: The number of phantom stocks is calculated on the basis of the average price of the KBC share during the first quarter of 2020. Like the other variable components, 40% will be awarded in 2020 and the remaining 60% spread equally over the next five years. Given that phantom stocks are to be retained for one year, they are paid out in cash one year after being awarded, which means that payment is spread over 2021 to 2026, inclusive. The amounts for which phantom stocks were awarded in this way for 2019 are given in the table below:

Amounts awarded in the form of phantom stocks (in EUR)	Total	Vesting in 2020	Vesting in 2021	Vesting in 2022	Vesting in 2023	Vesting in 2024	Vesting in 2025
Johan Thijs	297 375	118 950	35 685	35 685	35 685	35 685	35 685
Daniel Falque	169 800	67 920	20 376	20 376	20 376	20 376	20 376
John Hollows*	177 900	71 160	21 348	21 348	21 348	21 348	21 348
Erik Luts	179 520	71 810	21 542	21 542	21 542	21 542	21 542
Luc Popelier	173 580	69 430	20 830	20 830	20 830	20 830	20 830
Hendrik Scheerlinck	176 280	70 510	21 154	21 154	21 154	21 154	21 154
Christine Van Rijsseghem	179 963	71 983	21 596	21 596	21 596	21 596	21 596

* Virtual investment certificates (VICs) instead of phantom stocks.

Variable remuneration in recent years

A portion of the (deferred) variable remuneration component awarded for 2016, 2017 and 2018 will be paid in 2020. The amounts paid are given in the table.

A portion of the phantom stocks awarded for 2013, 2014, 2015, 2016 and 2017 was converted into cash at 60.69 euros per share in April 2019. The amounts paid are given in the table.

Other benefits

Each member of the EC has a company car, the personal use of which is charged in accordance with the prevailing regulations. Other benefits which members of the EC receive include hospitalisation insurance, assistance insurance and accident insurance. The value of these benefits is given in the table. These figures do not include the flat-rate expenses allowance of 335 euros which each member of the EC receives each month.

The table shows the remuneration paid to the current seven members of the EC.

In 2019, the following amounts of deferred remuneration were paid to former members of the EC:

- Luc Gijsens: an individual variable emolument of 9 584 euros, a performance-related variable emolument of 32 632 euros and 80 839 euros in phantom stocks;
- Marko Voljč: 31 437 euros in phantom stocks;
- Danny De Raymaeker: 26 643 euros in phantom stocks.

Remuneration paid to the EC of KBC Group NV (2019)	Johan Thijs (CEO) Awarded	Johan Thijs (CEO) Paid	Daniel Falque Awarded	Daniel Falque Paid	John Hollows Awarded	John Hollows Paid	Erik Luts Awarded	Erik Luts Paid
Employment status	Self-employed		Self-employed		Self-employed		Self-employed	
Base remuneration (fixed)	1 250 000	1 250 000	853 000	853 000	853 000	853 000	853 000	853 000
Individual variable remuneration for the financial year (cash)	81 375	32 550	37 800	15 120	45 900	18 360	47 520	19 008
Individual variable remuneration for the financial year (phantom stocks)	81 375	–	37 800	–	45 900	–	47 520	–
Performance-related variable remuneration for the financial year (cash)	216 000	86 400	132 000	52 800	132 000	52 800	132 000	52 800
Performance-related variable remuneration for the financial year (phantom stocks)	216 000	–	132 000	–	132 000	–	132 000	–
Individual variable remuneration for previous financial years	–	22 800	–	12 605	–	13 215	–	7 777
Performance-related variable remuneration for previous financial years	–	67 328	–	41 450	–	41 450	–	24 963
Phantom stocks for previous financial years	–	184 983	–	113 672	–	181 681	–	33 197
Total	1 844 750	1 644 061	1 192 600	1 088 646	1 208 800	1 160 505	1 212 040	990 745
Defined contribution pension plan (contribution)	522 000	–	284 970	–	284 144	–	284 970	–
Other benefits	16 743	–	17 378	–	10 453	–	9 112	–

	Luc Popelier Awarded	Luc Popelier Paid	Hendrik Scheerlinck Awarded	Hendrik Scheerlinck Paid	Christine Van Rijsseghem Awarded	Christine Van Rijsseghem Paid
Employment status	Self-employed		Self-employed		Self-employed	
Base remuneration (fixed)	853 000	853 000	853 000	853 000	853 000	853 000
Individual variable remuneration for the financial year (cash)	41 580	16 632	44 280	17 712	45 900	18 360
Individual variable remuneration for the financial year (phantom stocks)	41 580	–	44 280	–	45 900	–
Performance-related variable remuneration for the financial year (cash)	132 000	52 800	132 000	52 800	134 063	53 625
Performance-related variable remuneration for the financial year (phantom stocks)	132 000	–	132 000	–	134 063	–
Individual variable remuneration for previous financial years	–	12 775	–	7 363	–	13 315
Performance-related variable remuneration for previous financial years	–	41 450	–	24 963	–	41 862
Phantom stocks for previous financial years	–	115 311	–	33 015	–	107 664
Total	1 200 160	1 091 968	1 205 560	988 853	1 212 925	1 087 826
Defined contribution pension plan (contribution)	284 970	–	284 970	–	284 970	–
Other benefits	15 042	–	12 107	–	14 392	–

Remuneration policy for the next two financial years

The new Corporate Governance Code, which came into force on 1 January 2020, contains a number of provisions that are important for the remuneration policy. For members of the Board, the code stipulates that a portion of their remuneration be paid in the form of shares in their own company. For members of the EC, it stipulates that the Board sets a minimum threshold of shares to be held by them. The Remuneration Committee has already held an initial discussion on implementing these rules and is now examining whether and how these principles can be brought into line with KBC's specific situation.

At the time this report was being prepared, the European Shareholders' Rights Directive had not yet been transposed into Belgian law. However, a bill has already been voted on by the relevant committee of Belgium's Chamber of Representatives. It contains a transitional arrangement on new obligations regarding the remuneration policy and the remuneration report. As soon as the exact scope of this new legislation becomes clear, the principles for remunerating members of the Board and the EC – whether or not adjusted to take account of the outcome of above examination into the impact of the Corporate Governance Code – will be incorporated into a remuneration policy that can then, in accordance with the timing laid down in the transitional provisions of the bill, be put on the agenda of the General Meeting (in May 2021).

The remuneration paid to the CEO and the members of the EC has been index-linked since 1 January 2020. With effect from that year, the fixed component will accordingly amount to 1 266 000 euros for the CEO (and 864 000 euros for the members of the EC), while the maximum performance-related variable component will be 455 000 euros (279 000 euros) and the maximum individual variable component 177 000 euros (110 000 euros).

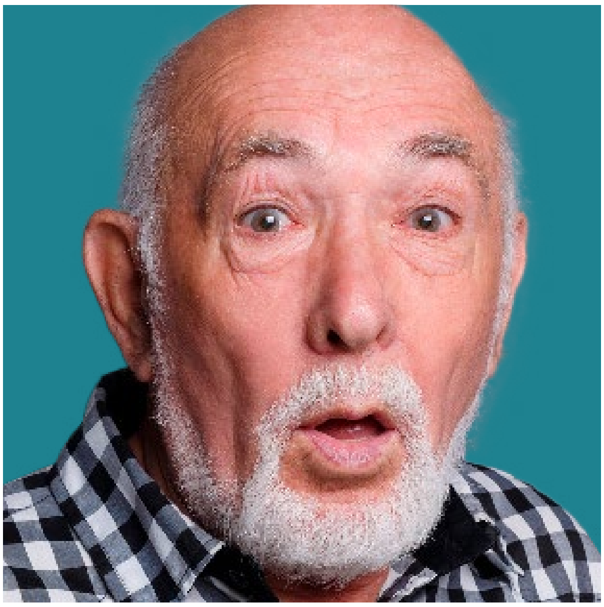
Non-financial information **statement**

In keeping with our commitment to integrated reporting, we have incorporated our consolidated non-financial information (as required by Articles 3:6 § 4 and 3:32 § 2 of the Companies and Associations Code) in various sections of this report. Information on our business model is provided in the 'Our business model' section. The table below indicates where the other non-financial information required by law can be found in this report.

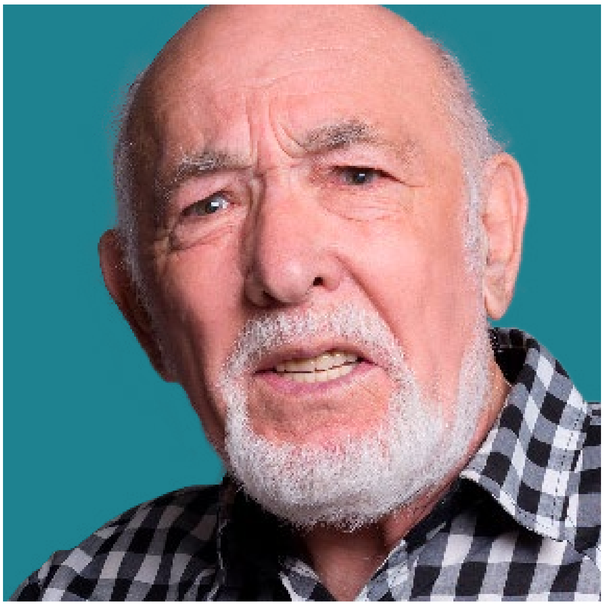
	Staff	Environment (including climate)	Human rights	Other social matters	Combating corruption and bribery
Reference in this annual report	• See 'Our employees, capital, network and relationships' in the 'Our business model' section.	• See 'Our role in society' and 'Focus on climate' in the 'Our strategy' section. • See 'Climate-related risks' in the 'How do we manage our risks?' section.	• See 'Focus on human rights' in the 'Our strategy' section.	• See 'The client is at the centre of our business culture' and 'Our role in society' in the 'Our strategy' section.	• See 'Combating corruption and bribery' and 'Corporate culture and integrity policy' in the 'Corporate governance statement' section.

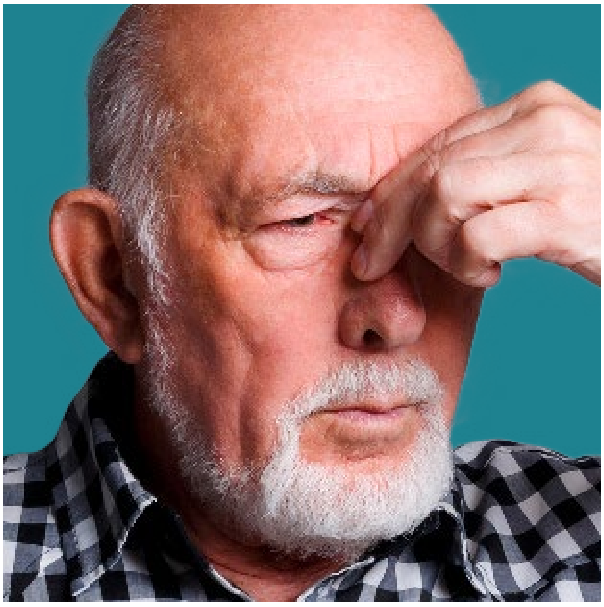
When drawing up our annual report, we take as much account as possible of the guidelines issued by the International Integrated Reporting Council and base our consolidated non-financial statement on the Global Reporting Initiative (GRI) Standards. The GRI is a sustainability reporting framework, providing universal guidelines for sustainability reporting and disclosing non-financial information. It sets out the quality principles and indicators for measuring and reporting on economic, environmental and social performance. Full implementation of GRI Standards (Core option) and the GRI Content Index are discussed in our Sustainability Report, which is published at www.kbc.com.

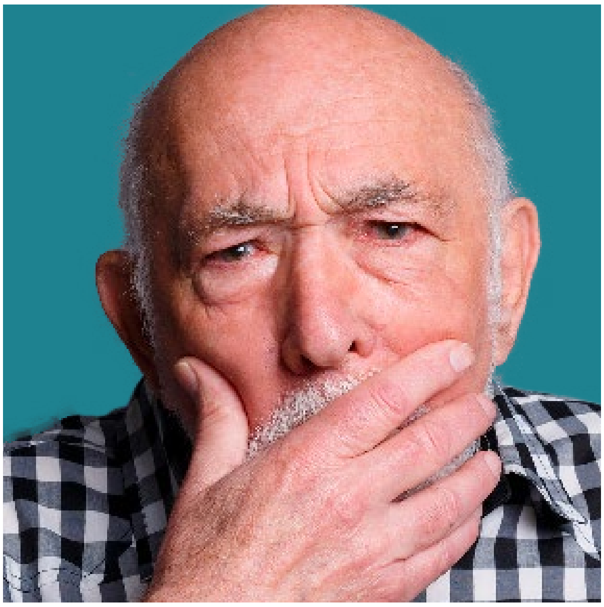
The sustainability-related information has not been audited externally, except for the environmental data and calculations of greenhouse gas emissions for determining our environmental footprint (see the relevant tables in 'Focus on climate'), which have been verified by Vinçotte in accordance with ISO 14064-3.



Consolidated financial statements







Consolidated income statement

(in millions of EUR)	Note	2019	2018
Net interest income	3.1	4 618	4 543
Interest income	*3.1*	*7 244*	*6 996*
Interest expense	*3.1*	*-2 626*	*-2 453*
Non-life insurance (before reinsurance)	3.7	756	760
Earned premiums	*3.7*	*1 721*	*1 582*
Technical charges	*3.7*	*-966*	*-822*
Life insurance (before reinsurance)	3.7	-6	-18
Earned premiums	*3.7*	*1 323*	*1 359*
Technical charges	*3.7*	*-1 329*	*-1 377*
Ceded reinsurance result	3.7	-25	-41
Dividend income	3.2	82	82
Net result from financial instruments at fair value through profit or loss	3.3	181	231
of which result on equity instruments (overlay approach)	*3.3*	*93*	*51*
Net realised result from debt instruments at fair value through OCI	3.4	6	9
Net fee and commission income	3.5	1 734	1 719
Fee and commission income	*3.5*	*2 476*	*2 456*
Fee and commission expense	*3.5*	*-741*	*-737*
Other net income	3.6	282	226
TOTAL INCOME		**7 629**	**7 512**
Operating expenses	3.8	-4 303	-4 234
Staff expenses	*3.8*	*-2 357*	*-2 343*
General administrative expenses	*3.8*	*-1 595*	*-1 612*
Depreciation and amortisation of fixed assets	*3.8*	*-351*	*-280*
Impairment	3.10	-217	17
on financial assets at amortised cost and at fair value through OCI	*3.10*	*-203*	*62*
on goodwill	*3.10*	*0*	*0*
other	*3.10*	*-14*	*-45*
Share in results of associated companies and joint ventures	3.11	7	16
RESULT BEFORE TAX		**3 116**	**3 310**
Income tax expense	3.12	-627	-740
Net post-tax result from discontinued operations	–	0	0
RESULT AFTER TAX		**2 489**	**2 570**
attributable to minority interests	–	0	0
of which relating to discontinued operations	–	*0*	*0*
attributable to equity holders of the parent	–	**2 489**	**2 570**
of which relating to discontinued operations	–	*0*	*0*
Earnings per share (in EUR)			
Ordinary	3.13	5.85	5.98
Diluted	3.13	5.85	5.98

Abbreviations used

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

- We 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.
- Overview of the impact of the overlay approach on the consolidated income statement: this approach has been applied to the equity instruments held by the group's insurance companies. These equity instruments, which have mainly been classified as 'Available for sale' under IAS 39, would be measured at FVPL under IFRS 9. For as long as IFRS 17 is not effective, the overlay approach allows for increased volatility reported in the income statement as a result of applying IFRS 9 to be removed from the income statement to OCI. This increased volatility, which was reclassified out of 'Net result from financial instruments at FVPL' to 'Revaluation reserve (FVPL equity instruments) – overlay approach', relates to 191 million euros in unrealised changes in fair value in 2019 (195 million euros before tax). That is the difference between (i) the result under IFRS 9 (without applying the overlay approach), i.e. 284 million euros, of which 288 million euros in realised and unrealised changes in fair value recognised in 'Net result from financial instruments at FVPL' and -4 million euros in taxes, and (ii) the result under IAS 39, i.e. 93 million euros, comprising a net realised result of 117 million euros and an impairment of -24 million euros. More details are provided in Note 1.2.

Equity instruments held by the insurer in 2019 **Illustration of the overlay approach** (in millions of EUR)	**Under IAS 39**	**Under IFRS 9 without overlay (FVPL option)**	**Impact of overlay**	**Under IFRS 9 with overlay**
Realised results through profit or loss	117	117	–	117
Unrealised results through profit or loss	–	171	171	–
Impairment through profit or loss	-24	–	24	-24
Realised and unrealised results through OCI	195	–	-195	195
Income tax expense (through profit or loss or OCI)	-4	-4	–	-4
Total through profit or loss or OCI	284	284	0	284

Consolidated statement of comprehensive income

(in millions of EUR)	2019	2018
RESULT AFTER TAX	**2 489**	**2 570**
attributable to minority interests	0	0
attributable to equity holders of the parent	2 489	2 570
OCI THAT MAY BE RECYCLED TO PROFIT OR LOSS	**510**	**-425**
Net change in revaluation reserve (FVOCI debt instruments)	411	-246
Fair value adjustments before tax	544	-312
Deferred tax on fair value changes	-129	74
Transfer from reserve to net result	-4	-8
Impairment	*-1*	*-3*
Net gains/losses on disposal	*0*	*-7*
Deferred taxes on income	*-3*	*2*
Net change in revaluation reserve (FVPL equity instruments) – overlay approach	191	-228
Fair value adjustments before tax	288	-176
Deferred tax on fair value changes	-4	0
Transfer from reserve to net result	-93	-51
Impairment	*24*	*58*
Net gains/losses on disposal	*-117*	*-110*
Deferred taxes on income	*0*	*0*
Net change in hedging reserve (cashflow hedges)	-68	76
Fair value adjustments before tax	-158	46
Deferred tax on fair value changes	37	-9
Transfer from reserve to net result	53	39
Gross amount	*71*	*60*
Deferred taxes on income	*-17*	*-21*
Net change in translation differences	-18	-60
Gross amount	-18	-60
Deferred taxes on income	0	0
Hedge of net investments in foreign operations	3	41
Fair value adjustments before tax	-20	45
Deferred tax on fair value changes	-13	-13
Transfer from reserve to net result	36	10
Gross amount	*49*	*14*
Deferred taxes on income	*-13*	*-4*
Net change in respect of associated companies and joint ventures	-6	-7
Gross amount	-7	-8
Deferred taxes on income	1	1
Other movements	-3	-2
OCI THAT WILL NOT BE RECYCLED TO PROFIT OR LOSS	**127**	**-66**
Net change in revaluation reserve (FVOCI equity instruments)	8	-6
Fair value adjustments before tax	11	-17
Deferred tax on fair value changes	-3	-1
Transfer from revaluation reserves to retained earnings upon realisation	0	12
Gross amount	*0*	*12*
Deferred taxes on income	*0*	*0*
Net change in defined benefit plans	119	-67
Remeasurements	157	-89
Deferred tax on remeasurements	-38	22
Net change in own credit risk	-1	7
Fair value adjustments before tax	-1	9
Deferred tax on fair value changes	0	-2
Transfer from revaluation reserves to retained earnings upon realisation	0	0
Gross amount	*0*	*0*
Deferred taxes on income	*0*	*0*
Net change in respect of associated companies and joint ventures	**0**	**0**
Remeasurements	1	0
Deferred tax on remeasurements	0	0
TOTAL COMPREHENSIVE INCOME	**3 126**	**2 079**
attributable to minority interests	0	0
attributable to equity holders of the parent	3 126	2 079

- Revaluation reserves in 2019: the net change in the 'revaluation reserve (FVPL equity instruments) – overlay approach' came to +191 million euros and was largely attributable to positive changes in fair value, partly offset by transfers to the net result (gains on sales offset in part by impairment charges). The 'revaluation reserve (FVOCI debt instruments)' rose by 411 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 (unwinding the discount). The net change in defined benefit plans (+119 million euros) related mainly to the positive returns on plan assets, partly offset by the lower discount rate. The net change in translation differences (-18 million euros) was limited on account of relatively stable exchange rates (Czech koruna and Hungarian forint).
- Revaluation reserves in 2018: the net change in the 'revaluation reserve (FVPL equity instruments) – overlay approach' came to -228 million euros and was largely attributable to negative changes in fair value and, to a lesser extent, to a transfer to the net result (gains on sales partly offset by impairment charges). The 'revaluation reserve (FVOCI debt instruments)' fell by 246 million euros owing to the effect of an increase in long-term rates (including in Italy and, to a lesser extent, also in Belgium) and unwinding operations (unwinding the discount). Unwinding also accounted for the net change in the hedging reserve (cashflow hedges) of +76 million euros. The net change in defined benefit plans (-67 million euros) related mainly to the negative returns on plan assets (weak stock markets in the last quarter). The net change in translation differences (-60 million euros) was caused primarily by the weakening of the Czech koruna and Hungarian forint, but that effect was largely offset by the hedge of net investments in foreign operations (+41 million euros). The net impact of these two items was mainly attributable to the asymmetrical treatment of deferred taxes (no tax on the net change in translation differences, whereas deferred tax is calculated on the hedge).

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	–	8 356	18 691
Financial assets	4.0	273 399	256 916
Amortised cost	*4.0*	*230 639*	*216 792*
Fair value through OCI	*4.0*	*19 037*	*18 279*
Fair value through profit or loss	*4.0*	*23 563*	*21 663*
of which held for trading	*4.0*	*7 266*	*6 426*
Hedging derivatives	*4.0*	*158*	*183*
Reinsurers' share in technical provisions, insurance	5.6	121	120
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	478	64
Tax assets	5.2	1 396	1 549
Current tax assets	*5.2*	*96*	*92*
Deferred tax assets	*5.2*	*1 300*	*1 457*
Non-current assets held for sale and disposal groups	5.11	29	14
Investments in associated companies and joint ventures	5.3	25	215
Property and equipment and investment property	5.4	3 818	3 299
Goodwill and other intangible assets	5.5	1 640	1 330
Other assets	5.1	1 474	1 610
TOTAL ASSETS		**290 735**	**283 808**
LIABILITIES AND EQUITY			
Financial liabilities	4.0	248 400	242 626
Amortised cost	*4.0*	*224 093*	*220 671*
Fair value through profit or loss	*4.0*	*23 137*	*20 844*
of which held for trading	*4.0*	*6 988*	*5 834*
Hedging derivatives	*4.0*	*1 171*	*1 111*
Technical provisions, before reinsurance	5.6	18 560	18 324
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	-122	-79
Tax liabilities	5.2	478	380
Current tax liabilities	*5.2*	*98*	*133*
Deferred tax liabilities	*5.2*	*380*	*247*
Liabilities associated with disposal groups	5.11	0	0
Provisions for risks and charges	5.7	227	235
Other liabilities	5.8	2 827	2 689
TOTAL LIABILITIES		**270 371**	**264 175**
Total equity	**5.10**	**20 365**	**19 633**
Parent shareholders' equity	5.10	18 865	17 233
Additional tier-1 instruments included in equity	5.10	1 500	2 400
Minority interests	–	0	0
TOTAL LIABILITIES AND EQUITY		**290 735**	**283 808**

- 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 (FVPL equity instruments) – overlay approach	Revaluation reserve (FVOCI equity instruments)	Hedging reserve (cashflow hedges)	Translation differences	Hedge of net investments in foreign operations	Remeasurement of defined benefit plans	Own credit risk through equity	Total revaluation reserves	Parent shareholders' equity	Additional tier-1 instruments included in equity	Minority interests	Total equity
2019																		
Balance at the beginning of the period	1 457	5 482	-3	10 901	–	586	159	22	-1 263	-73	86	-119	-3	-605	17 233	2 400	0	19 633
Net result for the period	0	0	0	2 489	–	0	0	0	0	0	0	0	0	0	2 489	0	0	2 489
Other comprehensive income for the period	0	0	0	-3	–	406	191	9	-68	-19	3	119	-1	640	637	0	0	637
Subtotal	0	0	0	2 486	–	406	191	9	-68	-19	3	119	-1	640	3 126	0	0	3 126
Dividends	0	0	0	-1 457	–	0	0	0	0	0	0	0	0	0	-1 457	0	0	-1 457
Coupon on additional tier-1 instruments	0	0	0	-52	–	0	0	0	0	0	0	0	0	0	-52	0	0	-52
Issue/repurchase of tier-1 instruments included in equity	0	0	0	-2	–	0	0	0	0	0	0	0	0	0	-2	-900	0	-902
Capital increase	1	15	0	0	–	0	0	0	0	0	0	0	0	0	16	0	0	16
Transfer from revaluation reserves to retained earnings upon realisation	0	0	0	-1	–	0	0	1	0	0	0	0	0	1	0	0	0	0
Change in minority interests	0	0	0	0	–	0	0	0	0	0	0	0	0	0	0	0	0	0
Total change	1	15	0	974	–	406	191	10	-68	-19	3	119	-1	641	1 632	-900	0	732
Balance at the end of the period	1 458	5 498	-2	11 875	–	992	350	32	-1 331	-92	89	0	-4	37	18 865	1 500	0	20 365
of which relating to application of the equity method	–	–	–	–	–	0	0	2	0	0	0	0	0	2	2	–	0	2
2018																		
Balance at the end of the previous period	1 456	5 467	-5	10 101	1 751	0	0	0	-1 339	-11	45	-52	-10	383	17 403	1 400	0	18 803
Impact of the first-time adoption of IFRS 9	0	0	0	-247	-1 751	837	387	29	0	0	0	0	0	-499	-746	0	0	-746
Balance at the beginning of the period after impact of IFRS 9	1 456	5 467	-5	9 854	0	837	387	29	-1 339	-11	45	-52	-10	-116	16 657	1 400	0	18 057
Net result for the period	0	0	0	2 570	–	0	0	0	0	0	0	0	0	0	2 570	0	0	2 570
Other comprehensive income for the period	0	0	0	-2	–	-251	-228	-6	76	-61	41	-67	7	-489	-491	0	0	-491
Subtotal	0	0	0	2 568	–	-251	-228	-6	76	-61	41	-67	7	-489	2 079	0	0	2 079
Dividends	0	0	0	-1 253	–	0	0	0	0	0	0	0	0	0	-1 253	0	0	-1 253
Coupon on additional tier-1 instruments	0	0	0	-70	–	0	0	0	0	0	0	0	0	0	-70	0	0	-70
Issue/repurchase of tier-1 instruments included in equity	0	0	0	-5	–	0	0	0	0	0	0	0	0	0	-5	1 000	0	995
Capital increase	1	15	0	0	–	0	0	0	0	0	0	0	0	0	16	0	0	16
Transfer from revaluation reserves to retained earnings upon realisation	0	0	0	-12	–	0	0	0	0	0	0	0	0	0	-12	0	0	-12
Purchase/sale of treasury shares	0	0	-179	0	–	0	0	0	0	0	0	0	0	0	-179	0	0	-179
Cancellation of treasury shares	0	0	181	-181	–	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in minority interests	0	0	0	0	–	0	0	0	0	0	0	0	0	0	0	0	0	0
Total change	1	15	2	1 047	–	-251	-228	-6	76	-61	41	-67	7	-489	576	1 000	0	1 576
Balance at the end of the period	1 457	5 482	-3	10 901	–	586	159	22	-1 263	-73	86	-119	-3	-605	17 233	2 400	0	19 633
of which relating to application of the equity method	–	–	–	–	–	5	0	1	0	14	0	0	0	20	20	–	0	20

- For information on the shareholder structure, see Note 3 in the 'Company annual accounts and additional information' section and the 'Corporate governance statement' in the 'Report of the Board of Directors' section.
- For information on capital increases, additional tier-1 instruments, treasury share buybacks and the number of shares, see Note 5.10.
- The 'Dividends' item in 2019 (1 457 million euros) includes the final dividend of 2.50 euros per share for 2018 (paid in May 2019) and an interim dividend of 1 euro per share as an advance on the final dividend for 2019. The 'Dividends' item in 2018 (1 253 million euros) includes the final dividend of 2 euros per share for 2017 (paid in May 2018) and an interim dividend of 1 euro per share as an advance on the final dividend for 2018 (the final dividend was paid in 2019). Please note that, in line with ECB guidelines regarding dividend payments, no final dividend will be paid for 2019 (originally it had been planned to pay a final dividend of 2.50 euros per share).
- Changes in the revaluation reserves: see 'Consolidated statement of comprehensive income'.

Consolidated cashflow statement

(in millions of EUR)	Reference[1]	2019	2018
OPERATING ACTIVITIES			
Result before tax	See consolidated income statement	3 116	3 310
Adjustments for:	–		
Result before tax from discontinued operations	*See consolidated income statement*	*0*	*0*
Depreciation, impairment and amortisation of property and equipment, intangible fixed assets, investment property and securities	*3.10, 4.2, 5.4, 5.5*	*418*	*414*
Profit/Loss on the disposal of investments	–	*-105*	*19*
Change in impairment on loans and advances	*3.10*	*204*	*-59*
Change in technical provisions (before reinsurance)	*5.6*	*443*	*-30*
Change in the reinsurers' share in the technical provisions	*5.6*	*1*	*10*
Change in other provisions	*5.7*	*25*	*-58*
Other unrealised gains/losses	–	*-599*	*158*
Income from associated companies and joint ventures	*3.11*	*-7*	*-16*
Cashflows from operating profit before tax and before changes in operating assets and liabilities	–	3 496	3 748
Changes in operating assets (excluding cash and cash equivalents)	–	-5 798	-5 141
Financial assets at amortised cost (excluding debt securities)	*4.1*	*-4 254*	*-7 363*
Financial assets at fair value through OCI	*4.1*	*-99*	*911*
Financial assets at fair value through profit or loss	*4.1*	*-1 612*	*1 350*
of which financial assets held for trading	*4.1*	*-840*	*720*
Hedging derivatives	*4.1*	*24*	*63*
Operating assets associated with disposal groups, and other assets	–	*143*	*-101*
Changes in operating liabilities (excluding cash and cash equivalents)	–	337	-6 015
Financial liabilities at amortised cost	*4.1*	*-1 296*	*-3 586*
Financial liabilities at fair value through profit or loss	*4.1*	*1 697*	*-1 871*
of which financial liabilities held for trading	*4.1*	*1 147*	*-1 132*
Hedging derivatives	*4.1*	*-120*	*-127*
Technical provisions, before reinsurance	*5.6*	*-206*	*-288*
Operating liabilities associated with disposal groups, and other liabilities	–	*262*	*-143*
Income taxes paid	3.12	-498	-554
Net cash from or used in operating activities		-2 462	-7 962
INVESTING ACTIVITIES			
Purchase of debt securities at amortised cost	4.1	-7 335	-2 609
Proceeds from the repayment of debt securities at amortised cost	4.1	5 870	5 438
Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held)	6.6	439	-19
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	2
Dividends received from associated companies and joint ventures	–	2	23
Purchase of investment property	5.4	-45	-74
Proceeds from the sale of investment property	5.4	59	29
Purchase of intangible fixed assets (excluding goodwill)	5.5	-282	-260
Proceeds from the sale of intangible fixed assets (excluding goodwill)	5.5	5	8
Purchase of property and equipment	5.4	-902	-668
Proceeds from the sale of property and equipment	5.4	347	237
Net cash from or used in investing activities		-1 854	2 098

Consolidated cashflow statement (continuation)

(in millions of EUR)	Reference[1]	2019	2018
FINANCING ACTIVITIES			
Purchase or sale of treasury shares	See consolidated statement of changes in equity	0	-179
Issue or repayment of promissory notes and other debt securities	4.1	1 366	1 389
Proceeds from or repayment of subordinated liabilities	4.1	-118	-928
Principal payments under finance lease obligations	–	0	0
Proceeds from the issuance of share capital	See consolidated statement of changes in equity	16	16
Issue of additional tier-1 instruments	See consolidated statement of changes in equity	-902	995
Proceeds from the issuance of preference shares	See consolidated statement of changes in equity	0	0
Dividends paid	See consolidated statement of changes in equity	-1 457	-1 253
Coupon on additional tier-1 instruments	See consolidated statement of changes in equity	-52	-70
Net cash from or used in financing activities		-1 148	-30
CHANGE IN CASH AND CASH EQUIVALENTS			
Net increase or decrease in cash and cash equivalents	–	-5 464	-5 894
Cash and cash equivalents at the beginning of the period	–	34 354	40 413
Effects of exchange rate changes on opening cash and cash equivalents	–	228	-165
Cash and cash equivalents at the end of the period	–	29 118	34 354
ADDITIONAL INFORMATION			
Interest paid[2]	3.1	-2 626	-2 453
Interest received[2]	3.1	7 244	6 996
Dividends received (including equity method)	3.2, 5.3	84	105
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash and cash balances with central banks and other demand deposits with credit institutions	See consolidated balance sheet	8 356	18 691
Term loans to banks at not more than three months (excluding reverse repos)	4.1	468	674
Reverse repos up to three months with credit institutions and investment firms	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	–	29 118	34 354
of which not available	–	0	0

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

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

- KBC uses the indirect method to report on cashflows from operating activities.
- Net cash from or used in operating activities:
  - In 2019, this item included the repayment of the amount borrowed under TLTRO II (6.5 billion euros), offset in part by 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 (-1.5 billion euros);
    - the issue and repayment of additional tier-1 (AT1) instruments (on balance, -0.9 billion euros; see Note 5.10);
    - the issue or repayment of promissory notes and other debt securities (KBC IFIMA, KBC Group NV, ČSOB (Czech Republic) and KBC Bank NV accounted for the bulk of the figure for 2019, which related primarily to 2.4 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, KBC Group NV and KBC Bank NV accounted for the bulk of the figure for 2019, which related primarily to 0.8 billion euros' worth of instruments issued and 0.8 billion euros in redemptions).
  - In 2018, this item included:
    - the dividend payout (-1.3 billion euros);
    - the issue of AT1 instruments (1 billion euros);
    - the purchase of treasury shares (-0.2 billion euros);
    - the issue or repayment of promissory notes and other debt securities (KBC IFIMA, KBC Group NV, ČSOB (Czech Republic) and KBC Bank NV accounted for the bulk of the figure for 2018, which related primarily to 2.3 billion euros' worth of instruments issued (including the issue of covered bonds for 0.8 billion euros and green bonds for 0.5 billion euros) and 1 billion euros in redemptions);
    - the proceeds from or repayment of subordinated liabilities (KBC IFIMA, KBC Group NV and KBC Bank NV accounted for the bulk of the figure for 2018, which related primarily to redemptions, including the call by KBC Bank of the 1-billion-US-dollar contingent capital note issued in January 2013).

1.0 Notes on the accounting policies

Note 1.1: Statement of compliance

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

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

- In January 2016, the IASB issued IFRS 16 (Leases), which became effective on 1 January 2019. The new standard does not significantly change the accounting treatment of leases for lessors and, therefore, its impact is limited for KBC (given that it is mainly a lessor and not a lessee). The impact of the first-time adoption of IFRS 16 was limited to an increase in the balance sheet of 334 million euros (see Note 5.4). The amendments to IAS 39 with regard to IBOR were applied in our hedge accounting, without having any impact, as most hedging derivatives are based on EURIBOR (see Note 4.8.2 for the positions in hedging derivatives).
- As part of the IBOR reform, the IASB made a number of amendments to IAS 39, which provide temporary relief from adopting specific hedge accounting requirements for hedging relationships directly affected by this reform. KBC elected to early apply these amendments. For more information regarding the IBOR reform, see 'Market risk in non-trading activities' in the 'How do we manage our risks?' section.

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

- IFRS 17: in May 2017, the IASB issued IFRS 17 (Insurance Contracts), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 (Insurance Contracts) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts. IFRS 17 will become effective for reporting periods beginning on or after 1 January 2023 (subject to EU endorsement), with comparative figures being required. KBC launched a group-wide project in 2018 to implement IFRS 17. The project is structured around sub-projects dealing with data delivery, local reporting, the impact on the business model and strategic consequences, guidance and support, consolidated reporting and the IFRS 17 calculation tool. It is being jointly run by the insurance business side and the Finance function, and involves all the departments and entities at group and local level that are affected (including actuaries, Finance specialists, IT staff and process managers). The focus over the past year has been on arriving at a clear interpretation of the standard for KBC and the implementation of an IFRS-17-compliant process for closing the accounts. Where necessary, the interpretation of IFRS 17 will be gradually adjusted when new information becomes available from external sources (the IASB or the market) or in-house sources (further detailed analyses). As far as the accounting treatment is concerned, considerable efforts over the past year have continued to be put into developing an IFRS·17 calculation tool, setting up data flows to fuel that tool and examining the impact of IFRS·17 on the accounting process. These activities are progressing according to plan.
- Other: the IASB has published several limited amendments to existing IFRSs and IFRICs. They will be applied when they become mandatory, but their impact is currently estimated to be negligible.

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.

As a bank-insurance group, KBC presents banking and insurance information in its financial statements on an integrated basis. Information relating specifically to our banking business and to our insurance business is provided separately in the respective annual reports of KBC Bank and KBC Insurance, which are available under 'Information on KBC Bank' and 'Information on KBC Insurance' at www.kbc.com/en/investor-relations.

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 profit or loss – overlay approach (FVPL – overlay);
- measured at fair value through other comprehensive income (FVOCI);
- measured at amortised cost (AC).

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

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

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

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

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

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

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

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

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

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

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

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

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

Classification and measurement – equity instruments
Financial equity instruments are classified in one of the following categories:

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

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

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

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

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

- financial assets measured at AC and at FVOCI;
- loan commitments and financial guarantees;
- finance lease receivables;
- trade and other receivables.

No ECLs are calculated for investments in equity instruments.

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

To distinguish the various stages with regard to quantifying ECL, KBC uses the internationally accepted terminology for 'Stage 1', 'Stage 2' and 'Stage 3' financial assets.
Unless they are already credit impaired, all financial assets are classified in 'Stage 1' at the time of initial recognition and 12-month ECL is recognised. Once a significant increase in credit risk occurs after initial recognition, the asset is moved into 'Stage 2' and lifetime ECL is recognised. Once an asset meets the definition of default, it is moved into 'Stage 3'.
For trade receivables, IFRS 9 allows for a practical expedient. The ECL for trade receivables can be measured in an amount equal to their lifetime ECL. KBC applies this practical expedient to trade and other receivables.
Impairment gains and losses on financial assets are recognised under the 'Impairment' heading in the income statement.
Financial assets that are measured at AC are presented in the balance sheet at their net carrying value, which is the gross carrying value less impairment. Debt instruments measured at FVOCI are presented in the balance sheet at their carrying value, which is their fair value on the reporting date. The adjustment for the ECL is recognised as a reclassification adjustment between the income statement and OCI.

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

Multi-tier approach (MTA) – bond portfolio
For the bond portfolio, the MTA consists of three tiers:

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

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

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

Loan portfolio

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

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

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

Measurement of ECL

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

ECL is calculated to reflect:

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

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

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

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

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

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

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

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

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

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

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

Overlay approach

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

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

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

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

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

- Impairment of equity instruments: equity instruments held by KBC's insurance business were typically classified as 'available for sale' under IAS 39, whereas they are classified as FVPL under IFRS 9. Designation under the overlay approach requires the application of IAS 39 impairment rules to investments in equity instruments. In using the overlay approach, all fair value changes are recognised in the overlay reserve but, where the decline is significant compared to acquisition cost (more than 30%) or prolonged (more than one year), the fair value loss is recognised in the income statement. Any further decrease is also recognised directly in the income statement, whereas increases are recognised in the overlay reserve.
- Recognition of gains and losses in the income statement upon the disposal of equity instruments: by designating the equity instruments connected with KBC's insurance business under the overlay approach upon their sale, the accumulated overlay reserve in OCI is recycled to the income statement, ensuring the same results as under IAS 39.

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

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

Financial liabilities

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

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

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

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

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

Financial liabilities – classification and measurement

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

- Financial liabilities held for trading (HFT). Held-for-trading liabilities are those incurred principally for generating a profit from short-term fluctuations in price or dealer's margin. A liability also qualifies as a trading liability if it belongs to a portfolio of financial instruments held for trading separately by the trading desk and for which there is a recent pattern of short-term profit-taking. Held-for-trading liabilities can include derivatives, short positions in debt and equity instruments, time deposits and debt certificates. Derivative liabilities are split by KBC into trading and hedging derivatives as in the case of derivative assets. Initially, held-for-trading liabilities are measured at fair value. At the end of the reporting period, derivative liabilities are measured at fair value. Fair value adjustments are always recorded in the income statement.
- Financial liabilities designated by the entity as liabilities at fair value through profit or loss upon initial recognition (FVO). Under IFRS 9, a financial liability or group of financial liabilities can be measured upon initial recognition at fair value, whereby fair value changes are recognised in the income statement except for fair value changes related to changes in own credit risk, which are presented separately in OCI. The fair value designation is used by KBC for the following reasons:
  - managed on an FV basis: KBC designates a financial liability or a group of financial liabilities at fair value where it is managed and its performance is evaluated on a fair value basis. It is used to account for (unbundled) deposit components (i.e. financial liabilities that do not include a discretionary participation feature);
  - accounting mismatch: the fair value option can be used when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising gains and losses on them on different bases;
  - hybrid instruments: a financial instrument is regarded as hybrid when it contains one or more embedded derivatives that are not closely related to the host contract. The fair value option can be used when it is not possible to separate the non-closely-related embedded derivative from the host contract, in which case the entire hybrid instrument can be designated at fair value. This means that both the embedded derivative and the host contract are measured at fair value. KBC uses this option when structured products contain non-closely-related embedded derivatives, in which case both the host contract and the embedded derivative is measured at fair value.
- Financial liabilities measured at amortised cost (AC). KBC classifies most of its financial liabilities under this category, including those used to fund trading activities where no trading intent is present in them (e.g., issued bonds). These financial liabilities are initially measured at cost, which is the fair value of the consideration received including transaction costs. Subsequently, they are measured at amortised cost, which is the amount at which the funding liability was initially recognised minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount. The difference between the amount made available and the nominal value is recorded on an accruals basis as an interest expense. Interest expenses accrued but not yet paid are recorded under accruals and deferrals.

Financial liabilities – own credit risk

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

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

Financial liabilities – financial guarantee contract

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

Reverse repos and repos

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

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

Offsetting

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

Fair value

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

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

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

Hedge accounting

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

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

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

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

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

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

Insurance contracts

General

The accounting policies for IFRS 4 (Insurance Contracts) apply to insurance contracts (including reinsurance contracts) that KBC issues and reinsurance contracts that it holds. They also apply to financial instruments with a discretionary participation feature held by KBC.
A reinsurance contract is a type of insurance contract, given that all reinsurance contracts that transfer insurance risk are themselves insurance contracts.
Some contracts that are accounted for as insurance contracts under local GAAP will no longer be considered insurance contracts under IFRS. Contracts that do not expose KBC to any insurance risk (e.g., pure investment without additional (insurance) benefits/cover) are treated as financial instruments, which can exist with or without a discretionary participation feature.
Financial instruments without a discretionary participation feature and the deposit component of unit-linked insurance contracts will be recognised in accordance with deposit accounting principles, as they fall under the scope of IFRS 9.
Deposit accounting applies to the deposit component of unit-linked insurance contracts (the insurance component is treated as an insurance contract according to IFRS 4).

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

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

Unbundling is prohibited if the deposit component cannot be measured separately.
At KBC, insurance contracts other than unit-linked contracts are not unbundled into a deposit component and an insurance component. The insurance component of unit-linked contracts (see below), whether insurance contracts or investment contracts, is treated as an insurance contract. Unit-linked financial instruments without death benefits or a participation feature are classified as 'financial liabilities at fair value through profit or loss' (also referred to as *deposit accounting*) under IFRS 9 and are consequently measured at fair value.
A unit-linked financial instrument classified at fair value through profit or loss represents the liability towards the policyholder, whose consideration received (i.e. deposit) is invested in an investment fund. The latter is classified as a financial asset 'Mandatorily measured at fair value through profit or loss' (in the 'Investment contracts (insurance)' line in Note 4.1). The valuation of the financial assets relating to unit-linked contracts is mirrored in the adjustments to the related liabilities. Unit-linked contracts are policies whose value or return is determined based on investments or an index, and where the policyholder bears the risk.

Changes in fair value (assets and liabilities), including any component that relates to changes in foreign exchange rates, are recognised in the income statement under 'Net result from financial instrument at fair value through profit or loss'. The unit value is considered to be the fair value. Only the earned management fees and commissions are recognised using margin deposit accounting principles under 'Net fee and commission income' in the income statement.

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

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

When IFRS 4 was adopted, KBC decided to follow its then local GAAP practices and did not introduce any of the following:
- measurement of insurance liabilities on an undiscounted basis;
- non-uniform accounting policies for the insurance contracts of subsidiaries. If these accounting policies are not uniform, an insurer may change them if the change does not make them more divergent and provided the other requirements of IFRS 4 (Insurance Contracts) are met.

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

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

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

Technical provisions – insurance contracts

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

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

Provision for unearned premiums (Non-life)

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

Provision for unexpired risk (Non-life)

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

Life insurance provisions

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

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

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

Valuation according to the retrospective method is applied to the provisions for modern non-unit-linked universal life insurance and to the provision for non-statutory benefits for employees in respect of new supplementary premium payments.

The provision is calculated separately for every insurance contract.

Provision for claims outstanding

For claims reported, the provision is measured separately in each case, taking into account the known facts in the claims file, on the basis of the amounts still due to the injured parties or beneficiaries, plus external costs of settling claims. Where benefits have to be paid in the

form of an annuity, the amounts to be set aside for that purpose are calculated using recognised actuarial methods.
For 'claims incurred but not reported' at balance sheet date, an IBNR (Incurred But Not Reported) provision is set aside. In the primary business, this IBNR provision is based on a lump sum per class of insurance depending upon past experience and the trend in the insured portfolio. For extraordinary events, additional amounts are added to the IBNR provision.
For 'claims incurred but not enough reserved' at balance sheet date, an IBNER (Incurred But Not Enough Reserved) provision is set aside if the adequacy procedures demonstrate that the other claims provisions are insufficient to meet future liabilities. This provision contains amounts for claims which have already been reported but which, for technical reasons, could not yet be recorded in the claims file.
A provision for the internal cost of settling claims is calculated at a percentage that is based on past experience.
Additional provisions are also constituted as required by law (according to the Royal Decree of 17 November 1994 on the annual accounts of insurance undertakings), such as supplementary workmen's compensation provisions in Belgium.

Leasing

All leases are required to be classified as either finance leases or operating leases. The classification under IFRS 16 is based on the extent to which risk and rewards incidental to ownership of leased assets lie with the lessor or the lessee. A finance lease transfers substantially all the risks and rewards incidental to ownership of an asset.
This classification is crucial for positions as a lessor, but less important for positions as a lessee, since both classifications result in similar recognition and measurement of the lease on the balance sheet and in the income statement.

Equity

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

KBC classifies all issued financial instruments as equity or as a financial liability based on the substance of the contractual arrangements. The critical feature that distinguishes a financial liability from a share is whether KBC has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation.
Minority interests represent the equity in a subsidiary that is not attributable to the holders of KBC shares. When the proportion of the equity held by the minority interests changes, KBC adjusts the carrying value of the controlling and minority interests to reflect changes in their relative interests in the consolidated companies. KBC recognises in equity any difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or received, and allocates it to its controlling stake.

Employee benefits

Short-term employee benefits

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

Post-employment benefits

KBC offers its employees' pension schemes in the form of defined contribution or defined benefit plans. Under the defined contribution plans, KBC's statutory or constructive obligation is limited to the amount that it agrees to contribute to the fund. The amount of the post-employment benefit to be received by the employee is determined by the amount of the contributions paid by KBC and the employee him or herself into the post-employment benefit plan, as well as by the investment returns arising from those contributions. The actuarial risk is borne by the employee.
Conversely, under the defined benefit plans, KBC's obligation is to provide the agreed benefits to current and former employees and, in substance, the actuarial risk and investment risk fall on KBC. This means that if, from an actuarial or investment viewpoint, things turn out worse than expected, KBC's obligation may be increased.
In Belgium, defined contribution plans have a legally guaranteed minimum return and the actual return can be lower than the legally required return. In addition, these plans have defined benefit plan features and KBC treats them as defined benefit plans.
Liabilities under the defined benefit plans and the Belgian defined contribution plans (or pension liabilities) are included under 'Other liabilities' and relate to the obligations for retirement and survivor's pensions, early retirement benefits and similar pensions and annuities.
The pension obligations for employees under the defined benefit plans are calculated using the projected-unit-credit method, with each period of service granting additional entitlement to pension benefits.
Actuarial valuations are performed every reporting period. The defined benefit liabilities are discounted using rates equivalent to the yields on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have a maturity similar to the related pension liabilities.
Changes in the net defined benefit liability/asset, apart from cash movements, are grouped into three main categories and recognised in operating expenses (service costs), interest expenses (net interest costs) and other comprehensive income (remeasurements).

Net fee and commission income

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

Revenue is recognised only when KBC has satisfied the performance obligation.
The revenue presented under 'Securities and asset management' falls under the scope of IFRS 15 and, in principle, entails KBC keeping assets in a trust for the beneficiary ('fund') and being responsible for investing the amounts received from clients to their benefit. These transactions are straightforward, because KBC provides a series of distinct services which clients use at the same time when receiving the benefits. In return, KBC receives a monthly or quarterly management fee, which is calculated as a fixed percentage of the net asset value, or a subscription fee retained from the beneficiary. The fees do not include a variable component.
Revenue reported as 'Margin on life insurance investment contracts without DPF' represents the amount realised on investment contracts without a discretionary participation feature, i.e. a fixed percentage or fixed amount is withheld from the client's payments, enabling the insurance company to cover its expenses.
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.

Tangible fixed assets

Property and equipment are recognised initially at cost (including directly allocable acquisition costs). KBC subsequently measures property and equipment at the initial cost less accumulated depreciation and impairment. The rates of depreciation are determined on the basis of the estimated useful life of the assets and are applied according to the straight-line method from the moment the assets are available for use. Property and equipment are derecognised upon disposal or when the relevant asset is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses upon derecognition are recognised in the income statement in the period in which derecognition occurs.
Property and equipment are subject to impairment testing when there is an indication that the asset might have been impaired.
Depreciation charges, impairment losses and gains or losses on disposal are recognised under 'Operating expenses' in the income statement, with the exception of assets that are leased under operating leases (KBC as a lessor), for which the costs are recognised in 'Net other income'. Where a disposal falls within the definition of a discontinued

operation, the net results are reported in a single line in the income statement (see 'Discontinued operations' below).

Investment property

Investment property is defined as a property built, purchased or acquired by KBC under a finance lease and is held to earn rentals or for the purpose of capital appreciation rather than being used by KBC for the provision of services or for administrative purposes.
Investment property is initially recognised at cost (including directly attributable costs). KBC subsequently measures it at the initial cost less accumulated depreciation and impairment.
The depreciation charge is recognised under 'Net other income' in the income statement.

Intangible assets

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

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

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

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

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

- System software (initial purchased software forming an integral part with hardware) is amortised at the same rate as hardware.
- Standard software and customised software developed by a third party or developed in-house are amortised over five years according to the straight-line method from the time the software is available for use.
- Core systems (typically including deposit account processing, loan and credit processing, interfaces to the general ledger and reporting tools) are amortised over eight years according to the straight-line method.

Impairment of non-financial assets

When KBC prepares financial statements, it ensures that the carrying value of the non-financial asset does not exceed the amount that could be obtained from either using or selling it ('recoverable amount').
Property and equipment, investment property and software are subject to the impairment review only when there is objective evidence of impairment. Goodwill and intangible assets with an indefinite useful life are subject to impairment reviews at least annually and also reviewed for impairment indicators every quarter.
Indications that an impairment loss is required may stem from either an internal source (e.g., the condition of the asset) or an external source (e.g., new technology or a significant decline in the asset's market value).
When an impairment indicator is present, KBC reviews the asset's recoverable amount and the asset is impaired if its recoverable amount is lower than its carrying value at the reporting date. The recoverable amount is defined as the higher of the value in use and the fair value less cost to sell.
Value in use is defined as the discounted future cashflows expected to be derived from an asset or a cash-generating unit.
Impairment is borne at individual asset level, but when the individual asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, the recoverable amount is determined for the so-called 'cash-generating unit' (CGU) to which the asset or group of assets belongs. In forming the CGUs, KBC applies its own judgement to define the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. This process mainly applies to goodwill that has been recognised in relation to acquisitions.
Impairment losses are recognised in the income statement for the period in which they occur. An impairment loss can be reversed if the condition that triggered it is no longer present, except for goodwill, which can never be reversed. Impairment gains are recognised in the income statement for the period in which they occur.

Provisions, contingent liabilities and contingent assets

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

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

The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at balance sheet date.

When the effect of time is material, the amount recognised as a provision is the net present value of the best estimate.
Due to its inherent nature, a provision requires management judgement regarding the amount and timing of probable future economic outflows.

Consolidated financial statements / 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, KBC associates and joint ventures, KBC Ancora, Cera and MRBB;

- KBC key management staff (i.e. the Board of Directors and the Executive Committee of KBC Group NV).

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

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

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

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

Discontinued operations

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

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

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

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

Events after the reporting period

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

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

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

Exchange rates used*

	Exchange rate at 31-12-2019		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. Any funding cost in respect of leveraging at KBC Group NV level is also recognised under Group Centre.
- Transactions among the different segments are reported at arm's length.
- We recognise 'Net interest income' in the segment information without dividing it up into 'Interest income' and 'Interest expense'. This is permitted under IFRS because the bulk of the business units' income is in the form of interest, and management assesses and co-ordinates those business units primarily on the basis of net interest income.
- We do not provide any information on income from sales to external clients per group of products or services, since the information is prepared at consolidated level chiefly for each business unit, and not per client group or product group.

Note 2.2: Results by segment

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	*Of which:* *Hungary*	*Slovakia*	*Bulgaria*	*Ireland*	Group Centre	KBC group
INCOME STATEMENT FOR 2019									
Net interest income	2 516	1 277	863	*254*	*204*	*141*	*263*	-38	4 618
Non-life insurance (before reinsurance)	494	115	136	*48*	*28*	*60*	*0*	10	756
Earned premiums	*1 115*	*281*	*315*	*145*	*47*	*122*	*0*	*10*	*1 721*
Technical charges	*-621*	*-166*	*-179*	*-97*	*-19*	*-62*	*0*	*0*	*-966*
Life insurance (before reinsurance)	-95	54	36	*8*	*12*	*16*	*0*	0	-6
Earned premiums	*1 000*	*228*	*95*	*17*	*43*	*36*	*0*	*0*	*1 323*
Technical charges	*-1 095*	*-174*	*-60*	*-9*	*-30*	*-21*	*0*	*0*	*-1 329*
Ceded reinsurance result	-2	-5	-8	*-2*	*-2*	*-5*	*0*	-9	-25
Dividend income	78	1	0	*0*	*0*	*0*	*0*	3	82
Net result from financial instruments at fair value through profit or loss	177	-85	48	*33*	*4*	*15*	*-4*	41	181
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	1 182	254	301	*215*	*65*	*24*	*-2*	-3	1 734
Other net income	187	102	-11	*2*	*9*	*1*	*-23*	3	282
TOTAL INCOME	4 542	1 714	1 367	*558*	*322*	*252*	*235*	6	7 629
Operating expenses[a]	-2 485	-770	-932	*-353*	*-211*	*-139*	*-229*	-116	-4 303
Impairment	-244	-17	12	*-1*	*-11*	*-9*	*33*	32	-217
on financial assets at amortised cost and at fair value through OCI	*-241*	*-12*	*18*	*1*	*-11*	*-5*	*33*	*32*	*-203*
on goodwill	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
other	*-4*	*-4*	*-6*	*-2*	*0*	*-4*	*0*	*0*	*-14*
Share in results of associated companies and joint ventures	-6	8	5	*0*	*0*	*0*	*0*	0	7
RESULT BEFORE TAX	1 807	935	452	*204*	*100*	*104*	*39*	-78	3 116
Income tax expense	-463	-146	-73	*-31*	*-21*	*-11*	*-10*	55	-627
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	1 344	789	379	*173*	*79*	*93*	*29*	-23	2 489
attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	0	0
attributable to equity holders of the parent	**1 344**	**789**	**379**	***173***	***79***	***93***	***29***	**-23**	**2 489**
a Of which non-cash expenses	-52	-89	-95	*-38*	*-17*	*-15*	*-26*	-112	-348
Depreciation and amortisation of fixed assets	-53	-91	-95	*-37*	*-17*	*-15*	*-26*	-113	-351
Other	0	2	-1	*-1*	*0*	*0*	*0*	1	3
Acquisitions of non-current assets*	560	178	308	*80*	*70*	*104*	*53*	183	1 228

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

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	*Of which:* *Hungary*	*Slovakia*	*Bulgaria*	*Ireland*	Group Centre	KBC group
INCOME STATEMENT FOR 2018									
Net interest income	2 576	1 043	896	*243*	*211*	*151*	*291*	29	4 543
Non-life insurance (before reinsurance)	527	103	117	*42*	*25*	*50*	*0*	12	760
Earned premiums	*1 070*	*248*	*254*	*109*	*41*	*104*	*0*	*10*	*1 582*
Technical charges	*-543*	*-145*	*-137*	*-67*	*-16*	*-54*	*0*	*2*	*-822*
Life insurance (before reinsurance)	-110	58	34	*10*	*13*	*12*	*0*	-1	-18
Earned premiums	*998*	*260*	*101*	*17*	*53*	*32*	*0*	*0*	*1 359*
Technical charges	*-1 108*	*-202*	*-67*	*-6*	*-40*	*-20*	*0*	*0*	*-1 377*
Ceded reinsurance result	-26	-8	-11	*-3*	*-2*	*-6*	*0*	4	-41
Dividend income	74	1	0	*0*	*0*	*0*	*0*	7	82
Net result from financial instruments at fair value through profit or loss	101	72	74	*60*	*6*	*13*	*-5*	-17	231
Net realised result from debt instruments at fair value through OCI	0	0	0	*-1*	*0*	*1*	*0*	9	9
Net fee and commission income	1 182	257	284	*197*	*59*	*29*	*-1*	-3	1 719
Other net income	225	14	17	*15*	*4*	*-1*	*-1*	-30	226
TOTAL INCOME	4 549	1 540	1 412	*565*	*316*	*248*	*284*	11	7 512
Operating expenses[a]	-2 484	-729	-909	*-345*	*-205*	*-143*	*-216*	-112	-4 234
Impairment	-93	-42	118	*9*	*-4*	*1*	*111*	35	17
on financial assets at amortised cost and at fair value through OCI	*-91*	*-8*	*127*	*9*	*-4*	*10*	*112*	*35*	*62*
on goodwill	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
other	*-2*	*-34*	*-9*	*-1*	*0*	*-9*	*0*	*0*	*-45*
Share in results of associated companies and joint ventures	-8	19	5	*0*	*0*	*1*	*0*	0	16
RESULT BEFORE TAX	1 963	788	626	*228*	*107*	*107*	*180*	-67	3 310
Income tax expense	-513	-134	-93	*-32*	*-25*	*-11*	*-24*	0	-740
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	1 450	654	533	*196*	*82*	*96*	*155*	-67	2 570
attributable to minority interests	0	0	0	*0*	*0*	*0*	*0*	0	0
attributable to equity holders of the parent	**1 450**	**654**	**533**	***196***	***82***	***96***	***155***	**-67**	**2 570**
a Of which non-cash expenses	-59	-62	-68	*-30*	*-14*	*-7*	*-17*	-90	-278
Depreciation and amortisation of fixed assets	-52	-59	-70	*-30*	*-14*	*-9*	*-17*	-98	-280
Other	-7	-3	2	*0*	*0*	*2*	*0*	8	1
Acquisitions of non-current assets*	497	127	201	*50*	*48*	*75*	*28*	176	1 001

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

Note 2.3: Balance-sheet information by segment

The table below presents some of the main on-balance-sheet products by segment.

(in millions of EUR)	Belgium Business Unit	Czech Republic Business Unit	International Markets Business Unit	Of which: Hungary	Slovakia	Bulgaria	Ireland	Group Centre	KBC group
BALANCE SHEET AT 31-12-2019									
Deposits from customers and debt securities (excluding repos)	130 771	39 559	24 041	*7 953*	*6 480*	*4 439*	*5 169*	8 999	203 369
Demand deposits	*50 251*	*21 811*	*13 564*	*6 268*	*3 763*	*2 526*	*1 007*	*0*	*85 626*
Savings accounts	*51 685*	*12 673*	*4 699*	*875*	*1 353*	*754*	*1 718*	*0*	*69 057*
Time deposits	*8 376*	*1 878*	*5 240*	*636*	*1 000*	*1 159*	*2 445*	*0*	*15 494*
Debt securities	*18 149*	*2 711*	*326*	*174*	*153*	*0*	*0*	*8 999*	*30 185*
Other	*2 310*	*485*	*212*	*0*	*212*	*0*	*0*	*0*	*3 007*
Loans and advances to customers (excluding reverse repos)	100 909	29 857	25 050	*4 623*	*7 506*	*3 161*	*9 760*	1	155 816
Term loans	*54 220*	*9 068*	*5 589*	*2 033*	*2 355*	*1 160*	*41*	*0*	*68 877*
Mortgage loans	*36 445*	*15 768*	*15 584*	*1 596*	*3 641*	*693*	*9 654*	*0*	*67 796*
Other	*10 244*	*5 021*	*3 877*	*994*	*1 509*	*1 308*	*65*	*1*	*19 142*
BALANCE SHEET AT 31-12-2018									
Deposits from customers and debt securities (excluding repos)	131 442	32 394	22 897	*7 503*	*6 348*	*4 116*	*4 930*	7 558	194 291
Demand deposits	*46 908*	*20 825*	*12 160*	*5 746*	*3 456*	*2 217*	*742*	*0*	*79 893*
Savings accounts	*47 789*	*7 536*	*4 743*	*944*	*1 293*	*810*	*1 696*	*0*	*60 067*
Time deposits	*10 048*	*1 355*	*5 440*	*633*	*1 226*	*1 089*	*2 492*	*0*	*16 844*
Debt securities	*24 584*	*2 177*	*328*	*179*	*149*	*0*	*0*	*7 558*	*34 648*
Other	*2 113*	*502*	*224*	*0*	*224*	*0*	*0*	*0*	*2 839*
Loans and advances to customers (excluding reverse repos)	99 650	23 387	24 015	*4 373*	*7 107*	*2 806*	*9 729*	0	147 052
Term loans	*51 766*	*8 304*	*5 675*	*1 969*	*2 314*	*1 039*	*353*	*0*	*65 744*
Mortgage loans	*35 049*	*11 317*	*14 471*	*1 260*	*3 248*	*642*	*9 320*	*0*	*60 837*
Other	*12 835*	*3 766*	*3 870*	*1 144*	*1 545*	*1 125*	*55*	*0*	*20 471*

3.0 Notes to the income statement

Note 3.1: Net interest income

(in millions of EUR)	2019	2018
Total	**4 618**	**4 543**
Interest income	**7 244**	**6 996**
Interest income on financial instruments calculated using the effective interest rate method		
Financial assets at AC	5 536	5 274
Financial assets at fair value through OCI	333	380
Hedging derivatives	486	379
Financial liabilities (negative interest rates)	51	53
Other	15	20
Interest income on other financial instruments		
Financial assets MFVPL other than held for trading	8	8
Financial assets held for trading	816	883
Of which economic hedges	*789*	*856*
Other financial assets at fair value through profit or loss	0	0
Interest expense	-2 626	-2 453
Interest expense on financial instruments calculated using the effective interest rate method		
Financial liabilities at amortised cost	-1 276	-1 166
Hedging derivatives	-663	-584
Financial assets (negative interest rate)	-70	-123
Other	-6	-3
Interest expense on other financial instruments		
Financial liabilities held for trading	-563	-543
Of which economic hedges	*-525*	*-516*
Other financial liabilities at fair value through profit or loss	-40	-29
Net interest expense relating to defined benefit plans	-8	-6

- The figures for 2018 have been adjusted compared to the previous annual report due to the reclassification of 44 million euros from 'Financial assets at fair value through OCI' to 'Financial assets at AC', which was related to the presentation of internal bond lending.
- 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	**82**	**82**
Equity instruments MFVPL other than held for trading	43	52
Equity instruments held for trading	26	17
Equity instruments at FVOCI	13	13

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

(in millions of EUR)	2019	2018
Total	**181**	**231**
Financial instruments MFVPL other than held for trading and overlay	862	-589
Trading instruments (including interest on non-ALM trading derivatives and fair value changes in all trading instruments)	34	183
Financial instruments to which the overlay approach is applied	93	51
Gains or losses on sale	*117*	*110*
Impairment	*-24*	*-58*
Other financial instruments at FVPL	-894	635
Foreign exchange trading	136	46
Fair value adjustments in hedge accounting	-50	-96
Hedge accounting broken down by type of hedge		
Fair value micro hedges	-6	-14
Changes in the fair value of the hedged items	*0*	*-128*
Changes in the fair value of the hedging derivatives	*-5*	*114*
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.
- Financial instruments to which the overlay approach is applied: see the comments under the consolidated income statement.
- Foreign exchange trading includes all realised and unrealised foreign exchange results (when the monetary assets and liabilities are revalued), regardless of the IFRS portfolio, except for financial assets and liabilities measured through profit or loss, for which the revaluation is included in the fair value correction. Note that (unrealised) foreign exchange gains/losses on claims provisions (insurance) and on the financial instruments hedging the claims provisions are included under 'Technical charges'. (Unrealised) foreign exchange gains/losses on the reinsurers' share of claims provisions and on the financial instruments hedging such provisions are included under 'Ceded reinsurance result'.
- Under IFRS 9, investment contracts (insurance) are reclassified to 'Financial instruments mandatorily measured at fair value through profit or loss' in accordance with their 'managed on a FV basis' business model, whereas liabilities under investment contracts continue to be recognised under 'Financial instruments at fair value through profit or loss'. This resulted in amounts being offset against each other in 'Financial instruments MFVPL other than held for trading and overlay' and 'Financial instruments at fair value through profit or loss' in the above table (+832 million euros and -832 million

euros, respectively, in 2019 and -580 million euros and +580 million euros, respectively, in 2018). The offsetting movement in opposite directions in 2019 compared to 2018 was accounted for by the healthy stock market climate in 2019, whereas 2018 had been a year in which share prices had fallen.

- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, we use the dollar offset method on a quarterly basis, with changes in the fair value of the hedged item offsetting changes in the fair value of the hedging instrument within a range of 80%–125%.
  - For cashflow hedges, we compare the designated hedging instrument with a perfect hedge of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the perfect hedge). The effectiveness of both tests must fall within a range of 80%–125%.
  - We use the rules set out in the European version of IAS 39 (carve-out) to assess the effectiveness of fair value hedges for a portfolio of interest rate risk. IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, we make sure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- Most significant fluctuations between 2018 and 2019: the result from financial instruments measured at fair value through profit or loss in 2019 was 49 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), partly offset by the higher result from equity instruments at the insurance company 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	**1 734**	**1 719**
Fee and commission income	2 476	2 456
Fee and commission expense	-741	-737
Breakdown by type		
Asset management services	1 088	1 110
Fee and commission income	*1 145*	*1 168*
Fee and commission expense	*-57*	*-58*
Banking services	930	883
Fee and commission income	*1 266*	*1 226*
Fee and commission expense	*-336*	*-343*
Distribution	-284	-274
Fee and commission income	*64*	*62*
Fee and commission expense	*-348*	*-336*

- 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	**282**	**226**
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
Other, including:	259	212
Income from (mainly operational) leasing activities, KBC Lease Group	*72*	*69*
Income from VAB Group	*41*	*57*
Settlement of legal cases	*9*	*18*
Provisioning for tracker mortgage review	*-23*	*0*
Revaluation of existing shareholding in ČMSS	*82*	*–*

- 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 (-38 million euros and 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

- As a bank-insurer, KBC presents its financial information on an integrated basis (i.e. banking and insurance activities combined). More information on the banking and insurance businesses is provided separately in the respective annual reports of KBC Bank and KBC Insurance. This note provides information on the insurance results alone.
- The figures include intragroup transactions between bank and insurance entities (the results for insurance contracts concluded between the group's bank and insurance entities, interest that insurance companies receive on their deposits with bank entities, commissions that insurance entities pay to bank branches for sales of insurance, etc.) in order to give a more accurate view of the profitability of the insurance business. A reconciliation of the earned premiums stated in the consolidated income statement and in Note 3.7.1 is presented in the table below the overview.
- Of the items stated in Note 3.7.1, only 'Earned premiums, insurance (before reinsurance)', 'Technical charges, insurance (before reinsurance)' and 'Ceded reinsurance result' are presented on separate lines in the group's income statement (with a minor adjustment, as shown in the smaller table below the main table). As part of our integrated bank-insurance concept, all the other lines in the insurance schedule below – together with the group's banking activities – are included in the group's income statement and related notes.
- Additional information on the insurance business is provided separately in Note 3.7, Note 5.6 and Note 6.5 (KBC Insurance section), in the 'How do we manage our risks?' section ('Credit risk exposure in the insurance activities', 'Interest rate risk', 'Equity risk' and 'Real estate risk', 'Technical insurance risk') and in the 'How do we manage our capital?' section ('Solvency of KBC Bank and KBC Insurance separately').

Note 3.7.1: Overview

(in millions of EUR)	Life	Non-life	Non-technical account	Total
2019				
Earned premiums, insurance (before reinsurance)	1 324	1 741	0	3 065
Technical charges, insurance (before reinsurance)	-1 329	-967	0	-2 296
Net fee and commission income	-31	-332	0	-363
Ceded reinsurance result	-3	-22	0	-25
General administrative expenses	-145	-253	-3	-400
Internal claims settlement expenses	*-8*	*-62*	*0*	*-70*
Indirect acquisition costs	*-35*	*-76*	*0*	*-110*
Administrative expenses	*-102*	*-116*	*0*	*-218*
Investment management fees	*0*	*0*	*-3*	*-3*
Technical result	-183	167	-3	-19
Investment income*	492	87	25	604
Technical-financial result	309	254	22	585
Share in results of associated companies and joint ventures	–	–	4	4
RESULT BEFORE TAX	**309**	**254**	**26**	**589**
Income tax expense	–	–	–	-127
RESULT AFTER TAX	**–**	**–**	**–**	**462**
attributable to minority interests	–	–	–	0
attributable to equity holders of the parent	**–**	**–**	**–**	**462**
2018				
Earned premiums, insurance (before reinsurance)	1 361	1 601	0	2 962
Technical charges, insurance (before reinsurance)	-1 377	-824	0	-2 201
Net fee and commission income	-29	-311	0	-339
Ceded reinsurance result	-2	-39	0	-41
General administrative expenses	-150	-251	-3	-404
Internal claims settlement expenses	*-9*	*-59*	*0*	*-67*
Indirect acquisition costs	*-31*	*-70*	*0*	*-100*
Administrative expenses	*-111*	*-123*	*0*	*-234*
Investment management fees	*0*	*0*	*-3*	*-3*
Technical result	-196	176	-3	-23
Investment income*	506	79	39	625
Technical-financial result	310	255	36	601
Share in results of associated companies and joint ventures	–	–	4	4
RESULT BEFORE TAX	**310**	**255**	**40**	**605**
Income tax expense	–	–	–	-146
RESULT AFTER TAX	**–**	**–**	**–**	**459**
attributable to minority interests	–	–	–	0
attributable to equity holders of the parent	**–**	**–**	**–**	**459**

* Investment income (in millions of EUR, for 2019 and 2018, respectively) comprises: 'Net interest income' (460, 507), 'Net dividend income' (47, 53), 'Net result from financial instruments at fair value through profit or loss' (103, 64), 'Net realised result from debt instruments at fair value through OCI' (0, 1), 'Other net income' (-3, 1) and 'Impairment' (-3, -2). The 'Non-technical account' also includes the results from non-insurance subsidiaries, such as VAB group and ADD, and a number of real estate companies. They have been included in the note for the 'insurance business' given that they are KBC Insurance subsidiaries (but as they cannot be recognised under 'Life' or 'Non-life', they are included under 'Non-technical account'). The 'Non-technical account' also includes the investment income from equity (i.e. mainly interest income from bonds).

- The figures relating to earned premiums do not include investment contracts without DPF, which largely correspond to unit-linked contracts. The margin on these products is recognised under 'Net fee and commission income'.
- 'Non-life technical charges' consist mainly of paid claims, changes in claims provisions, changes in the deficiency provision, recourse received, changes in recourse estimations and other technical charges. 'Life technical charges' consist primarily of paid claims, changes in claims provisions, changes in the life insurance provision, changes in the provision for (non-unbundled) unit-linked products, bonuses (profit-sharing), changes in the deficiency provision and other technical charges.
- An overview of the insurer's investment portfolio can be found in the 'How do we manage our risks?' section (in the 'Investment portfolio of KBC group insurance entities' table, which constitutes part of the financial statements).
- In the vast majority of cases, internal acquisition costs are recognised immediately in the income statement (i.e. not spread).
- In 2019, the non-life technical result was negatively impacted by factors including the storms in Belgium and the Czech Republic (roughly 48 million euros before tax and the impact of reinsurance), major fire damage in Belgium (around 46 million euros before tax and the impact of reinsurance), and the reassessment of claims provisions in the second quarter of 2019 (16 million euros before tax).

Reconciliation of the earned premiums stated in the consolidated income statement and in Note 3.7.1

(in millions of EUR)	2019	2018
Non-life insurance (before reinsurance) – Earned premiums		
In the consolidated income statement	1 721	1 582
Addition of premiums from intragroup transactions between bank and insurer	20	19
In Note 3.7.1	1 741	1 601
Life insurance (before reinsurance) – Earned premiums		
In the consolidated income statement	1 323	1 359
Addition of premiums from intragroup transactions between bank and insurer	0	2
In Note 3.7.1	1 324	1 361

Note 3.7.2: Life insurance

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

- As required under IFRS, we use deposit accounting for a number of investment contracts without DPF. This means that the premium income and technical charges from these contracts are not recognised under 'Earned premiums' and 'Technical charges', but that the margins on them are reported under 'Net fee and commission income'. Investment contracts without DPF are more or less the same as unit-linked contracts, which in 2018 accounted for premium income of 0.7 billion euros and in 2019 for premium income of 0.7 billion euros. Premium income generated by investment contracts without DPF (under deposit accounting) is included in 'Total sales of life insurance', as presented in the lower part of the table. These sale volumes, therefore, comprise earned insurance premiums plus premiums from contracts that are subject to deposit accounting.

Note 3.7.3: Non-life insurance

(in millions of EUR)	Earned premiums (before reinsurance)	Technical insurance charges (before reinsurance)	Operating expenses (before reinsurance)	Ceded reinsurance	Total
2019					
Total	**1 741**	**-967**	**-587**	**-22**	**165**
Accepted reinsurance	14	-11	-12	-17	-26
Primary business	1 727	-956	-575	-5	191
Accident & health (classes 1 & 2, excl. industrial accidents)	118	-56	-40	0	22
Industrial accidents (class 1)	81	-82	-17	0	-18
Motor, third-party liability (class 10)	497	-310	-142	0	45
Motor, other classes (classes 3 & 7)	280	-182	-95	1	5
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	5	-2	-2	0	1
Fire and other damage to property (classes 8 & 9)	507	-228	-191	1	89
General third-party liability (class 13)	128	-50	-43	-6	29
Credit and suretyship (classes 14 & 15)	0	0	0	0	0
Miscellaneous pecuniary losses (class 16)	21	-11	-8	-1	1
Legal assistance (class 17)	58	-22	-22	0	14
Assistance (class 18)	33	-13	-17	0	4
2018					
Total	**1 601**	**-824**	**-562**	**-39**	**176**
Accepted reinsurance	40	-8	-15	-11	6
Primary business	1 561	-816	-547	-29	170
Accident & health (classes 1 & 2, excl. industrial accidents)	115	-56	-40	0	18
Industrial accidents (class 1)	79	-53	-18	-1	6
Motor, third-party liability (class 10)	436	-262	-138	-6	29
Motor, other classes (classes 3 & 7)	253	-146	-87	-1	19
Shipping, aviation, transport (classes 4, 5, 6, 7, 11 & 12)	4	-2	-2	0	-1
Fire and other damage to property (classes 8 & 9)	459	-187	-178	-17	77
General third-party liability (class 13)	113	-64	-41	-2	6
Credit and suretyship (classes 14 & 15)	0	0	0	0	0
Miscellaneous pecuniary losses (class 16)	18	-10	-8	0	0
Legal assistance (class 17)	55	-22	-21	0	12
Assistance (class 18)	30	-12	-15	0	4

Note 3.8: Operating expenses

(in millions of EUR)	2019	2018
Total	**-4 303**	**-4 234**
Staff expenses	-2 357	-2 343
General administrative expenses	-1 595	-1 612
of which bank taxes	*-491*	*-462*
Depreciation and amortisation of fixed assets	-351	-280

- 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 462 million euros in 2018 and 491 million euros in 2019). The latter figure comprises 277 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 32 million euros in Ireland.
- Share-based employee benefits are included under 'Staff expenses': since 2000, KBC has launched various stock option plans for its employees. However, there were no longer any outstanding options at year-end 2018 and 2019.
- Information on the capital increase reserved for KBC group employees can be found in the 'Company annual accounts and additional information' section. In 2019, this resulted in the recognition of a limited employee benefit (3 million euros) as the issue price was lower than the market price. Information regarding the (highest, lowest, average) price of the KBC share can be found in the 'Report of the Board of Directors' section.

Note 3.9: Personnel

(number)	2019	2018
Total average number of persons employed (in full-time equivalents)	**37 629**	**38 064**
By legal entity		
KBC Bank	29 530	29 937
KBC Insurance	3 996	4 202
KBC Group NV (holding company)	4 103	3 925
By employee classification		
Blue-collar staff	363	355
White-collar staff	37 009	37 434
Senior management	257	275

- 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 faster decision-making process, so that client solutions can be delivered faster and our employees become more involved. This optimisation exercise has implications for some of our employees. In Belgium, the changes will be implemented from September 2019 until the end of 2022 and will reduce the workforce by around 1 400 employees during that period (including 300 positions that will be transferred to KBC's own 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. 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 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	**-217**	**17**
Impairment on financial assets at AC and at FVOCI*	**-203**	**62**
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*	*-21*
Stage 2 (lifetime ECL)	*48*	*37*
Stage 3 (lifetime ECL)	*-237*	*56*
Purchased or originated credit impaired assets	*6*	*-13*
Of which impairment on financial assets at FVOCI	**1**	**3**
Debt securities	1	3
Stage 1 (12-month ECL)	*0*	*2*
Stage 2 (lifetime ECL)	*1*	*1*
Stage 3 (lifetime ECL)	*0*	*0*
Impairment on goodwill	**0**	**0**
Impairment on other	**-14**	**-45**
Intangible fixed assets (other than goodwill)	-6	0
Property and equipment (including investment property)	-3	-45
Associated companies and joint ventures	0	0
Other	-5	0

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

- 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, +91 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, -35 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 year-end 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 rate			
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% (0% and 0.3% in 2018) 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% (0.2%–2.6% in 2018).

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

(in millions of EUR)	2019	2018
Total	7	16
Of which		
ČMSS	9	19
Isabel NV	1	3
Joyn International NV	-2	-6
Bancontact Payconiq Company NV	-1	0
Payconiq International SA	-4	-7
NLB Vita*	4	4

* Sale agreement signed (see Note 6.6).

- 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 does not therefore take this impairment into account.

Note 3.12: Income tax expense

(in millions of EUR)	2019	2018
Total	**-627**	**-740**
By type		
Current taxes on income	-498	-554
Deferred taxes on income	-129	-186
Tax components		
Result before tax	3 116	3 310
Income tax at the Belgian statutory rate	29.58%	29.58%
Income tax calculated	-922	-979
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	*221*	*226*
tax-free income	*103*	*101*
adjustments related to prior years	*-1*	*10*
adjustments to deferred taxes due to change in tax rate	*-1*	*-22*
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 (including non-deductible expenses)	*-27*	*-92*

- For information on tax assets and tax liabilities, see Note 5.2.
- 'Income tax expense' in 2019 includes the positive impact of 34 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.
- Country-by-country reporting (according to the Royal Decree of 27 November 2014 amending the royal decrees concerning the financial statements and consolidated financial statements of credit institutions, investment firms and management companies of undertakings for collective investment) is provided at the consolidated level of KBC Bank and is dealt with in Note 3.12 of the KBC Bank Annual Report (available at www.kbc.com).
- 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.

Note 3.13: Earnings per share

(in millions of EUR)	2019	2018
Result after tax, attributable to equity holders of the parent	2 489	2 570
Coupon on AT1 instruments	-56	-76
Net result used to determine basic earnings per share	2 433	2 494
Weighted average number of ordinary shares outstanding (millions of units)	416	417
Basic earnings per share (EUR)	5.85	5.98

- Diluted earnings per share are currently almost the same as basic earnings per share.

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

(in millions of EUR)	Measured at amortised cost (AC)	Measured at fair value through other comprehensive income (FVOCI)	Mandatorily measured at fair value through profit or loss (MFVPL) excl. HFT and overlay	Measured at fair value – overlay approach (overlay)	Held for trading (HFT)	Designated at fair value[1] (FVO)	Hedging derivatives	Total	Pro forma: Total excluding ČMSS
FINANCIAL ASSETS, 31-12-2019									
Loans and advances to credit institutions and investment firms (excl. reverse repos)[a]	5 398	0	0	0	1	0	0	5 399	5 399
Loans and advances to customers (excl. reverse repos)	155 598	0	218	0	0	0	0	155 816	151 171
Trade receivables	*1 885*	*0*	*0*	*0*	*0*	*0*	*0*	*1 885*	*1 885*
Consumer credit	*5 383*	*0*	*122*	*0*	*0*	*0*	*0*	*5 505*	*4 537*
Mortgage loans	*67 711*	*0*	*85*	*0*	*0*	*0*	*0*	*67 796*	*64 141*
Term loans	*68 867*	*0*	*10*	*0*	*0*	*0*	*0*	*68 877*	*68 856*
Finance lease	*5 926*	*0*	*0*	*0*	*0*	*0*	*0*	*5 926*	*5 926*
Current account advances	*4 979*	*0*	*0*	*0*	*0*	*0*	*0*	*4 979*	*4 979*
Other	*847*	*0*	*0*	*0*	*0*	*0*	*0*	*847*	*847*
Reverse repos[2]	25 596	0	0	0	0	0	0	25 596	24 940
with credit institutions and investment firms	*25 445*	*0*	*0*	*0*	*0*	*0*	*0*	*25 445*	*24 789*
with customers	*151*	*0*	*0*	*0*	*0*	*0*	*0*	*151*	*151*
Equity instruments	0	249	7	1 431	833	0	0	2 519	2 519
Investment contracts (insurance)[6]	0	0	14 584	0	0	0	0	14 584	14 584
Debt securities issued by	42 998	18 788	58	0	1 269	0	0	63 114	62 849
Public bodies	*37 024*	*12 370*	*0*	*0*	*1 149*	*0*	*0*	*50 542*	*50 278*
Credit institutions and investment firms	*3 632*	*2 753*	*0*	*0*	*20*	*0*	*0*	*6 405*	*6 405*
Corporates	*2 343*	*3 666*	*58*	*0*	*99*	*0*	*0*	*6 167*	*6 167*
Derivatives	0	0	0	0	5 163	0	158	5 322	5 322
Other[3]	1 049	0	0	0	0	0	0	1 049	1 049
Total	230 639	19 037	14 867	1 431	7 266	0	158	273 399	267 833
a of which loans and advances to banks repayable on demand and term loans to banks at not more than three months								*468*	
FINANCIAL ASSETS, 31-12-2018									
Loans and advances to credit institutions and investment firms (excl. reverse repos)[a]	5 069	0	0	0	0	0	0	5 070	–
Loans and advances to customers (excl. reverse repos)	146 954	0	85	0	0	13	0	147 052	–
Trade receivables	*4 197*	*0*	*0*	*0*	*0*	*0*	*0*	*4 197*	–
Consumer credit	*4 520*	*0*	*0*	*0*	*0*	*0*	*0*	*4 520*	–
Mortgage loans	*60 766*	*0*	*71*	*0*	*0*	*0*	*0*	*60 837*	–
Term loans	*65 717*	*0*	*14*	*0*	*0*	*13*	*0*	*65 744*	–
Finance lease	*5 618*	*0*	*0*	*0*	*0*	*0*	*0*	*5 618*	–
Current account advances	*5 527*	*0*	*0*	*0*	*0*	*0*	*0*	*5 527*	–
Other	*609*	*0*	*0*	*0*	*0*	*0*	*0*	*609*	–
Reverse repos[2]	21 133	0	0	0	0	0	0	21 134	–
with credit institutions and investment firms	*20 976*	*0*	*0*	*0*	*0*	*0*	*0*	*20 977*	–
with customers	*157*	*0*	*0*	*0*	*0*	*0*	*0*	*157*	–
Equity instruments	0	258	11	1 238	763	0	0	2 271	–
Investment contracts (insurance)[6]	0	0	13 837	0	0	0	0	13 837	–
Debt securities issued by	41 649	18 020	54	0	714	0	0	60 437	–
Public bodies	*35 710*	*12 025*	*0*	*0*	*557*	*0*	*0*	*48 292*	–
Credit institutions and investment firms	*3 032*	*2 579*	*0*	*0*	*76*	*0*	*0*	*5 687*	–
Corporates	*2 907*	*3 417*	*54*	*0*	*81*	*0*	*0*	*6 458*	–
Derivatives	0	0	0	0	4 942	0	183	5 124	–
Other[3]	1 986	0	0	0	6	0	0	1 992	–
Total	216 792	18 279	13 986	1 238	6 426	13	183	256 916	–
a of which loans and advances to banks repayable on demand and term loans to banks at not more than three months								*674*	–

(in millions of EUR)	Measured at amortised cost (AC)	Held for trading (HFT)	Designated at fair value (FVO)	Hedging derivatives	Total	Pro forma: Total excluding ČMSS
FINANCIAL LIABILITIES, 31-12-2019						
Deposits from credit institutions and investment firms (excl. repos)[a]	18 731	0	0	0	18 731	18 731
Deposits from customers and debt securities (excl. repos)	200 607	223	2 539	0	203 369	197 930
Demand deposits	*85 626*	*0*	*0*	*0*	*85 626*	*85 626*
Time deposits	*15 271*	*39*	*184*	*0*	*15 494*	*15 494*
Savings accounts	*69 057*	*0*	*0*	*0*	*69 057*	*63 619*
Special deposits	*2 465*	*0*	*0*	*0*	*2 465*	*2 465*
Other deposits	*542*	*0*	*0*	*0*	*542*	*541*
Certificates of deposit	*10 538*	*0*	*8*	*0*	*10 546*	*10 546*
Savings certificates	*1 025*	*0*	*0*	*0*	*1 025*	*1 025*
Convertible bonds	*0*	*0*	*0*	*0*	*0*	*0*
Non-convertible bonds	*13 756*	*183*	*2 200*	*0*	*16 139*	*16 139*
Convertible subordinated liabilities	*0*	*0*	*0*	*0*	*0*	*0*
Non-convertible subordinated liabilities	*2 327*	*0*	*147*	*0*	*2 474*	*2 474*
Repos[4]	2 565	0	0	0	2 565	2 565
with credit institutions and investment firms	*2 262*	*0*	*0*	*0*	*2 262*	*2 262*
with customers	*302*	*0*	*0*	*0*	*303*	*303*
Liabilities under investment contracts[6]	0	0	13 610	0	13 610	13 610
Derivatives	0	5 057	0	1 171	6 227	6 227
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]	2 190	0	0	0	2 190	2 161
Total	224 093	6 988	16 149	1 171	248 400	242 931
a of which deposits from banks repayable on demand					4 669	
FINANCIAL LIABILITIES, 31-12-2018						
Deposits from credit institutions and investment firms (excl. repos)[a]	23 684	0	0	0	23 684	–
Deposits from customers and debt securities (excl. repos)	192 004	226	2 061	0	194 291	–
Demand deposits	*79 893*	*0*	*0*	*0*	*79 893*	–
Time deposits	*16 499*	*49*	*296*	*0*	*16 844*	–
Savings accounts	*60 067*	*0*	*0*	*0*	*60 067*	–
Special deposits	*2 629*	*0*	*0*	*0*	*2 629*	–
Other deposits	*211*	*0*	*0*	*0*	*211*	–
Certificates of deposit	*15 575*	*0*	*8*	*0*	*15 583*	–
Savings certificates	*1 700*	*0*	*0*	*0*	*1 700*	–
Convertible bonds	*0*	*0*	*0*	*0*	*0*	–
Non-convertible bonds	*13 029*	*176*	*1 572*	*0*	*14 777*	–
Convertible subordinated liabilities	*0*	*0*	*0*	*0*	*0*	–
Non-convertible subordinated liabilities	*2 402*	*0*	*186*	*0*	*2 588*	–
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*	–
Liabilities under investment contracts[6]	0	0	12 949	0	12 949	–
Derivatives	0	4 673	0	1 111	5 784	–
Short positions	0	935	0	0	935	–
In equity instruments	*0*	*16*	*0*	*0*	*16*	–
In debt securities	*0*	*919*	*0*	*0*	*919*	–
Other[5]	3 982	0	0	0	3 983	–
Total	220 671	5 834	15 010	1 111	242 626	–
a of which deposits from banks repayable on demand					*5 966*	–

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.
6 The difference between 'Investment contracts (insurance)' and 'Liabilities under investment contracts' is accounted for by the presentation of non-unbundled investment contracts that are included under 'Investment contracts (insurance)' on the financial assets side, but are included under 'Technical provisions (before reinsurance)' on the liabilities side.

- 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 8 965 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' (8 075 million euros); and an associated financial liability with a carrying value of 2 565 million euros (547 million euros classified as 'Held for trading', 344 million euros as 'Measured at fair value through OCI' and 1 674 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 '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)	Carrying value before impairment	Impairment	Carrying value after impairment
31-12-2019			
Financial assets at amortised cost			
Loans and advances*	189 446	-2 855	186 592
Stage 1 (12-month ECL)	165 326	-131	165 195
Stage 2 (lifetime ECL)	18 558	-254	18 304
Stage 3 (lifetime ECL)	5 381	-2 444	2 937
Purchased or originated credit impaired assets (POCI)	182	-26	155
Debt securities	43 010	-12	42 998
Stage 1 (12-month ECL)	42 934	-5	42 930
Stage 2 (lifetime ECL)	69	-2	67
Stage 3 (lifetime ECL)	7	-6	1
Purchased or originated credit impaired assets (POCI)	0	0	0
Financial assets at fair value through OCI			
Debt securities	18 793	-5	18 788
Stage 1 (12-month ECL)	18 771	-4	18 767
Stage 2 (lifetime ECL)	22	-1	22
Stage 3 (lifetime ECL)	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0
31-12-2018			
Financial assets at amortised cost			
Loans and advances*	176 680	-3 523	173 157
Stage 1 (12-month ECL)	153 081	-113	152 969
Stage 2 (lifetime ECL)	16 983	-305	16 678
Stage 3 (lifetime ECL)	6 461	-3 062	3 399
Purchased or originated credit impaired assets (POCI)	154	-42	112
Debt securities	41 660	-11	41 649
Stage 1 (12-month ECL)	41 409	-5	41 405
Stage 2 (lifetime ECL)	244	-1	243
Stage 3 (lifetime ECL)	7	-6	2
Purchased or originated credit impaired assets (POCI)	0	0	0
Financial assets at fair value through OCI			
Debt securities	18 026	-6	18 020
Stage 1 (12-month ECL)	17 585	-4	17 581
Stage 2 (lifetime ECL)	441	-2	439
Stage 3 (lifetime ECL)	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0

* The carrying value after impairment in this note corresponds to the sum of the '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 'Measured at amortised cost' column).

- 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)	Stage 1 Subject to 12-month ECL	Stage 2 Subject to lifetime ECL	Stage 3 Subject to lifetime ECL	Subject to lifetime ECL (purchased or originated credit impaired)	Total
2019					
LOANS AND ADVANCES AT AMORTISED COST					
Impairment on 01-01-2019	113	305	3 062	42	3 523
Movements with an impact on results[1]	20	-49	278	-6	242
Transfer of financial assets					
Stage 1 (12-month ECL)	*-5*	*66*	*53*	*0*	*114*
Stage 2 (lifetime ECL)	*4*	*-61*	*51*	*1*	*-5*
Stage 3 'non-performing' (lifetime ECL)	*0*	*8*	*-34*	*-2*	*-27*
New financial assets[2]	34	18	25	0	77
Changes in risk parameters during the reporting period	-2	-55	200	-3	140
Changes in the model or methodology	-3	-10	0	0	-13
Derecognised financial assets[3]	-8	-14	-36	-3	-60
Other	0	-1	17	0	16
Movements without an impact on results	-2	-2	-897	-9	-910
Derecognised financial assets[3]	-6	-11	-944	-13	-975
Changes in the scope of consolidation	4	10	84	0	98
Transfers under IFRS 5	0	0	0	0	0
Other	1	-1	-37	4	-33
Impairment on 31-12-2019	131	254	2 444	26	2 855
DEBT SECURITIES AT AMORTISED COST					
Impairment on 01-01-2019	5	1	6	0	11
Movements with an impact on results[1]	0	1	0	0	1
Transfer of financial assets					
Stage 1 (12-month ECL)	*0*	*2*	*0*	*0*	*2*
Stage 2 (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
Stage 3 'non-performing' (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
New financial assets[2]	0	0	0	0	0
Changes in risk parameters during the reporting period	0	-1	0	0	-1
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Other	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31-12-2019	5	2	6	0	12
DEBT SECURITIES AT FAIR VALUE THROUGH OCI					
Impairment on 01-01-2019	4	2	0	0	6
Movements with an impact on results[1]	0	-1	0	0	-1
Transfer of financial assets					
Stage 1 (12-month ECL)	*0*	*0*	*0*	*0*	*0*
Stage 2 (lifetime ECL)	*0*	*-1*	*0*	*0*	*-1*
Stage 3 'non-performing' (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
New financial assets[2]	1	0	0	0	1
Changes in risk parameters during the reporting period	-1	0	0	0	0
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Other	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31-12-2019	4	1	0	0	5

2018					
LOANS AND ADVANCES AT AMORTISED COST					
Impairment on 01-01-2018	97	357	4 495	58	5 006
Movements with an impact on results[1]	26	-42	44	-13	15
Transfer of financial assets					
Stage 1 (12-month ECL)	*-9*	*63*	*58*	*0*	*112*
Stage 2 (lifetime ECL)	*4*	*-89*	*49*	*0*	*-36*
Stage 3 'non-performing' (lifetime ECL)	*1*	*17*	*-76*	*-4*	*-62*
New financial assets[2]	66	83	159	5	313
Changes in risk parameters during the reporting period	-27	-99	124	3	1
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets[3]	-9	-14	-278	-18	-319
Other	0	-1	7	0	6
Movements without an impact on results	-10	-10	-1 476	-2	-1 499
Derecognised financial assets[3]	-9	-7	-1 454	-22	-1 492
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	-1	-3	-23	20	-7
Impairment on 31-12-2018	113	305	3 062	42	3 523
DEBT SECURITIES AT AMORTISED COST					
Impairment on 01-01-2018	6	1	9	0	16
Movements with an impact on results[1]	-1	0	0	0	-1
Transfer of financial assets					
Stage 1 (12-month ECL)	*-1*	*1*	*0*	*0*	*0*
Stage 2 (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
Stage 3 'non-performing' (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
New financial assets[2]	0	0	0	0	0
Changes in risk parameters during the reporting period	0	-1	0	0	-1
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Other	0	0	0	0	0
Movements without an impact on results	0	0	-4	0	-4
Derecognised financial assets[3]	0	0	-2	0	-2
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	-1	0	-1
Impairment on 31-12-2018	5	1	6	0	11
DEBT SECURITIES AT FAIR VALUE THROUGH OCI					
Impairment on 01-01-2018	6	2	0	0	9
Movements with an impact on results[1]	-2	0	0	0	-3
Transfer of financial assets					
Stage 1 (12-month ECL)	*-2*	*2*	*0*	*0*	*0*
Stage 2 (lifetime ECL)	*0*	*-1*	*0*	*0*	*-1*
Stage 3 'non-performing' (lifetime ECL)	*0*	*0*	*0*	*0*	*0*
New financial assets[2]	0	0	0	0	0
Changes in risk parameters during the reporting period	-1	-1	0	0	-2
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Other	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0
Derecognised financial assets[3]	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31-12-2018	4	2	0	0	6

1 Amounts recovered in respect of loans that have already been written off are recycled to the income statement and recorded as 'Impairment on financial assets at amortised cost and at fair value through OCI'. However, they have not been included in this table since they do not have any impact on impairment losses on the balance sheet.
2 Also includes impairment related to new financial assets resulting from off-balance-sheet commitments and financial guarantees already given being called.
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)	Maximum credit exposure (A)	Collateral and other credit enhancements received (B)	Net (A-B)
31-12-2019			
Subject to impairment	282 940	128 142	154 798
of which Stage 3 'non-performing' (AC and FVOCI)	*3 189*	*2 737*	*452*
Debt securities	61 786	69	61 718
Loans and advances (excl. reverse repos)	160 996	92 683	68 313
Reverse repos	25 596	25 575	20
Other financial assets	1 049	0	1 049
Off-balance-sheet liabilities	33 512	9 814	23 697
Not subject to impairment	6 867	1 804	5 063
Debt securities	1 327	0	1 327
Loans and advances (excl. reverse repos)	218	171	47
of which designated upon initial recognition at fair value through profit or loss (FVO)	*0*	*0*	*0*
Reverse repos	0	0	0
Derivatives	5 322	1 633	3 689
Other financial assets	0	0	0
Off-balance-sheet liabilities	0	0	0
Total	289 807	129 946	159 861
31-12-2018			
Subject to impairment	268 449	95 932	172 517
of which Stage 3 'non-performing' (AC and FVOCI)	*3 733*	*2 476*	*1 256*
Debt securities	59 669	59	59 610
Loans and advances (excl. reverse repos)	152 024	70 384	81 640
Reverse repos	21 133	21 082	52
Other financial assets	1 986	0	1 986
Off-balance-sheet liabilities	33 637	4 407	29 230
Not subject to impairment	5 996	1 320	4 677
Debt securities	768	0	768
Loans and advances (excl. reverse repos)	98	53	45
of which designated upon initial recognition at fair value through profit or loss (FVO)	*13*	*13*	*0*
Reverse repos	0	0	0
Derivatives	5 124	1 266	3 858
Other financial assets	6	0	6
Off-balance-sheet liabilities	0	0	0
Total	274 445	97 251	177 194

- 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: Financial instruments	Amounts not set off in the balance sheet: Cash collateral	Amounts not set off in the balance sheet: Securities collateral	Net amount
31-12-2019							
FINANCIAL ASSETS							
Derivatives	11 252	5 930	5 322	2 635	1 151	230	1 306
Derivatives (excluding central clearing houses)	*5 275*	*0*	*5 275*	*2 635*	*1 151*	*230*	*1 259*
*Derivatives with central clearing houses**	*5 977*	*5 930*	*47*	*0*	*0*	*0*	*47*
Reverse repos, securities borrowing and similar arrangements	39 517	13 921	25 596	584	0	24 975	37
Reverse repos	*39 517*	*13 921*	*25 596*	*584*	*0*	*24 975*	*37*
Securities borrowing	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other financial instruments	0	0	0	0	0	0	0
Total	50 768	19 851	30 918	3 219	1 151	25 205	1 344
FINANCIAL LIABILITIES							
Derivatives	12 157	5 930	6 227	2 612	1 762	619	1 235
Derivatives (excluding central clearing houses)	*6 158*	*0*	*6 158*	*2 612*	*1 762*	*619*	*1 166*
*Derivatives with central clearing houses**	*5 999*	*5 930*	*69*	*0*	*0*	*0*	*69*
Repos, securities lending and similar arrangements	16 486	13 921	2 565	1 405	0	1 160	0
Repos	*16 486*	*13 921*	*2 565*	*1 405*	*0*	*1 160*	*0*
Securities lending	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other financial instruments	0	0	0	0	0	0	0
Total	28 643	19 851	8 792	4 017	1 762	1 778	1 235
31-12-2018							
FINANCIAL ASSETS							
Derivatives	8 440	3 316	5 124	2 912	737	273	1 202
Derivatives (excluding central clearing houses)	*5 113*	*0*	*5 113*	*2 912*	*737*	*273*	*1 191*
*Derivatives with central clearing houses**	*3 327*	*3 316*	*11*	*0*	*0*	*0*	*11*
Reverse repos, securities borrowing and similar arrangements	30 785	9 651	21 134	0	0	21 131	3
Reverse repos	*30 785*	*9 651*	*21 134*	*0*	*0*	*21 131*	*3*
Securities borrowing	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other financial instruments	0	0	0	0	0	0	0
Total	39 225	12 967	26 258	2 912	737	21 404	1 205
FINANCIAL LIABILITIES							
Derivatives	9 100	3 316	5 784	2 912	1 581	330	961
Derivatives (excluding central clearing houses)	*5 770*	*0*	*5 770*	*2 912*	*1 581*	*330*	*947*
*Derivatives with central clearing houses**	*3 330*	*3 316*	*14*	*0*	*0*	*0*	*14*
Repos, securities lending and similar arrangements	10 653	9 651	1 001	0	0	943	58
Repos	*10 653*	*9 651*	*1 001*	*0*	*0*	*943*	*58*
Securities lending	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other financial instruments	0	0	0	0	0	0	0
Total	19 753	12 967	6 785	2 912	1 581	1 273	1 019

* 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 *KBC Valuation Framework*, which consists of various guidelines, including the *Group Valuation Policy*, the *Group Market Value Adjustments Policy* and the *Group Parameter Review Policy.* The GVC meets at least twice a quarter to approve significant changes in valuation methods (including, but not limited to, models, market data and inputs) or deviations from group policies for financial assets and liabilities measured at fair value. The committee is made up of members from Finance, Risk Management and the Middle Office. Valuation uncertainty measurements are made and reported to the GVC every quarter. Lastly, certain fair values generated by valuation models are challenged by a team set up specifically for this purpose.
- The fair value of mortgage and term loans not measured at fair value in the balance sheet (see table) is calculated by discounting contractual cashflows at the risk-free rate. This calculation is then adjusted for credit risk by taking account of margins obtained on similar, but recently issued, loans. The fair value of the main portfolios takes account of prepayment risks and cap options. The fair value of demand and savings deposits (both of which are repayable on demand) is presumed to be equal to their carrying value.
- 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 redemptions) 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 (in millions of EUR)	**Financial assets measured at amortised cost**		**Financial liabilities at amortised cost**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
31-12-2019				
FINANCIAL ASSETS				
Loans and advances to credit institutions and investment firms (incl. reverse repos)	30 843	31 101	–	–
Loans and advances to customers (incl. reverse repos)	155 749	157 376	–	–
Debt securities	42 998	45 802	–	–
Other	1 049	1 049	–	–
Total	230 639	235 328	–	–
Level 1	–	39 980	–	–
Level 2	–	45 517	–	–
Level 3	–	149 832	–	–
FINANCIAL LIABILITIES				
Deposits from credit institutions and investment firms (incl. repos)	–	–	20 993	21 148
Deposits from customers and debt securities (incl. repos)	–	–	200 910	200 567
Liabilities under investment contracts	–	–	0	0
Other	–	–	2 190	2 185
Total	–	–	224 093	223 899
Level 1	–	–	–	10
Level 2	–	–	–	87 350
Level 3	–	–	–	136 540
31-12-2018				
FINANCIAL ASSETS				
Loans and advances to credit institutions and investment firms (incl. reverse repos)	26 046	26 223	–	–
Loans and advances to customers (incl. reverse repos)	147 111	146 186	–	–
Debt securities	41 649	44 301	–	–
Other	1 986	1 986		
Total	216 792	218 696	–	–
Level 1	–	39 041	–	–
Level 2	–	44 474	–	–
Level 3	–	135 180	–	–
FINANCIAL LIABILITIES				
Deposits from credit institutions and investment firms (incl. repos)	–	–	24 616	24 230
Deposits from customers and debt securities (incl. repos)	–	–	192 073	191 824
Liabilities under investment contracts	–	–	0	0
Other	–	–	3 982	3 988
Total	–	–	220 671	220 042
Level 1	–	–	–	0
Level 2	–	–	–	98 222
Level 3	–	–	–	121 820

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 (including overlay)								
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	1 370	0	68	1 438	1 210	0	39	1 249
Investment contracts (insurance)	14 143	441	0	14 584	13 417	420	0	13 837
Debt securities	24	0	35	58	18	3	32	54
of which sovereign bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Held for trading								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	1	0	1	0	1	0	1
Loans and advances to customers (incl. reverse repos)	0	0	0	0	0	0	0	0
Equity instruments	574	258	0	833	564	200	0	763
Debt securities	1 110	157	1	1 269	455	182	77	714
of which sovereign bonds	*1 053*	*96*	*0*	*1 149*	*398*	*127*	*33*	*557*
Derivatives	0	3 965	1 199	5 163	0	4 023	918	4 942
Other	0	0	0	0	0	6	0	6
Designated upon initial recognition at fair value through profit or loss (FVO)								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	0	0	0	0
Loans and advances to customers (incl. reverse repos)	0	0	0	0	0	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								
Equity instruments	12	6	232	249	11	12	236	259
Debt securities	14 933	3 624	231	18 788	13 761	4 054	205	18 020
of which sovereign bonds	*10 139*	*2 153*	*78*	*12 370*	*10 082*	*1 865*	*77*	*12 025*
Hedging derivatives								
Derivatives	0	158	0	158	0	183	0	183
Total								
Total financial assets at fair value	32 166	8 611	1 982	42 759	29 436	9 096	1 593	40 125
FINANCIAL LIABILITIES AT FAIR VALUE								
Held for trading								
Deposits from credit institutions and investment firms (incl. repos)	0	0	0	0	0	0	0	0
Deposits from customers and debt securities (incl. repos)	0	39	183	223	0	49	176	226
Derivatives	0	3 220	1 837	5 057	0	3 304	1 369	4 673
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								
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	13 610	0	0	13 610	12 931	17	0	12 949
Other	0	0	0	0	0	0	0	0
Hedging derivatives								
Derivatives	0	1 171	0	1 171	0	1 111	0	1 111
Total								
Total financial liabilities at fair value	15 317	5 087	3 903	24 308	13 763	5 424	2 768	21 955

- 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 notes 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, European & American stock options, Bermudan swaptions, digital interest rate options, quanto interest rate options, digital stock options, composite stock options, Asian stock options, barrier stock options, quanto digital FX options, FX Asian options, FX European barrier options, FX simple digital barrier options, FX touch rebates, inflation options, Bermudan cancellable IRS, CMS spread options, CMS interest rate caps/floors, (callable) range accruals, outperformance options, auto-callable options, lookback options	Option pricing model based on unobservable inputs (e.g., correlation)
	Illiquid credit-linked instruments	Collateralised debt obligations (notes)	Valuation model based on correlation of probability of default of underlying assets
	Private equity investments	Private equity and non-quoted participations	Based on the valuation guidelines of the European Private Equity & Venture Capital Association (EVCA)
	Illiquid bonds/asset backed securities	Illiquid (mortgage) bonds/asset backed securities that are indicatively priced by a single pricing provider in an inactive market	BVAL, third-party pricing (e.g., lead manager), where prices cannot be corroborated due to a lack of available/reliable alternative market data
	Debt instruments	KBC own issues (KBC IFIMA)	Discounted cashflow analysis and valuation of related derivatives based on unobservable inputs (indicative pricing by third parties for derivatives)

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

- In 2019, KBC transferred 98 million euros' worth of financial assets and liabilities out of level 1 and into level 2. It also reclassified approximately 764 million euros' worth of financial assets and liabilities from level 2 to level 1. Most of these reclassifications were carried out due to a change in the liquidity of government bonds and corporate bonds.
- In 2018, KBC transferred 740 million euros' worth of financial assets and liabilities out of level 1 and into level 2. It also reclassified approximately 628 million euros' worth of financial assets and liabilities from level 2 to level 1. Most of these reclassifications were carried out due to a change in the liquidity of government bonds and corporate bonds.

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 77 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. The fair value of equity instruments rose by 30 million euros, primarily as a result of new positions.
  - Financial assets at fair value through OCI: the fair value of debt instruments increased by 22 million euros, due mainly to new positions, partly offset by instruments that had reached maturity and sales.
  - 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 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 decline of 371 million euros): the fair value of debt instruments measured at fair value through OCI fell by 369 million euros, primarily on account of a net transfer out of level 3 (329 million euros), most of which was attributable to a change in the liquidity of bonds. The decline was reinforced by instruments that had reached maturity, sales and changes in fair value (-63 million euros), but was partly offset by purchases (+29 million euros). The fair value of equity instruments measured at fair value through OCI fell by 26 million euros.
  - Financial liabilities held for trading (fair-value decline of 673 million euros, the net impact of a fall in the fair value of derivatives and an increase in issued debt instruments): the fair value of derivatives declined by 849 million euros, due primarily to instruments that had reached maturity and changes in fair value, partly offset by new positions. The fair value of issued debt instruments rose by 176 million euros, due mainly to reclassifications into level 3.
  - Financial liabilities measured at fair value through profit or loss: the fair value of issued debt instruments increased by 638 million euros, primarily on account of new issues and reclassifications into level 3, largely offset by instruments that had reached maturity.
- 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				31-12-2018
	Carrying value		Notional amount*		Carrying value		Notional amount*	
	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
Total	5 163	5 057	402 062	395 069	4 942	4 673	363 587	361 349
Interest rate contracts	3 112	2 814	220 072	211 790	2 833	2 701	180 540	178 417
of which interest rate swaps and futures	*2 607*	*2 639*	*200 289*	*200 616*	*2 289*	*2 537*	*156 934*	*165 170*
of which options	*505*	*176*	*19 783*	*11 174*	*544*	*165*	*23 605*	*13 247*
Foreign exchange contracts	1 074	1 077	157 340	159 094	1 365	1 166	156 415	157 137
of which currency and interest rate swaps, forward foreign exchange transactions and futures	*1 028*	*1 037*	*153 642*	*153 488*	*1 305*	*1 116*	*151 427*	*151 425*
of which options	*46*	*39*	*3 698*	*5 606*	*60*	*50*	*4 988*	*5 712*
Equity contracts	968	1 158	24 283	23 821	724	785	26 296	25 462
of which equity swaps	*917*	*963*	*22 164*	*22 163*	*675*	*668*	*24 011*	*23 828*
of which options	*51*	*195*	*2 118*	*1 658*	*49*	*118*	*2 285*	*1 634*
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	9	8	364	360	20	20	336	333

* 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 used as basis for recognising hedge ineffectiveness for the period[2]	Type	Carrying value		Change in fair value of hedged items used as basis for recognising hedge ineffectiveness for the period[2]	Ineffective portion recognised in profit or loss	Effective portion recognised in OCI
Hedging strategy	Purchased	Sold	Assets	Liabilities			Total (including fair value changes)	Of which accumulated fair value adjustments			
Fair value micro hedge											
Interest rate swaps	20 906	20 906	16	445	-5	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	3 370	115	17		
						Debt securities issued at AC	13 503	301	-105		
						Deposits at AC	192	4	-1		
Total	20 906	20 906	16	445	-5	Total			0	-6	–
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	-1 406
Hedge of net investments in foreign operations											
Total	1 328	1 357	11	418[3]	114	Total			-114	0	37

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

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

3 Hedging instruments in the form of foreign currency deposits.

31-12-2018

(in millions of EUR)	Hedging instrument							Hedged item	Impact on equity	
	Notional amount[1]		Carrying Value		Change in fair value of hedging instruments used as basis for recognising hedge ineffectiveness for the period[2]	Type	Carrying value		Change in fair value of hedged items used as basis for recognising hedge ineffectiveness for the period[2]	Ineffective portion recognised in profit or loss	Effective portion recognised in OCI
Hedging strategy	Purchased	Sold	Assets	Liabilities			Total (including fair value changes)	Of which accumulated fair value adjustments			
Fair value micro hedge											
Interest rate swaps	23 298	23 298	19	365	114	Debt securities held at AC	4 871	166	-25		
Currency and interest rate swaps	0	0	0	0	0	Loans and advances at AC	642	287	-40		
						Debt securities held at FVOCI	3 410	77	-4		
						Debt securities issued at AC	14 569	202	-59		
						Deposits at AC	1 891	6	1		
Total	23 298	23 298	19	365	114	Total			-128	-14	–
Portfolio hedge of interest rate risk											
Interest rate swaps	29 753	29 753	72	54	-151	Debt securities held at AC	186	6	15		
Currency and interest rate options	2 417	0	0	19	-8	Loans and advances at AC	24 621	12	137		
						Debt securities held at FVOCI	183	3	-4		
						Debt securities issued at AC	0	0	0		
						Deposits at AC	8 760	-72	-4		
Total	32 170	29 753	72	74	-158	Total			144	-14	–
Cashflow hedge (micro hedge and portfolio hedge)											
Interest rate swaps	22 539	22 539	68	661	76						
Currency and interest rate swaps	72	68	5	3	12						
Total	22 611	22 607	72	663	88	Total			-90	-2	-1 445
Hedge of net investments in foreign operations											
Total	4 936	4 972	20	417[3]	61	Total			-61	0	8

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

- 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	15	-18
More than three but not more than six months	21	-37
More than six months but not more than one year	74	-109
More than one but not more than two years	125	-275
More than two but not more than five years	235	-748
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	**1 474**	**1 610**
Debtors arising out of direct insurance operations	398	356
Debtors arising out of reinsurance operations	29	27
Deposits with ceding companies	12	9
Income receivable (other than interest income from financial assets)	46	44
Other	988	1 174

Note 5.2: Tax assets and tax liabilities

(in millions of EUR)	31-12-2019	31-12-2018
CURRENT TAXES		
Current tax assets	96	92
Current tax liabilities	98	133
DEFERRED TAXES	920	1 211
Deferred tax assets by type of temporary difference	1 632	1 732
Employee benefits	150	176
Losses carried forward	504	604
Tangible and intangible fixed assets	47	37
Provisions for risks and charges	8	8
Impairment for losses on loans and advances	207	183
Financial instruments at fair value through profit or loss and fair value hedges	135	115
Fair value changes, available-for-sale assets, financial instruments at FVOCI, cashflow hedges and hedges of net investments in foreign operations	509	516
Technical provisions	3	7
Other	70	85
Deferred tax liabilities by type of temporary difference	712	521
Employee benefits	34	19
Losses carried forward	0	0
Tangible and intangible fixed assets	45	45
Provisions for risks and charges	8	8
Impairment for losses on loans and advances	4	3
Financial instruments at fair value through profit or loss and fair value hedges	141	103
Fair value changes, available-for-sale assets, financial instruments at FVOCI, cashflow hedges and hedges of net investments in foreign operations	357	220
Technical provisions	88	86
Other	34	38
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	1 300	1 457
Deferred tax liabilities	380	247
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 (-291 million euros in 2019) breaks down as follows:
  - decrease in deferred tax assets: -100 million euros;
  - increase in deferred tax liabilities: +192 million euros.
- The change in deferred tax assets was accounted for chiefly by:
  - the decrease in deferred tax assets via the income statement: -94 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 on account of changes in the revaluation reserve for financial instruments measured at fair value through OCI: +140 million euros;
  - the increase in deferred tax liabilities via the income statement: +34 million euros (owing primarily to the increase in financial instruments at fair value through profit or loss);
  - remeasurement of defined benefit plans: +16 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**	**215**
Overview of investments, including goodwill		
ČMSS	0	163
Isabel NV	8	6
Joyn International NV	-6	-4
Bancontact Payconiq Company NV	5	5
Payconiq International SA	13	8
NLB Vita*	0	31
Other	5	6
Goodwill on associated companies and joint ventures		
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	25	215
Listed	0	0
Fair value of investments in listed associated companies and joint ventures	0	0

* At the end of 2019, a sale agreement was signed for NLB Vita, which is still pending approval from the regulatory authorities.

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

Note 5.4: Property and equipment and investment property

(in millions of EUR)	31-12-2019	31-12-2018
Property and equipment	3 247	2 737
Investment property	570	561
Rental income	55	60
Direct operating expenses from investments generating rental income	15	14
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	1 245	113	1 380	2 737	561
Acquisitions	215	87	600	902	45
Disposals	-98	-2	-234	-334	-49
Depreciation	-108	-57	-31	-196	-43
Other movements*	336	5	-203	138	57
Closing balance	1 590	146	1 512	3 247	570
of which accumulated depreciation and impairment	*1 396*	*494*	*766*	*2 656*	*401*
Fair value 31-12-2019	–	–	–	–	838
2018					
Opening balance	1 224	99	1 399	2 721	485
Acquisitions	119	53	496	668	74
Disposals	-14	-1	-249	-264	-28
Depreciation	-72	-51	-26	-149	-32
Other movements	-12	13	-239	-238	62
Closing balance	1 245	113	1 380	2 737	561
of which accumulated depreciation and impairment	*1 321*	*458*	*722*	*2 502*	*314*
Fair value 31-12-2018	–	–	–	–	809

* Also includes the impact of the first-time adoption of IFRS 16 (334 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	719	289	295	27	1 330
Acquisitions	167	123	152	7	448
Disposals	0	0	-1	-5	-6
Amortisation	0	-76	-76	-2	-155
Other movements	-9	14	27	-9	23
Closing balance	877	349	396	18	1 640
of which accumulated amortisation and impairment	*248*	*734*	*844*	*40*	*1 867*
2018					
Opening balance	719	232	237	16	1 205
Acquisitions	8	123	128	9	268
Disposals	0	-1	-4	-3	-8
Amortisation	0	-64	-64	-3	-131
Other movements	-8	-1	-4	8	-4
Closing balance	719	289	295	27	1 330
of which accumulated amortisation and impairment	*242*	*665*	*718*	*35*	*1 660*

- 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)	246	243	12.1%–9.7%	11.4%–10.0%
ČMSS	167	–	11.9%–9.6%	–
United Bulgarian Bank	110	110	11.2%–10.7%	11.1%–10.2%
DZI Insurance	75	75	9.0%–8.3%	9.1%–8.3%
Rest	70	76	–	–
Total	877	719	–	–

- 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

(in millions of EUR)	31-12-2019	31-12-2018
Technical provisions (before reinsurance) (i.e. gross figures)	**18 560**	**18 324**
Insurance contracts	11 542	11 018
Provision for unearned premiums and unexpired risk	755	700
Life insurance provision	7 545	7 207
Provision for claims outstanding	2 798	2 647
Provision for profit sharing & rebates	28	25
Other technical provisions	416	441
Investment contracts with DPF	7 019	7 305
Life insurance provision	6 953	7 233
Provision for claims outstanding	0	0
Provision for profit sharing & rebates and other	66	72
Reinsurers' share	**121**	**120**
Insurance contracts	121	120
Provision for unearned premiums and unexpired risk	2	2
Life insurance provision	5	5
Provision for claims outstanding	113	114
Provision for profit sharing & rebates	0	0
Other technical provisions	0	0
Investment contracts with DPF	0	0
Life insurance provision	0	0
Provision for claims outstanding	0	0
Provision for profit sharing & rebates and other	0	0

MOVEMENTS TABLE	Gross 2019	Reinsurance 2019	Gross 2018	Reinsurance 2018
INSURANCE CONTRACTS, LIFE				
Opening balance	7 628	5	7 554	6
Deposits excluding fees	695	0	715	0
Use of provisions set aside for payments	-505	0	-568	0
Accretion of interest	166	0	170	0
Cost of profit sharing	2	0	3	0
Exchange differences	14	0	-11	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements	-31	1	-236	-1
Closing balance	7 969	6	7 628	5
INSURANCE CONTRACTS, NON-LIFE				
Opening balance	3 390	115	3 297	125
Changes in the provision for unearned premiums	53	0	39	0
Payments regarding claims of previous financial years	-193	-13	-135	-9
Surplus/shortfall of claims provision in previous financial years	-115	-3	-200	-4
Provision for new claims	328	25	306	17
Exchange differences	0	0	-6	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements	108	-11	89	-14
Closing balance	3 573	114	3 390	115
INVESTMENT CONTRACTS WITH DPF, LIFE				
Opening balance	7 305	0	7 790	0
Deposits excluding fees	396	0	407	0
Use of provisions set aside for payments	-550	0	-677	0
Accretion of interest	119	0	141	0
Cost of profit sharing	0	0	0	0
Exchange differences	0	0	0	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements*	-253	0	-355	0
Closing balance	7 019	0	7 305	0

* Includes transfers to unit-linked contracts.

- Technical provisions relate to insurance contracts and investment contracts with a discretionary participation feature (DPF).
- Liabilities under investment contracts without DPF are measured at fair value. These liabilities concern mainly unit-linked contracts, which are recognised under financial liabilities (see Note 4.1).
- Technical provisions for life insurance are calculated using various assumptions. Judgement is required when making these assumptions and the assumptions used are based on various internal and external sources of information. At present, IFRS 4 refers extensively to local accounting principles for the recognition of technical provisions. These provisions are generally calculated using the technical assumptions that were applicable at the inception of the insurance contract and are subject to liability adequacy tests. The key assumptions are:
  - mortality and morbidity rates, which are based on standard mortality tables and adapted where necessary to reflect the group's own experience;
  - expense assumptions, which are based on current expense levels and expense loadings;
  - the discount rate, which is generally equal to the technical interest rate, remains constant throughout the life of the policy, and in some cases is adjusted to take account of legal requirements and internal policy decisions;
  - It should be noted that assumptions may vary depending on the type of life insurance (e.g., conventional versus modern), the generation of contracts (mainly the time when the contract is entered into and the applicable terms and conditions) and the country (since we have insurance companies in five of our core markets), making it impossible to quantify these assumptions for the entire group. This is illustrated by the following two points: (i) The discount rate follows the historical market rate and since it concerns a life portfolio, most of which has existed for a long time and also has a long maturity, there are considerable differences within the portfolio. In Belgium alone, discount rates range from 4.75% for the oldest rates to 0.5% and lower for certain modern products. (ii) In terms of mortality risk, unisex mortality tables are used in Belgium, based on the standard 'MK/FK' mortality tables for products sold from 2012 on (before 2012, separate mortality tables were used for men and women). Corrections may still be made to these standard tables, with due consideration being given to the segmentation criteria of the relevant policies. As a result, the range of mortality tables used is extensive.
- Assumptions for the technical provisions for claims outstanding are based on past claims experience relating to claim numbers, claim payments and claims handling costs, and adjusted to take account of such factors as anticipated market experience, claims inflation and external factors such as court awards and legislation. The technical provision for claims outstanding is generally not discounted except when long-term obligations and/or annuities (industrial accidents, guaranteed income and hospitalisation insurance) are involved.
- In 2019, there were no major changes in assumptions leading to a significant change in the valuation of insurance assets and liabilities.

Note 5.7: Provisions for risks and charges

Note 5.7.1: Overview

(in millions of EUR)	31-12-2019	31-12-2018
Total provisions for risks and charges	**227**	**235**
Provisions for off-balance-sheet commitments and financial guarantees	138	129
Provisions for other risks and charges	90	106
Provisions for restructuring	*7*	*6*
Provisions for taxes and pending legal disputes	*56*	*50*
Other	*27*	*50*

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)	Provisions for restructuring	Provisions for taxes and pending legal disputes	Other	Total
2019				
Opening balance	6	50	50	106
Movements with an impact on results				
Amounts allocated	*5*	*28*	*7*	*41*
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	-22	-22
Closing balance	7	56	27	90
2018				
Opening balance	8	211	47	266
Movements with an impact on results				
Amounts allocated	*4*	*42*	*17*	*62*
Amounts used	*0*	*-149*	*-10*	*-159*
Unused amounts reversed	*-2*	*-55*	*-5*	*-61*
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other	-3	1	0	-2
Closing balance	6	50	50	106

- 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	**2 827**	**2 689**
Breakdown by type		
Retirement benefit obligations or other employee benefits	470	630
Deposits from reinsurers	71	79
Accrued charges (other than from interest expenses on financial liabilities)	327	321
Other	1 959	1 659

- 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	2 945	2 861
Current service cost	119	126
Interest cost	43	38
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	249	-36
Experience adjustments	-43	27
Past-service cost	0	0
Benefits paid	-95	-84
Exchange differences	4	2
Curtailments	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	1
Other	-11	10
Defined benefit obligations at the end of the period	3 212	2 945
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	2 369	2 433
Actual return on plan assets	404	-73
Expected interest income on plan assets, calculated based on market yields on high quality corporate bonds	*35*	*32*
Employer contributions	90	73
Plan participant contributions	19	21
Benefits paid	-95	-84
Exchange differences	4	1
Settlements	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	0	-2
Fair value of plan assets at the end of the period	2 791	2 369
of which financial instruments issued by the group	*29*	*27*
of which property occupied by KBC	*7*	*8*
Funded status		
Plan assets in excess of defined benefit obligations	-421	-576
Reimbursement rights	0	0
Asset ceiling limit	-36	-21
Unfunded accrued/prepaid pension cost	-457	-598
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	-598	-466
Amounts recognised in the income statement	-108	-111
Amounts recognised in other comprehensive income	157	-89
Employer contributions	90	73
Exchange differences	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	0
Other	1	-5
Unfunded accrued/prepaid pension cost at the end of the period	-457	-598
Amounts recognised in the income statement	**-108**	**-111**
Current service cost	-119	-126
Past-service cost	0	0
Interest cost	-8	-6
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	**157**	**-89**
Actuarial gain or loss resulting from changes in demographic assumptions	-1	-1
Actuarial gain or loss resulting from changes in financial assumptions	-249	36
Actuarial result on plan assets	369	-105
Experience adjustments	43	-27
Adjustments to asset ceiling limits	-15	16
Other	10	-7
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	3 212	2 945	2 861	2 851	2 380
Fair value of plan assets	2 791	2 369	2 433	2 336	2 165
Unfunded accrued/prepaid pension cost	-457	-598	-466	-543	-220
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*	250	-35	-4	-147	-24

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

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 defined contribution plan was introduced on 1 January 2019. All employees who had been signed up to the defined benefit plan were given the one-time option of switching to this new plan.	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 31-12-2019 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 31-12-2019 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	416 394 642	416 155 676
of which ordinary shares that entitle the holder to a dividend payment	*416 394 642*	*416 155 676*
of which treasury shares	*38 607*	*50 284*
Additional information		
Par value per share (in EUR)	3.51	3.51
Number of shares issued but not fully paid up	0	0

- Ordinary shares: ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued. The shares are listed solely on Euronext Brussels.
- Capital increases: the number of KBC Group NV shares went up by 238 966 in December 2019 and by 258 109 in December 2018, due to new shares being issued following the capital increases reserved for staff. For more information, see the 'Company annual accounts and additional information' section.
- Share buyback: on 17 May 2018, KBC Group NV announced the start of a share buyback programme with a view to cancelling the repurchased shares. In a number of transactions between 22 May and 3 July 2018, 2 700 000 own shares were repurchased for a total consideration of approximately 181 million euros. They were cancelled on 8 August and the number of shares were accordingly reduced by the number of shares cancelled.
- Treasury shares: at year-end 2019, KBC group companies held 38 607 KBC shares in portfolio, 38 605 of which were registered with KBC Bank (London branch) to hedge outstanding derivatives on indices/ baskets that include KBC Group shares.
- For information on the authorisation to increase capital and to repurchase own shares, see the 'Company annual accounts and additional information' section.
- 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 issued 1.4 billion euros in AT1 securities (they are perpetual and may be called for redemption after five years and on each subsequent coupon date, have a temporary write-down trigger should the common equity ratio fall below 5.125% and a coupon of 5.625% per annum, which is payable every quarter). KBC called these securities in March 2019.
  - In April 2018, KBC issued 1 billion euros in AT1 securities (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 4.25% per annum, which is payable every six months).
  - In February 2019, KBC issued 500 million euros in AT1 securities (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 4.75% per annum, which is payable every six months).

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

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

6.0 Other notes

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

(in millions of EUR)			31-12-2019			31-12-2018
	Nominal amount	Provision	Net exposure	Nominal amount	Provision	Net exposure
Undrawn portion of credit lines granted						
Stage 1	34 937	11	34 927	34 974	9	34 964
Stage 2	3 070	7	3 062	1 400	8	1 392
Stage 3	115	3	112	146	18	128
Total	38 122	21	38 101	36 520	35	36 484
of which irrevocable credit lines	*22 978*	*12*	*22 966*	*23 498*	*31*	*23 467*
Financial guarantees given						
Stage 1	8 432	3	8 430	8 497	3	8 495
Stage 2	1 668	10	1 658	1 413	9	1 404
Stage 3	192	104	88	230	81	149
Total	10 292	116	10 175	10 141	93	10 048
Other commitments given						
Total	370	0	370	463	0	463
Total						
Off-balance-sheet commitments and financial guarantees	48 784	138	48 646	47 124	129	46 995

- Fair value of financial guarantees: based on the available market value.
- The carrying value of financial assets pledged by KBC as collateral came to 44 756 million euros for liabilities and 3 301 million euros for contingent liabilities (32 573 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 2018).

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	40 252	24 141	11 047	7 331
Equity instruments	10	12	1	0
Debt securities	40 006	23 875	11 046	7 331
Loans and advances	236	254	0	0
Cash	0	0	0	0
Other	0	0	0	0
Property and equipment	0	0	0	0
Investment property	0	0	0	0
Other	0	0	0	0

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	511	478

- 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)	2019					2018				
	Subsidiaries	Associated companies	Joint ventures	Other	Total	Subsidiaries	Associated companies	Joint ventures	Other	Total
Assets	148	122	43	17	330	227	135	253	100	714
Loans and advances	3	38	1	0	42	93	41	2	80	216
Equity instruments (including investments in associated companies and joint ventures)	145	83	36	0	264	133	93	228	14	469
Other	0	1	6	17	24	1	1	23	5	30
Liabilities	9	93	0	365	467	60	98	168	303	629
Deposits	8	14	0	356	378	60	13	167	300	540
Other financial liabilities	0	0	0	0	0	0	0	0	0	0
Other	1	80	0	9	90	0	85	1	4	89
Income statement	5	-3	0	-3	-1	10	-4	-14	5	-3
Net interest income	0	-1	0	0	0	0	-1	-9	0	-10
Interest income	*0*	*1*	*0*	*0*	*1*	*0*	*0*	*0*	*0*	*1*
Interest expense	*0*	*-1*	*0*	*0*	*-1*	*0*	*-1*	*-9*	*0*	*-10*
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0
Technical insurance charges (before reinsurance)	0	0	0	0	0	0	0	0	0	0
Dividend income	1	1	0	0	2	3	0	0	7	10
Net fee and commission income	2	-1	0	2	2	5	-2	-5	1	-1
Fee and commission income	*2*	*0*	*0*	*2*	*4*	*5*	*0*	*0*	*1*	*6*
Fee and commission expense	*0*	*-2*	*0*	*0*	*-2*	*0*	*-2*	*-5*	*0*	*-7*
Other net income	4	-1	0	-3	0	3	1	0	1	4
General administrative expenses	-1	-2	0	-2	-6	-1	-3	0	-3	-7
Undrawn portion of loan commitments, financial guarantees and other commitments										
Given by the group	0	0	0	74	74	0	5	0	154	159
Received by the group	0	0	0	0	0	0	0	0	0	0

Transactions with key management (members of the Board of Directors and Executive Committee of KBC Group NV) (in millions of EUR)*	**2019**	**2018**
Total*	**12**	**12**
Breakdown by type of remuneration		
Short-term employee benefits	10	10
Post-employment benefits	2	2
Defined benefit plans	*0*	*0*
Defined contribution plans	*2*	*2*
Other long-term employee benefits	0	0
Termination benefits	0	0
Share-based payments	0	0
Stock options (units)		
At the beginning of the period	0	0
Granted	0	0
Exercised	0	0
Composition-related changes	0	0
At the end of the period	0	0
Advances and loans granted to key management and partners	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' heading in the first table includes transactions with unconsolidated subsidiaries (transactions with consolidated subsidiaries have already been eliminated from the consolidated financial statements).
- The 'Other' heading in the first table includes KBC Ancora, Cera and MRBB.
- All related-party transactions occur at arm's length.
- Key management comprises the members of the Board of Directors and Executive Committee of KBC Group NV. More detailed information on remuneration paid to key management staff is provided in the 'Corporate governance statement' section.
- There were no significant impairment charges vis-à-vis related parties.

Note 6.4: Statutory auditor's remuneration

Statutory auditor's remuneration (PwC, in EUR)	**2019**	**2018**
KBC Group NV and its subsidiaries		
Standard audit services	7 230 627	7 583 948
Other services		
Other certifications	844 403	1 073 549
Tax advice	0	5 000
Other non-audit assignments	63 270	53 378
KBC Group NV (alone)		
Standard audit services	252 134	231 918
Other services	184 236	159 914

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

The KBC group's legal structure has one single entity – KBC Group NV – in control of two underlying companies, viz. KBC Bank NV and KBC Insurance NV, each of which has several subsidiaries and sub-subsidiaries. The main group companies are shown in the table.

A complete list of group companies (included in or excluded from the scope of consolidation) is provided at www.kbc.com > About us > Our structure.

KBC Group: main companies included in the scope of consolidation at year-end 2019

Company	Registered office	Company number	Share of capital held at group level (in %)	Business Unit[1]	Activity
KBC Bank (group)					
KBC Bank NV	Brussels – BE	0462.920.226	100.00	BEL/GRP	credit institution
CBC BANQUE SA	Namur – BE	0403.211.380	100.00	BEL	credit institution
Československá Obchodná Banka a.s.	Bratislava – SK	--	100.00	IMA	credit institution
Československá Obchodní Banka a.s.	Prague – CZ	--	100.00	CZR	credit institution
KBC Asset Management NV	Brussels – BE	0469.444.267	100.00	BEL	asset management
KBC Autolease NV	Leuven – BE	0422.562.385	100.00	BEL	leasing
KBC Bank Ireland Plc.	Dublin – IE	--	100.00	IMA	credit institution
KBC Commercial Finance NV	Brussels – BE	0403.278.488	100.00	BEL	factoring
KBC Credit Investments NV	Brussels – BE	0887.849.512	100.00	BEL/GRP	investment firm
KBC IFIMA SA	Luxembourg – LU	--	100.00	GRP	financing
KBC Securities NV	Brussels – BE	0437.060.521	100.00	BEL	stockbroker
K&H Bank Zrt.	Budapest – HU	--	100.00	IMA	credit institution
Loan Invest NV	Brussels – BE	0889.054.884	100.00	BEL	securitisation
United Bulgarian Bank AD	Sofia – BG	--	99.91	IMA	credit institution
KBC Insurance (group)					
KBC Insurance NV	Leuven – BE	0403.552.563	100.00	BEL/GRP	insurance company
ADD NV	Heverlee – BE	0406.080.305	100.00	BEL	insurance broker
KBC Group Re SA	Luxembourg – LU	--	100.00	GRP	reinsurance company
ČSOB Pojišťovna a.s.	Pardubice – CZ	--	100.00	CZR	insurance company
ČSOB Poisťovňa a.s.	Bratislava – SK	--	100.00	IMA	insurance company
DZI (group)	Sofia – BG	--	100.00	IMA	insurance company
Groep VAB NV	Zwijndrecht – BE	0456.920.676	100.00	BEL	driving school/roadside assistance
K&H Biztosító Zrt.	Budapest – HU	--	100.00	IMA	insurance company
NLB Vita d.d. (equity method)[2]	Ljubljana – SI	--	50.00	IMA	life insurance
KBC Group					
KBC Group NV	Brussels – BE	0403.227.515	100.00	GRP	bank-insurance holding company
KBC Bank (group)	various locations	--	100.00	various	credit institution
KBC Insurance (group)	various locations	--	100.00	various	insurance company

1 BEL = Belgium Business Unit, CZR = Czech Republic Business Unit, IMA = International Markets Business Unit, GRP = Group Centre.
2 Sale agreement signed (see Note 6.6).

- Companies eligible for consolidation are effectively included in the consolidated accounts if two of the following criteria are met: (i) the group'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 or one of its subsidiaries acts as

- arranger of the issuance programme, but where the decision-making power of the entities does not reside with KBC or one of its subsidiaries. As a result, these entities are not consolidated.
  - At year-end 2019, KBC had received income from unconsolidated structured entities in the form of management fees (70 million euros), administrative agent fees (1 million euros) and accounting fees (1 million euros).
  - At year-end 2019, KBC held 5.4 billion euros' worth of notes issued by the unconsolidated structured entities. Its liabilities towards the unconsolidated structured entities amounted to 5.5 billion euros and comprised mainly term deposits (5.3 billion euros).
  - Any potential decrease in the value of the notes is passed on to the end-client, which means it will have no impact on KBC.
- At year-end 2019, no group companies were active in the extractive industry. As a result, no consolidated report on such payments has been prepared (see Article 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 result of this deal, ČMSS is now fully owned by ČSOB, enabling the latter to consolidate its position as the largest financial solutions provider for housing 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).

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

Impact of the acquisition of the 45% stake in ČMSS (in millions of EUR)	2019
General information	
Percentage of shares bought or sold in the relevant year	45% (purchase)
Percentage of shares after deal	100%
For business unit/segment	Czech Republic
Deal date (month and year)	May 2019
Results of the relevant company/business recognised in the group result as from:	June 2019
Purchase price or sale price	240
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	439
Amounts recognised for the purchased assets and liabilities (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 the 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
Cash and cash equivalents (included in the above assets)	*729*
Financial liabilities	5 384
Amortised cost	*5 362*
Hedging derivatives	*22*
Tax liabilities	10
Provisions for risks and charges	1
Other liabilities	33
Cash and cash equivalents (included in the above liabilities)	*50*
Contribution to the consolidated income statement (equity method applied to 55% stake for first five months of 2019; wholly owned and fully consolidated from 1 June 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
Other net income	82
TOTAL INCOME	**146**
Operating expenses	-30
Impairment	-3
Of which: on financial assets at amortised cost and at fair value through OCI	*-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 group, the bank and the insurance company based on IFRS data and according to the rules imposed by the regulator.

- For the KBC group and KBC Bank, this implies that we calculate our solvency ratios based on CRR/CRD IV. KBC has received authorisation from the regulator to apply a risk weighting to the participation in KBC Insurance (Danish compromise method) at KBC group level. The KBC group and KBC Bank are subject to minimum solvency ratios. The main measure is the fully loaded common equity ratio, with the minimum regulatory requirement being 10.55%. 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 (4.30% set by the local competent authorities in KBC's core markets). This relates to the situation as at 27 March 2020. No account has been taken of changes that were announced after that date. At year-end 2019, the fully loaded common equity ratio came to 17.1%, which represented a capital buffer of 6.6% relative to the minimum requirement of 10.55%.
- The solvency of KBC Insurance is calculated on the basis of Solvency II (the regulatory minimum requirement is 100%). At year-end 2019, the Solvency II ratio came to 202%, more than double the minimum requirement of 100%.

Key solvency figures for the KBC group, KBC Bank and KBC Insurance

(in millions of EUR)		KBC Group (consolidated) CRR/CRD IV		KBC Bank (consolidated) CRR/CRD IV		KBC Insurance (consolidated) Solvency II
	31-12-2019 Fully loaded	31-12-2018 Fully loaded	31-12-2019 Fully loaded	31-12-2018 Fully loaded	31-12-2019	31-12-2018
Total regulatory capital, after profit appropriation	20 419	18 217	16 660	15 749	3 496	3 590
Tier-1 capital	18 489	16 150	14 704	13 625	2 996	3 090
Common equity	*16 989*	*15 150*	*13 204*	*12 618*	–	–
Parent shareholders' equity	*18 865*	*17 233*	*15 091*	*14 150*	*3 422*	*2 728*
Solvency adjustments	*-1 876*	*-2 083*	*-1 888*	*-1 532*	*-426*	*362*
Additional going concern capital[1]	*1 500*	*1 000*	*1 500*	*1 007*	–	–
Tier-2 capital[2]	1 930	2 067	1 957	2 124	500	500
Total weighted risk volume (group, bank)[3]	99 071	94 875	89 838	85 474	–	–
Credit risks	*75 786*	*71 224*	*75 786*	*71 224*	–	–
Market risks	*2 713*	*3 198*	*2 713*	*3 198*	–	–
Operational risks	*11 340*	*11 051*	*11 340*	*11 051*	–	–
Insurance risks	*9 133*	*9 133*	–	–	–	–
Holding-company activities and elimination of intragroup transactions	*99*	*268*	–	–	–	–
Solvency capital requirement (insurance)	–	–	–	–	1 727	1 651
Common equity ratio (group, bank)[4]	17.1%	16.0%	14.7%	14.8%	–	–
Solvency II ratio (insurance)	–	–	–	–	202%	217%

1 Includes perpetual subordinated loans with fully discretionary, non-cumulative interest payments. The securities also have a loss absorption mechanism (i.e. a temporary write-down trigger should the common equity tier-1 ratio fall below 5.125%). Also see Note 5.10.
2 Includes subordinated loans with a fixed maturity date where principal and interest payments cannot be cancelled in a going concern.
3 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.
4 See 'Comment' on p. 137.

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

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 bank-insurance 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 Group.
- Incorporated: 9 February 1935 as the Kredietbank; the present name dates from 2 March 2005.
- Country of incorporation: Belgium.
- Registered office: Havenlaan 2, 1080 Brussels, Belgium.
- VAT: BE 0403.227.515.
- RLP: Brussels.
- Website: https://www.kbc.com
- E-mail address reserved for shareholders and bondholders: IR4U@kbc.be
- Legal form: *naamloze genoteerde vennootschap* (listed company with limited liability) under Belgian law. The company is a mixed financial holding company that is subject to the prudential supervision of the National Bank of Belgium and the European Central Bank.
- Life: undefined.
- Object: the company has as its object, the direct or indirect ownership and management of shareholdings in other companies, including but not restricted to credit institutions, insurance companies and other financial institutions. The company also has as object to provide support services for third parties, as mandatary or otherwise, in particular for companies in which the company has an interest – either directly or indirectly. The object of the company is also to acquire in the broadest sense of the word (including by means of purchase, hire and lease), to maintain and to operate resources, and to make these resources available in the broadest sense of the word (including through letting, and granting rights of use) to the beneficiaries referred to in the second sentence above. In addition, the company may function as an 'intellectual property' company responsible for, among other things, the development, acquisition, management, protection and maintenance of intellectual property rights, as well as for making these rights available and/or granting rights of use in respect of these rights to the beneficiaries referred to in the second sentence above. The company may also perform all commercial, financial and industrial transactions that may be useful or expedient for achieving its object and that are directly or indirectly related to this object. The company may also by means of subscription, contribution, participation or in any other form whatsoever participate in all companies, businesses or institutions that have a similar, related or complementary activity. In general, the company may, both in Belgium and abroad, perform all acts which may contribute to the achievement of its object (Article 2 of the Articles of Association, which are available at www.kbc.com).
- Documents open to public inspection: the Articles of Association of the company are open to public inspection at the Registry of the Dutch-speaking division of the Brussels Business Court and are published on www.kbc.com. The financial statements and annual report are filed with the National Bank of Belgium and are available at www.kbc.com. The annual report can also be obtained from the company's registered office and will be sent to those requesting it. Extracts of minutes concerning decisions on the appointment and the termination of the offices of members of the Executive Committee and the Board of Directors are published in the appendices to the Belgian Official Gazette. Financial reports about the company are published in the financial press and/or on www.kbc.com. Convening notices of general meetings of shareholders are published in the Belgian Official Gazette, in at least one national newspaper, in the media and on www.kbc.com.
- For information on the general meeting of shareholders and the right of shareholders to take part in such meetings, see Article 23 *et seq*. of the Articles of Association, which are available at www.kbc.com.

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STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING OF KBC GROUP 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 Group NV (the "Company") and its subsidiaries (jointly "the Group"). This report includes our report on the consolidated accounts, as well as the other legal and regulatory requirements. This forms part of an integrated whole and is indivisible.

We have been appointed as statutory auditor by the general meeting of 2 May 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 Group 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 290.735 million and a profit for the year (attributable to equity holders of the parent) of EUR 2.489 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.

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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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.

<u>Estimation uncertainty with respect to impairment allowances for loans and advances</u>

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. At year-end 31 December 2019 the gross loans and advances at amortised cost amount to EUR 189.446 million, the total impairment at that date amounts to EUR 2.855 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.

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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.

Estimation uncertainty with respect to technical insurance provisions

Description of the Key Audit Matter

At year-end 31 December 2019 the technical insurance provisions (before reinsurance) amount to EUR 18.560 million. For detailed information regarding the valuation of the technical insurance provisions, please refer to disclosure Note 1.2. of the Summary of significant accounting policies on technical provisions and Note 5.6 to the consolidated accounts, as well as to the Technical insurance risk section of the Annual Report.

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

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How our Audit addressed the Key Audit Matter

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

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

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

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

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

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

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

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

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

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

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

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

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

- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our statutory auditor's report to the related disclosures in the consolidated accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated accounts, including the disclosures, and whether the consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Other legal and regulatory requirements

Responsibilities of the board of directors

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

Statutory auditor’s responsibilities

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

Aspects related to the directors’ report on the consolidated accounts

In our opinion, after having performed specific procedures in relation to the directors’ report on the consolidated accounts, this directors’ report is consistent with the consolidated accounts for the year under audit, and it is prepared in accordance with article 3:32 of the Companies' and Associations' Code.

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

The non-financial information required by virtue of article 3:32, §2 of the Companies' and Associations' Code is included in the directors’ report on the consolidated accounts. The Company has prepared the non-financial information, based on Global Reporting Initiative (GRI) Standards. However, in accordance with article 3:80, §1, 5° of the Companies' and Associations' Code, we do not express an opinion as to whether the non-financial information has been prepared in accordance with the Global Reporting Initiative (GRI) Standards.

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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, 1 April 2020

The statutory auditor
PwC Bedrijfsrevisoren BV
represented by

Roland Jeanquart Accredited auditor	Tom Meuleman Accredited auditor

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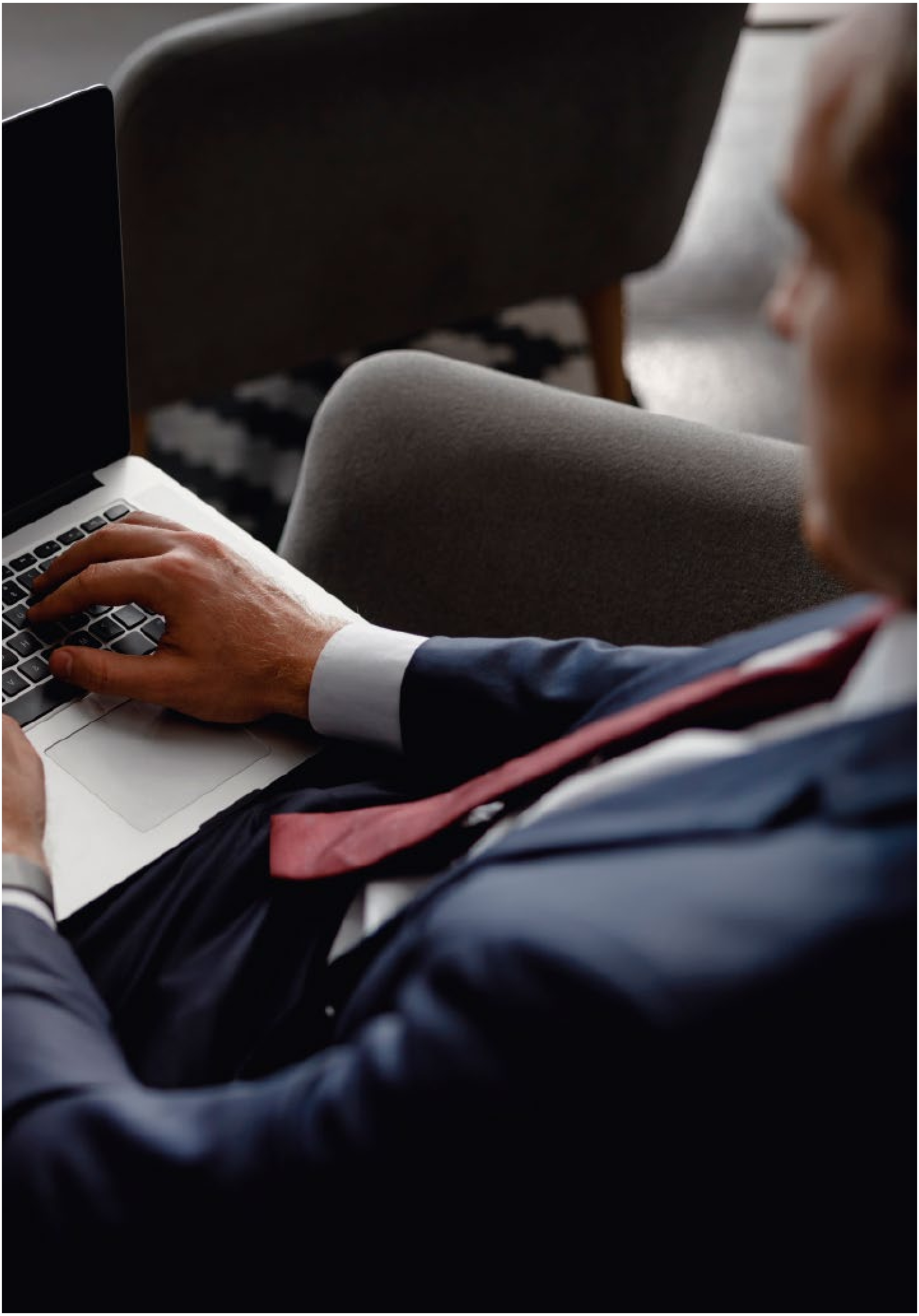


Company annual accounts and additional information

The company annual accounts of KBC Group NV are presented here in abridged form. A full set of these accounts will be submitted for approval to the General Meeting of Shareholders of 7 May 2020.

The company annual accounts, the report of the Board of Directors and the statutory auditor's report are filed with the National Bank of Belgium. These documents are available free of charge from KBC Group NV, Investor Relations Office, IRO, Havenlaan 2, 1080 Brussels, Belgium. They can also be viewed at www.kbc.com.

The statutory auditor has delivered an unqualified audit opinion on the company annual accounts of KBC Group NV.

The company annual accounts have been prepared according to Belgian accounting standards (B-GAAP) and are, therefore, not comparable with the figures prepared in accordance with IFRS in the other sections of this report.

Company balance sheet, income statement and profit appropriation

Balance sheet after profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2019	31-12-2018
Fixed assets	**25 563**	**23 029**
Intangible fixed assets	349	293
Property and equipment	109	95
Land and buildings	24	26
Plant, machinery and equipment	73	56
Furniture and vehicles	10	11
Other tangible fixed assets	1	1
Assets under construction and advance payments	1	1
Financial fixed assets	25 106	22 641
Affiliated companies	25 104	22 640
Participating interests	15 901	14 037
Amounts receivable	9 204	8 603
Other companies linked by participating interests	1	1
Participating interests	1	1
Amounts receivable	0	0
Current assets	**306**	**319**
Amounts receivable at more than one year	0	1
Trade receivables	0	0
Other amounts receivable	0	1
Stocks and contracts in progress	0	0
Stocks	0	0
Goods purchased for resale	0	0
Amounts receivable within one year	29	53
Trade receivables	17	39
Other amounts receivable	12	14
Current investments	100	0
Own shares	0	0
Other investments	100	0
Cash at bank and in hand	15	121
Deferred charges and accrued income	161	144
Total assets	**25 869**	**23 348**
Equity	**16 409**	**13 411**
Capital	1 458	1 457
Issued capital	1 458	1 457
Share premium account	5 473	5 461
Reserves	1 286	1 286
Legal reserves	146	146
Reserves not available for distribution	1	1
Untaxed reserves	190	190
Reserves available for distribution	949	949
Profit (Loss (-)) carried forward	8 192	5 207
Provisions and deferred taxes	**10**	**13**
Provisions for liabilities and charges	10	13
Pensions and similar obligations	10	13
Other liabilities and charges	0	0
Amounts payable	**9 450**	**9 925**
Amounts payable at more than one year	9 203	7 201
Financial debt	9 203	7 201
Subordinated loans	3 678	3 181
Non-subordinated bonds	5 525	4 020
Credit institutions	0	0
Amounts payable within one year	144	2 617
Amounts payable at more than one year falling due within the year	0	1 400
Financial debt	0	0
Credit institutions	0	0
Other loans	0	0
Trade debt	43	69
Advance payments received on orders	0	0
Taxes, remuneration and social security charges	69	69
Income tax expense	12	15
Remuneration and social security charges	57	54
Other amounts payable	32	1 078
Accrued charges and deferred income	103	107
Total liabilities	**25 869**	**23 348**

Income statement (B-GAAP)

(in millions of EUR)	31-12-2019	31-12-2018
Operating income	**1 009**	**962**
Turnover	908	862
Increase (decrease (-)) in stocks of finished goods, work and contracts in progress	0	0
Own construction capitalised	82	83
Other operating income	20	17
Non-recurring operating income	0	0
Operating charges	**1 028**	**1 017**
Services and other goods	552	537
Remuneration, social security charges and pensions	364	347
Depreciation of and amounts written off formation expenses and intangible and tangible fixed assets	112	97
Provisions for liabilities and charges: amounts set aside (amounts reversed (-))	-3	-4
Other operating charges	1	2
Non-recurring operating charges	2	38
Operating profit (loss (-))	**-19**	**-55**
Financial income	3 608	1 823
Recurring financial income	1 495	1 812
Income from financial fixed assets	1 314	1 615
Income from current assets	4	3
Other financial income	178	193
Non-recurring financial income	2 113	11
Financial charges	174	189
Recurring financial charges	174	189
Debt charges	172	186
Amounts written down on current assets: increase (decrease (-))	0	0
Other financial charges	2	3
Non-recurring financial charges	0	0
Profit (Loss (-)) for the period, before tax	**3 415**	**1 579**
Transfers from deferred taxes	0	0
Transfers to deferred taxes	0	0
Income tax	4	3
Profit (Loss (-)) for the period	**3 411**	**1 576**
Profit (Loss (-)) for the period available for appropriation	**3 411**	**1 576**

Profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2019	31-12-2018
Profit (Loss (-)) to be appropriated	**8 618**	**6 673**
Profit (Loss (-)) for the period available for appropriation	3 411	1 576
Profit (Loss (-)) carried forward from the previous period	5 207	5 098
Transfers to equity	**0**	**0**
To the legal reserves	0	0
To other reserves	0	0
Profit (Loss (-)) to be carried forward	**8 192**	**5 207**
Profit to be distributed	**426**	**1 466**
Dividends	416	1 456
Directors' entitlements	0	0
Employees/other allocations	10	10

An interim dividend of 1 euro per share was paid in November 2019. However, in line with the recommendations made by the ECB on dividend payments, we will not be paying a final dividend for 2019.

Notes to the company annual accounts

Note 1: Financial fixed assets (B-GAAP)

(in millions of EUR)	Participating interests in affiliated companies	Amounts receivable from affiliated companies	Participating interests in companies linked by participating interests	Amounts receivable from companies linked by participating interests
Carrying value at 31-12-2018	**14 037**	**8 603**	**1**	**0**
Acquisitions in 2019	1 955	2 750	0	0
Disposals in 2019	-91	-2 150	0	0
Other changes in 2019	0	1	0	0
Carrying value at 31-12-2019	**15 901**	**9 204**	**1**	**0**

Participating interests in affiliated companies are mainly the shareholdings in KBC Bank NV and KBC Insurance NV.

As far as participating interests in affiliated companies are concerned, KBC Group NV transferred the shares it held in KBC Asset Management NV (48.14% of that company's outstanding shares) to KBC Bank NV on 25 April 2019. It took place by means of a share sale, after which KBC Group NV carried out a capital increase at KBC Bank NV. The transfer fits in with the aim to simplify and optimise the shareholder structure of KBC Asset Management NV. As a result, KBC Bank NV now owns all the shares of KBC Asset Management NV, apart from one still held by KBC Insurance NV. KBC Group NV realised a statutory gain of 2 113 million euros on this sale. The transaction did not affect its consolidated results or solvency position.

The amounts receivable from affiliated companies related to loans to KBC Bank NV in the form of additional tier-1 capital (1.5 billion euros in total), tier-2 capital (1.7 billion euros), tier-3 capital (5.5 billion euros) and a subordinated perpetual loan of 0.5 billion euros to KBC Insurance NV. The main changes in 2019 concerned the issue of instruments in the form of additional tier-1 capital (0.5 billion euros), tier-2 capital (0.75 billion euros) and tier-3 capital (1.5 billion euros) and the redemption of a 1.4-billion-euro additional tier-1 capital instrument and a 0.75-billion-euro tier-2 capital instrument.

Note 2: Changes in equity (B-GAAP)

(in millions of EUR)	31-12-2018	Capital increase for staff	Appropriation of results	31-12-2019
Capital	1 457	1	0	1 458
Share premium account	5 461	12	0	5 473
Reserves	1 286	0	0	1 286
Profit (Loss) carried forward	5 207	0	2 985	8 192
Equity	**13 411**	**13**	**2 985**	**16 409**

At year-end 2019, the company's issued share capital amounted to 1 457 819 318.92 euros, represented by 416 394 642 shares of no nominal value, and the share premium account came to 5 473 166 631.78 euros. The share capital is fully paid up.

A capital increase under the authorisation to increase capital carried out on 20 December 2019 and reserved exclusively for employees of KBC Group NV and its Belgian subsidiaries resulted in 238 966 shares being issued at a price of 55.83 euros per share. These shares are blocked for two years, since the issue price was less than the closing price of the KBC share on 14 November 2019. As a result of this operation, capital was increased by 838 770.66 euros and the share premium account went up by 12 502 701.12 euros. By carrying out this capital increase, the group aims to strengthen ties with its staff and the staff of its Belgian subsidiaries. Given the limited extent of the capital increase, the financial ramifications for existing shareholders are minor. All of the shares issued in 2019 will also be entitled to dividend from the 2019 financial year (but not the interim dividend of 1 euro per share already paid by the company in November 2019).

The authorisation to increase capital may be exercised up to and including 23 October 2023 for an amount of 698 255 266.75 euros, with suspension of the preferential subscription rights of existing shareholders being restricted to a maximum of 289 255 266.75 euros. Based on an accounting par value of 3.51 euros a share, a maximum of 198 933 124 new KBC Group NV shares can therefore be issued, with the possibility to suspend the preferential subscription rights attached to a maximum of 82 408 908 of these shares.

Note 3: Shareholders

Notifications received: we received no notifications in 2019 and in the first two months of 2020 pursuant to the Belgian Act of 2 May 2007 concerning the disclosure of significant participations. All notifications we receive are published on www.kbc.com.

The following table gives an overview of KBC shares held by KBC group companies at the end of the financial year. The average accounting par value of the KBC share came to 3.51 euros in 2019.

KBC shares held by KBC group companies	31 December 2019	31 December 2018
KBC Securities NV	2	2
KBC Bank NV	38 605*	50 282*
Total (as a percentage of the total number of shares)	*0.0%*	*0.0%*

* Held for the purpose of hedging outstanding derivatives on indices/baskets that include KBC Group shares.

Note 4: Balance sheet

- On 31 December 2019, total assets came to 25 869 million euros, compared with 23 348 million euros a year earlier.
- 'Financial fixed assets' are discussed in Note 1.
- 'Current assets' amounted to 306 million euros, whereas the year-earlier figure was 319 million euros.
- 'Equity' is dealt with in Note 2.
- 'Amounts payable' totalled 9 450 million euros, compared with 9 925 million euros at year-end 2018. The main changes to this item were a 0.9-billion-euro decrease in 'Subordinated loans' (including 'Amounts payable at more than one year falling due within the year'), a 1.5-billion-euro increase in 'Non-subordinated bonds' and a 1-billion-euro decrease in 'Other amounts payable'.

Note 5: Income statement

- KBC Group NV generated a net profit of 3 411 million euros in 2019, as opposed to 1 576 million euros a year earlier.
- 'Operating income' rose by 5% and 'Operating charges' by 1% year-on-year.
- The main changes in the financial result were the gain of 2 113 million euros on the sale of the 48.14% stake in KBC Asset Management NV to KBC Bank NV (see Note 1) and the decrease of 301 million euros in dividends received (mainly from KBC Bank NV).

Note 6: Statutory auditor's remuneration

See Note 6.4 in the 'Consolidated financial statements' section.

Note 7: Branch offices

KBC Group NV had four branch offices (in the Czech Republic, Slovakia, Bulgaria and Hungary) at year-end 2019.

Note 8: Additional information

KBC Group NV uses financial instruments to hedge interest rate risks. At year-end 2019, the outstanding notional amount of interest rate swaps used for hedging such risks was 500 million euros.

The information required in accordance with Article 3:6 of the Belgian Companies and Associations Code that has not been provided above (including the non-financial information statement) appears in the 'Report of the Board of Directors' section.

Stakeholder interaction and materiality analysis

We are committed to meeting the needs and expectations of all our stakeholders, both now and going forward. In order to identify these needs and expectations, we maintain regular contact with a diverse group of stakeholders that includes not only our clients, our employees, our investors and our suppliers, but also governments, NGOs and other representatives of society. This enables us to broaden our view of the world and keep abreast of what is important to them, while also providing us with the opportunity to inform these stakeholders about what is going on at KBC.

Stakeholder interaction

CLIENTS

- Client satisfaction
- NPS and reputation survey
- Complaints management
- Client panels
- Seminar events
- Etc.

STAFF

- Trade union and social dialogue with union representatives
- Dialogue with health and safety committees
- Periodic assessment of all staff
- Etc.

SUPPLIERS

- CSR questionnaire as an integral part of supplier assessment
- Support in making changes to comply with the Code of Conduct
- Annual stakeholder dialogue
- Etc.

SHAREHOLDERS, CREDIT RATING AGENCIES, SUSTAINABILITY ANALYSTS

- Investor Days
- Roadshows for investors and analysts
- Annual General Meeting of Shareholders
- Assessment by S&P, Moody's and Fitch
- Assessment by Dow Jones Sustainability Index, Sustainalytics, FTSE4Good, Oekom, BankWijzer Belgium, Ethibel, etc.
- Etc.

COMMUNITY

- Annual stakeholder dialogue
- Regular meetings with NGOs
- Membership of local works councils
- Member of sustainable business network organisations
- Analysis of research reports and media
- Etc.

GOVERNMENT, REGULATORS

- Membership of banking and insurance federations
- Membership of national and international bodies
- Active participation in networking events
- Etc.

To find out which themes our stakeholders deem most important, what priority they give them and how much impact the themes have on KBC's performance and reputation, we use a specific materiality analysis (see diagram).

Identification

- Drawing up a longlist of relevant topics based on big data research and ESG frameworks such as GRI, DJSI and SASB
- Confirming longlist through peer analysis and by members of the Executive Committee, Board of Directors and Internal Sustainability Board
- Compiling and validating shortlist of important themes

Assessment of impact on our activities and importance to our stakeholders

Impact on our activities:

- Running workshops with management and representatives of certain stakeholder groups
- Taking account of risks and opportunities

Importance:

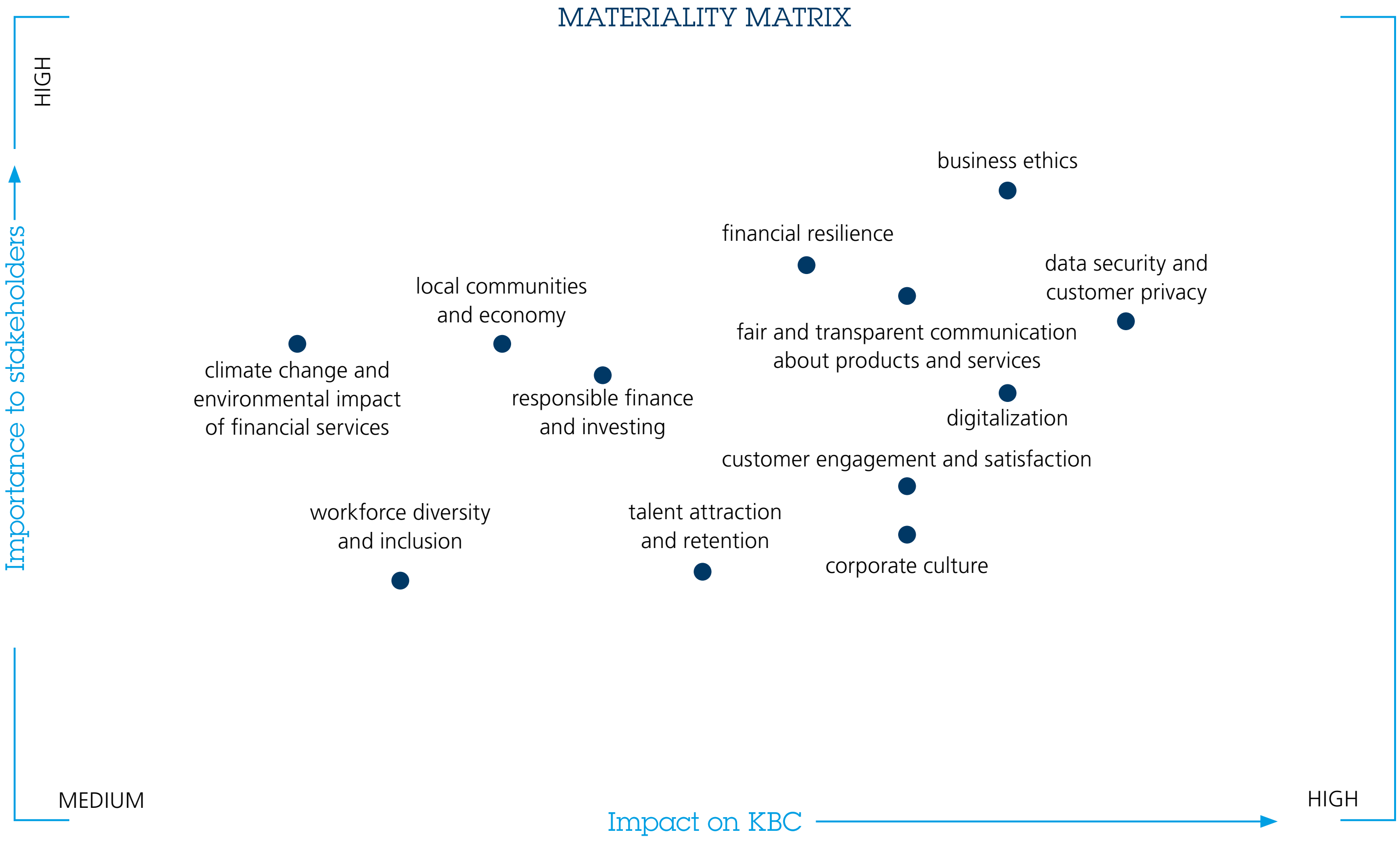
- Running workshops with management and representatives of certain stakeholder groups
- Surveying senior managers
- Performing desk research
- Conducting interviews with representatives of stakeholder groups

Prioritisation and validation

- Drawing up materiality matrix (business impact on x-axis and importance to stakeholders on y-axis)
- Identifying 12 material themes that have most impact on KBC and that are most important to our stakeholders
- Analysing main differences with previous exercises
- Validating materiality index by Internal Sustainability Board

The materiality analysis is carried out every two years. The most recent one dates from 2018 and showed that the most relevant themes for KBC were 'business ethics', 'financial resilience', 'fair and transparent communication about products and services', 'data security and customer privacy' and 'digitalisation'.

The following table indicates where we discuss the various themes in this annual report.



Important topics	Information in this report and/or relationship with KPIs
Business ethics	• See 'What makes us who we are?' in 'Our business model'. • See 'Our role in society' and 'Focus on human rights' in 'Our strategy'. • See 'Main features of the internal control and risk management systems' in 'Corporate governance statement'. • 'Reputation index' KPI: see 'The client is at the centre of our business culture' in 'Our strategy'. • 'Governance' KPI: see 'Our role in society' in 'Our strategy'.
Financial resilience	• See 'Our financial report'. • See 'We aim to achieve our ambitions within a stringent risk management framework' and 'We focus on sustainable and profitable growth' in 'Our strategy'. • See 'Our business units'. • See 'How do we manage our risks?'. and 'How do we manage our capital?' sections. • See 'Consolidated financial statements'. • Financial KPIs: see 'Our strategy'.

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

Glossary of financial ratios and terms

Besides the ratios and terms required by law or IFRS, the group also uses its own ratios and definitions, known as 'alternative performance measures' (APM). We identify them by including 'APM' in the heading and adding the calculation.

Basic and diluted earnings per share

Gives an idea of the amount of profit over a certain period that is attributable to one share (and, where applicable, including dilutive instruments).
A detailed calculation can be found in Note 3.13 of the 'Consolidated financial statements' section.

Combined ratio (non-life insurance) (APM)

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

Calculation (in millions of EUR or %)	**Reference**	**2019**	**2018**
Technical insurance charges, including the internal cost of settling claims (A)	Note 3.7	1 006	878
/			
Earned insurance premiums (B)	Note 3.7	1 693	1 553
+			
Operating expenses (C)	Note 3.7	526	505
/			
Written insurance premiums (D)	Note 3.7	1 728	1 597
= (A/B) + (C/D)		90%	88%

Common equity ratio

A risk-weighted measure of the group's solvency based on common equity tier-1 capital (the ratios given here are based on the Danish compromise). The CRD IV rules are gradually being implemented to allow banks to build up the necessary capital buffers. The capital position of a bank, when account is taken of the transition period, is referred to as the 'phased-in' view. The capital position based on full application of all the rules – as would be the case after this transition period – is referred to as 'fully loaded'.
A detailed calculation can be found under 'Solvency at group level' in the 'How do we manage our capital?' section.

Cost/income ratio (APM)

Gives an impression of the relative cost efficiency (costs relative to income) of the banking activities. We also use the same methodology to calculate this ratio for each business unit.
Where relevant, we also eliminate exceptional and/or non-operating items when calculating the cost/income ratio. This calculation aims to give a better idea of the relative cost efficiency of the pure business activities.

Calculation (in millions of EUR or %)	**Reference**	**2019**	**2018**
Cost/income ratio			
Operating expenses of the banking activities (A)	'Consolidated income statement': component of 'Operating expenses'	3 800	3 714
/			
Total income of the banking activities (B)	'Consolidated income statement': component of 'Total income'	6 563	6 459
= (A) / (B)		57.9%	57.5%
Cost/income ratio with exceptional and/or non-operating items eliminated			
Operating expenses of the banking activities (A)	'Consolidated income statement': component of 'Operating expenses'	3 800	3 714
-			
Smaller items (a1)		1	-27
/			
Total income of the banking activities (B)	'Consolidated income statement': component of 'Total income'	6 563	6 459
-			
Impact of the mark-to-market valuation of ALM derivatives (b1)		19	-10
-			
Impact of the revaluation of the existing stake in ČMSS (b2)		-82	0
-			
Smaller items (b3)		14	-25
= (A-a1) / (B-b1-b2-b3)		58.3%	57.4%

Coverage ratio (APM)

Indicates the proportion of impaired loans (see 'Impaired loans ratio' for definition) that are covered by specific impairment charges. The numerator and denominator in the formula relate to all impaired loans, but may be limited to impaired loans that are more than 90 days past due (the figures for that particular calculation are given in the 'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section).

Calculation (in millions of EUR or %)	**Reference**	**2019**	**2018**
Specific impairment on loans (A)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	2 584	3 203
/			
Impaired loans (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	6 160	7 151
= (A) / (B)		42%	45%

Credit cost ratio (APM)

Gives an idea of loan impairment charges recognised in the income statement for a specific period, relative to the total loan portfolio (see 'Loan portfolio' for definition). In the longer term, this ratio can provide an indication of the credit quality of the portfolio. A negative figure indicates a net reversal of impairment and hence a positive impact on the results. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	**Reference**	**2019**	**2018**
Net changes in impairment for credit risks (A)	'Consolidated income statement': Note 3.10, component of 'Impairment'	204	-59
/			
Average loan portfolio (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	170 128	163 393
= (A) / (B)		0.12%	-0.04%

Impaired loans ratio (APM)

Indicates the proportion of impaired loans in the loan portfolio (see 'Loan portfolio' for definition) and, therefore, gives an idea of the creditworthiness of the portfolio. Impaired loans are loans where it is unlikely that the full contractual principal and interest will be repaid/paid. These loans have a KBC default status of PD 10, PD 11 or PD 12. Where appropriate, the numerator in the formula may be limited to impaired loans that are more than 90 days past due (PD 11 + PD 12). Relevant figures for that calculation are given in the 'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	**Reference**	**2019**	**2018**
Amount of impaired loans (A)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	6 160	7 151
/			
Total loan portfolio (B)	'Loan and investment portfolio, banking' table in the 'How do we manage our risks?' section	175 431	164 824
= (A) / (B)		3.5%	4.3%

Leverage ratio

Gives an idea of the group's solvency, based on a simple non-risk-weighted ratio.
A detailed calculation can be found under 'Solvency at group level' in the 'How do we manage our capital?' section.

Life insurance sales (APM)

Total sales of life insurance comprise life insurance premiums and unit-linked life insurance premiums (as required under IFRS, we use margin deposit accounting for most of these unit-linked contracts, which means they are not recognised under 'Earned insurance premiums').

Calculation (in millions)	**Reference**	**2019**	**2018**
Life insurance – Earned premiums before reinsurance (A)	Income statement	1 323	1 359
+			
Life insurance: difference between written premiums and earned premiums before reinsurance (B)	–	1	0
+			
Investment contracts without DPF (unit-linked), margin deposit accounting (C)	–	525	457
(A)+(B)+(C)		1 849	1 817

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 Authority's guidelines for LCR disclosure	74 884	79 300
/			
Total net cash outflows over the next 30 calendar days (B)		54 415	57 200
= (A) / (B)		138%	139%

Loan portfolio (APM)

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

Calculation (in millions of EUR)	Reference	2019	2018
Loans and advances to customers (A)	Note 4.1, component of 'Loans and advances to customers'	155 816	147 052
+			
Reverse repos (not with central banks) (B)	Note 4.1, component of 'Reverse repos with credit institutions and investment firms'	1 559	538
+			
Debt instruments issued by corporates and by credit institutions and investment firms (banking) (C)	Note 4.1, component of 'Debt instruments issued by corporates and by credit institutions and investment firms'	5 894	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'	8 160	8 302
+			
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'	-2 288	-2 296
-			
Non-loan-related receivables (H)	–	-738	-517
+			
Other (I)	Component of Note 4.1	-468	-2 142
= (A)+(B)+(C)+(D)+(E)+(F)-(G)-(H)+(I)		175 431	164 824

Market capitalisation

Provides an indication of the stock market value of the KBC group.

Calculation (in EUR or quantity)	Reference	2019	2018
Closing price of KBC share (in EUR) (A)	–	67.1	56.7
X			
Number of ordinary shares (in millions) (B)	Note 5.10	416.4	416.2
= (A) X (B) (in billions of EUR)		27.9	23.6

Minimum requirement for own funds and eligible liabilities (MREL)

Indicates the extent to which a bank has sufficient own funds and eligible liabilities available for bail-in. MREL and bail-in are based on the principle that shareholders and debt-holders should bear losses first if a bank fails. The ratio is expressed as a percentage of Total Liabilities and Own Funds (TLOF).

A detailed calculation can be found under 'Solvency at group level' in the 'How do we manage our capital?' section.

Net interest margin (APM)

Gives an idea of the net interest income of the banking activities (one of the most important sources of revenue for the group) relative to the average total interest-bearing assets of the banking activities. We also use the same methodology to calculate this ratio for each business unit.

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) / (B) X 360/number of calendar days		1.95%	2.00%

* After elimination of all divestments and volatile short-term assets used for liquidity management purposes.

Net stable funding ratio (NSFR)

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

Calculation (in millions of EUR or %)	**Reference**	**2019**	**2018**
Available amount of stable funding (A)	'Basel III: the net stable funding ratio' (Basel Committee on Banking Supervision publication, October 2014)	174 977	165 650
/			
Required amount of stable funding (B)		128 845	122 150
= (A) / (B)		136%	136%

Own capital target (APM)

We aim to be one of the better capitalised financial institutions in Europe. Each year, therefore, we assess the common equity ratios of a peer group of European banks that are active in the retail, SME, and corporate client segments. We then position ourselves relative to the median fully loaded common equity ratio of that peer group. We reflect this capital policy in an 'own capital target'.

Calculation (expressed as fully loaded common equity ratio)	**2019 (target)**	**2018 (target)**
Median fully loaded common equity ratio of a peer group of European banks	14%	14%

Parent shareholders' equity per share (APM)

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

Calculation (in millions of EUR or quantity)	**Reference**	**2019**	**2018**
Parent shareholders' equity (A)	'Consolidated balance sheet'	18 865	17 233
/			
Number of ordinary shares less treasury shares (in millions at period-end) (B)	Note 5.10	416.4	416.1
= (A) / (B) (in EUR)		45.3	41.4

Reference capital position (APM)

We intend to maintain a flexible buffer of up to 2% of common equity on top of this for potential mergers and acquisitions that would strengthen our position in our core markets. This buffer is added to KBC's own capital target (see definition) to form the 'Reference capital position'. Following the acquisition of the remaining stake in ČMSS (Czech Republic) in 2019, which had an impact of -0.3 percentage points on the common equity ratio, the buffer for mergers and acquisitions fell to 1.7% and the resulting reference capital position was 15.7%.

Calculation (expressed as fully loaded common equity ratio)	**2019 (target)**	**2018 (target)**
Own capital target (A)	14.0%	14.0%
+		
Additional flexible buffer for mergers and acquisitions (B)	1.7%	2.0%
= (A) + (B)	15.7%	16.0%

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

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

Calculation (in millions of EUR or %)	Reference	2019	2018
BELGIUM BUSINESS UNIT			
Result after tax (including minority interests) of the business unit (A)	Note 2.2: Results by segment	1 344	1 450
/			
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency II) (B)		6 764	6 496
= (A) / (B)		20%	22%
CZECH REPUBLIC BUSINESS UNIT			
Result after tax (including minority interests) of the business unit (A)	Note 2.2: Results by segment	789	654
/			
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency II) (B)		1 692	1 696
= (A) / (B)		47%	39%
INTERNATIONAL MARKETS BUSINESS UNIT			
Result after tax (including minority interests) of the business unit (A)	Note 2.2: Results by segment	379	533
/			
The average amount of capital allocated to the business unit is based on the risk-weighted assets for the banking activities (under Basel III) and risk-weighted asset equivalents for the insurance activities (under Solvency II) (B)		2 354	2 204
= (A) / (B)		16%	24%

Return on equity (APM)

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

Calculation (in millions of EUR or %)	Reference	2019	2018
Result after tax, attributable to equity holders of the parent (A)	'Consolidated income statement'	2 498	2 570
-			
Coupon on the additional tier-1 instruments included in equity (B)	'Consolidated statement of changes in equity'	-56	-76
/			
Average parent shareholders' equity, excluding the revaluation reserve for FVOCI and for FVPL – overlay (C)	'Consolidated statement of changes in equity'	16 978	15 935
= (A-B) / (C)		14%	16%

Solvency ratio (insurance)

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

A detailed calculation can be found under 'Solvency of KBC Bank and KBC Insurance separately' in the 'How do we manage our capital?' section.

Total assets under management (APM)

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

Calculation (in billions of EUR)	**2019**	**2018**
Belgium Business Unit (A)	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 the KBC group, certify on behalf of the Executive Committee of KBC Group NV that, to the best of my knowledge, the financial statements, which are based on the relevant standards for annual accounts, fairly present in all material respects the assets, the financial condition and results of KBC Group NV, including its consolidated subsidiaries, and that the annual report provides a fair overview of the development, the results and the situation of KBC Group NV, including its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed.'

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Calendar for 2020	
Publication of the Annual Report and the Risk Report for 2019	3 April 2020
General Meeting of Shareholders (agenda available at www.kbc.com)	7 May 2020
Earnings release for 1Q 2020	14 May 2020
Earnings release for 2Q 2020	6 August 2020
Earnings release for 3Q 2020	12 November 2020
Earnings release for 4Q 2020	11 February 2021

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

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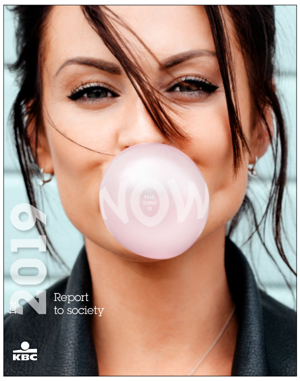

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