KBC Bank Annual Report for 2018

To the reader

Company name

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

Difference between KBC Bank and KBC Group

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

Forward-looking statements

The expectations, forecasts and statements regarding future developments that are contained in this annual report are based on assumptions and assessments made when drawing up this report. By their nature, forward-looking statements involve uncertainty. Various factors could cause actual results and developments to differ from the initial statements. In terms of macroeconomic prospects, our baseline scenario assumes a soft but not smooth brexit, with the final outcome of the negotiations being an agreement acceptable to both the UK and the EU that does not derail the economy.

Translation

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

Articles 96 and 119 of the Belgian Companies Code

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

Non-financial information statement

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

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Ratios used

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

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Report of the Board of Directors

Group profile

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

KBC celebrated its twentieth anniversary in 2018

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

The digital transformation is in full swing right now

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

Sustainability is firmly embedded in KBC's business model

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

Other important events in 2018

Thomas Leysen: Following the takeover of United Bulgarian Bank and Interlease in mid-2017, we increased our stake in the joint venture between United Bulgarian Bank and MetLife from 60% to 100% in 2018. This life insurance company is now a fully-owned subsidiary of DZI, a subsidiary of KBC Insurance in Bulgaria. Thanks to this deal, we are now in a better position to sell DZI's life and non-life insurance products through UBB's branches, enabling us to roll out our bank-insurance model further in Bulgaria, which is one of our group's core markets. Another noteworthy event was the sale of part of our legacy portfolio in Ireland, as a result of which our non-performing ratio in that country has declined significantly.

Net profit came to 2.0 billion euros in 2018

Johan Thijs: 2018 was another strong year in financial terms too. Our revenue benefited from a number of factors, including the increase in net interest income, which largely offset the decline in certain other income items. We kept our costs firmly under control again, despite wage inflation and higher regulatory costs and bank taxes. The quality of our loan portfolio continued to improve, and – like the year before – we were again able to reverse some of the provisions that had been set aside in the past, thanks primarily to our Irish mortgage portfolio. All of this, combined with a number of one-off items, gave us a total net profit for 2018 of 2 010 million euros.

Expectations going forward

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

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

Johan Thijs
Chief Executive Officer

Thomas Leysen
Chairman of the Board of Directors

Area of operation and activities

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

Shareholders

Shareholder structure (31-12-2018)	Number of shares
KBC Group NV	915 228 481
KBC Insurance NV	1
Total	915 228 482

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

Network and personnel

Network and personnel	
Bank branches (31-12-2018)	
Belgium	585
Central and Eastern Europe (Czech Republic, Slovakia, Hungary and Bulgaria)	777
Rest of the world	27
Number of staff (2018 average in FTEs)	approx. 30 000

Financial calendar

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

Financial calendar for KBC Group and KBC Bank	
FY 2018	KBC Group Annual Report for 2018 and Risk Report for 2018 available: 29 March 2019
	KBC Bank Annual Report for 2018 available: 29 March 2019
	AGM of KBC Bank: 24 April 2019
	AGM of KBC Group: 2 May 2019
1Q 2019	Earnings release for KBC Group: 16 May 2019
2Q 2019/1H 2019	Earnings release for KBC Group: 8 August 2019
	Earnings release for KBC Bank: 30 August 2019
3Q 2019/9M 2019	Earnings release for KBC Group: 14 November 2019

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

Long-term credit ratings

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

Credit ratings for KBC Bank (14 March 2019)	Long-term ratings (long-term debt ratings)	Short-term ratings
Fitch	A+ (stable outlook)	F1
Moody’s	A1 (positive outlook)	P-1
Standard & Poor’s	A+ (stable outlook)	A-1

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

Our business model

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

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

How do we create sustainable value? (KBC Group)

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

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

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

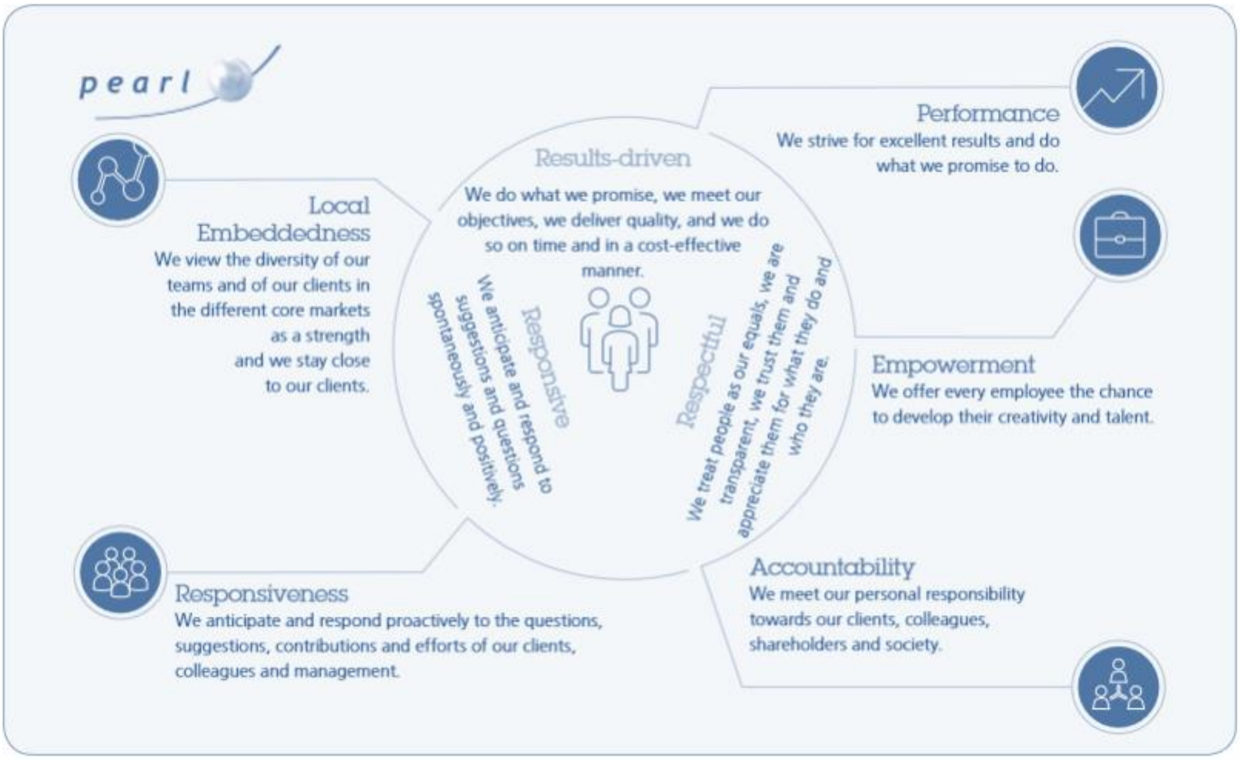
We also offer our clients a variety of other services that are important to them in their everyday lives, including payments, cash management, trade finance, leasing, corporate finance, and money and capital market products. In this way too, we contribute to the economic system.

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

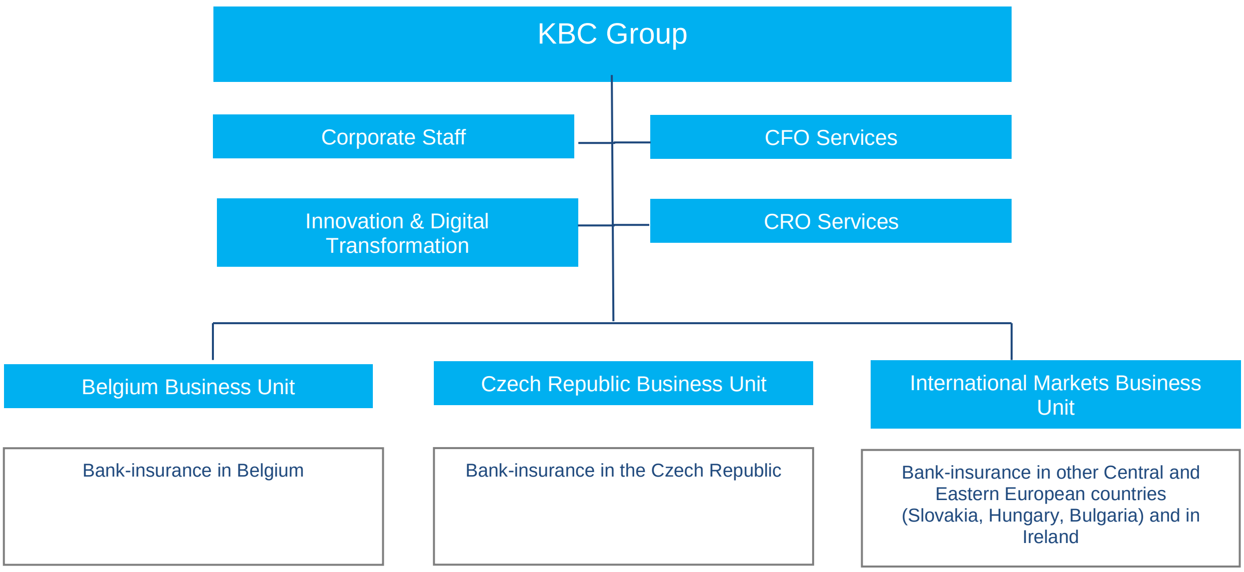
What makes us who we are? (KBC Group)

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

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



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



What differentiates us from our peers? (KBC Group)

Our integrated bank-insurance model

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

Our strong geographical focus

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

Our focus on local responsiveness

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

Our approach to sustainability

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

Our shareholder structure

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

Our strengths

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

Our challenges

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

In what environment do we operate? (KBC Group)

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

The world economy, geopolitical challenges and the environment

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

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

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

How are we addressing them?

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

Shifting client behaviour and competition

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

How are we addressing them?

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

Regulation

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

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

How are we addressing them?

✓ We are making thorough preparations for the new regulations. Specialised teams (group legal, capital management, group risk and compliance) keep close track of the rules and propose the necessary responses in terms, for instance, of the group's capital planning.

✓ We study the impact of regulations like PSD2 and MiFID on client behaviour and, where appropriate, adjust our products and processes to take account of shifts in that behaviour.

✓ We participate in working groups at sector organisations, where we analyse draft texts.

✓ A special team focuses on contacts with government and regulators.

✓ We produce memorandums and provide training courses for the business side.

Cyber risk and information security

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

How are we addressing them?

✓ We raise our employees' awareness of cyber risks by providing training in areas like phishing and vishing, and fraud in general.

✓ We work to achieve highly secure and reliable ICT systems and robust data protection procedures, and we constantly monitor our systems and the environment.

✓ We analyse cyber risks from an IT and business perspective, so that we can offer maximum resistance and are able to remedy attacks swiftly and efficiently. We regularly evaluate our action plans and adapt them on the basis of new internal and external information.

✓ A certified Cyber Expertise & Response Team focuses on cyber crime, informs and assists local entities, tests KBC's defence mechanisms and provides training and cyber-awareness in the group. A group-wide Competence Centre for Information Risk Management concentrates on the risks associated with information security and cyber crime, and on operational IT risks.

✓ We are members of the Belgian Cyber Security Coalition – a knowledge and consultative platform consisting of around 50 public and private-sector enterprises and academics.

✓ We also have our entities' cyber risks and defence mechanisms evaluated on an annual basis by an international team of internal information security experts.

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

Belgium

Market environment

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

KBC Group in Belgium

- Main brands: KBC, KBC Brussels and CBC
- 585 bank branches[1], 374 insurance agencies, electronic channels
- Estimated 20% share of the market for traditional bank products, 32% for investment funds, 13% for life insurance and 9% for non-life insurance
- 3.5 million clients (bank alone: 3.2 million)
- 108-billion-euro loan portfolio[2] and 138 billion euros in deposits and debt securities

[1] Excluding self-service branches and KBC Bank's 11 branches in the US, Asia and Europe.
[2] Including KBC Bank's branches abroad.

Czech Republic

Market environment

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

KBC Group in the Czech Republic

- Main brand: ČSOB
- 235 bank branches, various distribution channels for insurance, electronic channels
- Estimated 19% share of the market for traditional bank products, 23% for investment funds, 8% for life insurance and 8% for non-life insurance
- 3.6 million clients (bank alone: 3 million)
- 26-billion-euro loan portfolio and 32 billion euros in deposits and debt securities

Slovakia

Market environment

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

KBC Group in Slovakia

- Main brand: ČSOB
- 122 bank branches, various distribution channels for insurance, electronic channels
- Estimated 10% share of the market for traditional bank products, 7% for investment funds, 4% for life insurance and 3% for non-life insurance
- 0.6 million clients (bank alone: 0.4 million)
- 8-billion-euro loan portfolio and 6 billion euros in deposits and debt securities

The world economy in 2018

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

Hungary

Market environment

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

KBC in Hungary

- Main brand: K&H
- 206 bank branches, various distribution channels for insurance, electronic channels
- Estimated 11% share of the market for traditional bank products, 13% for investment funds, 3% for life insurance and 7% for non-life insurance
- 1.6 million clients (bank alone: 0.8 million)
- 5-billion-euro loan portfolio and 8 billion euros in deposits and debt securities

Bulgaria

Market environment

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

KBC in Bulgaria

- Main brands: UBB and DZI Insurance
- 214 bank branches, various distribution channels for insurance, electronic channels
- Estimated 10% share of the market for traditional bank products, 14% for investment funds, 24% for life insurance and 11% for non-life insurance
- 1.3 million clients (bank alone: 1 million)
- 3-billion-euro loan portfolio and 4 billion euros in deposits and debt securities

Ireland

Market environment

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

KBC in Ireland

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

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

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

Our employees

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our capital

Our activities are only possible if we have a solid capital base. At year-end 2018, KBC Group's total equity came to 19.6 billion euros and chiefly comprised own share capital, share premiums, reserves and additional tier-1 instruments. KBC Group's capital was represented by 416 155 676 shares at year-end 2018, a decline of 2 441 891 shares on the previous year, due to the share buyback programme (-2.7 million shares), partially offset by the capital increase reserved for staff in December each year (+258 109 shares).
At year-end 2018, KBC Bank's total equity was 16.7 billion euros.

KBC Group is the sole shareholder of KBC Bank. KBC Group shares are held by a large number of shareholders in a number of countries. A group of shareholders consisting of MRBB, Cera, KBC Ancora and the Other core shareholders, constitute KBC Group's core shareholders. A shareholder agreement was concluded between these core shareholders in order to ensure shareholder stability and guarantee continuity within the group, as well as to support and co-ordinate its general policy. To this end, the core shareholders act in concert at the General Meeting of KBC Group NV and are represented on its Board of Directors. The current agreement applies for a ten-year period with effect from 1 December 2014. According to the most recent notifications, the core shareholders own 40% of our shares between them. More information on the KBC Group's shareholder structure can be found in the KBC Group annual report.
The KBC Bank share is not traded on the stock market.

Our network and our relationships

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

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

Our strategy

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

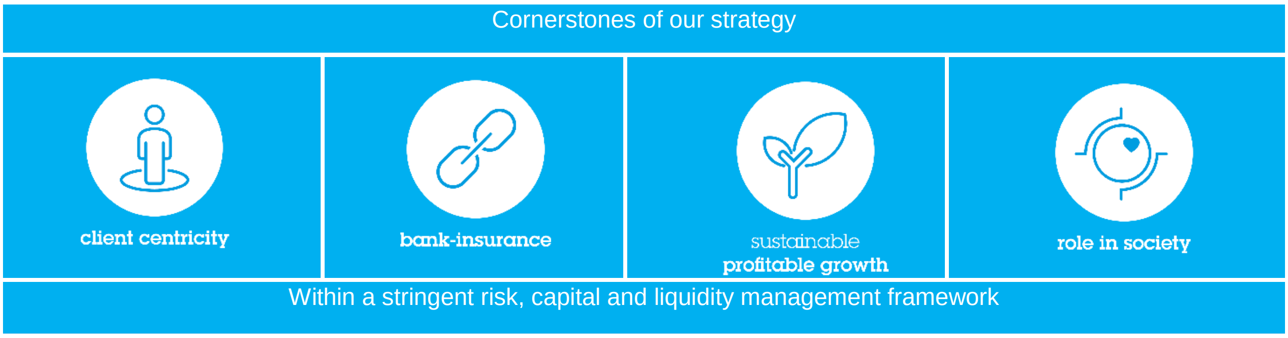
For more detailed information, please see the KBC Group annual report for 2018.

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

Our strategy rests on four principles:

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

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



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

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

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

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

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

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

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

Digitalisation is a means for us, however, not an end. Our ambition is to further strengthen our human approach through appropriate deployment of digitalisation and artificial intelligence. Each client gets to decide their own degree of digitalisation and where the boundaries of their privacy lie. Human contact will continue to play a crucial role, but backed up with digital possibilities: face-to-face contact, for instance, supported by robot advice or chatbots, as in the K'Ching app in Belgium. Examples of new digital products and services in our core countries can be found in the section dealing with the business units.

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

Privacy and data protection are an integral part of our profession as a bank-insurer, making them extremely important to both our internal and external stakeholders. Digitalisation provides us with a multiplicity of data, which means we know our clients better and can advise them more effectively. But it goes without saying that clients only accept us analysing their data once they already trust us, which is why we have drawn up a carefully thought-out privacy policy. Privacy and data protection are not only objective concepts, defined by law, they are highly subjective ones too.

For that reason, we want to let clients themselves choose what we can do with their data. In the process, we aim to communicate in a transparent way and offer our clients a clear privacy overview, in which they can adjust their choices at any moment. We view smart data analysis allied with effective privacy protection as the ideal opportunity to enhance our clients' trust.

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

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

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

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

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

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

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

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

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

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

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

We focus on sustainable and profitable growth (KBC Group)

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

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

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

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

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

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

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

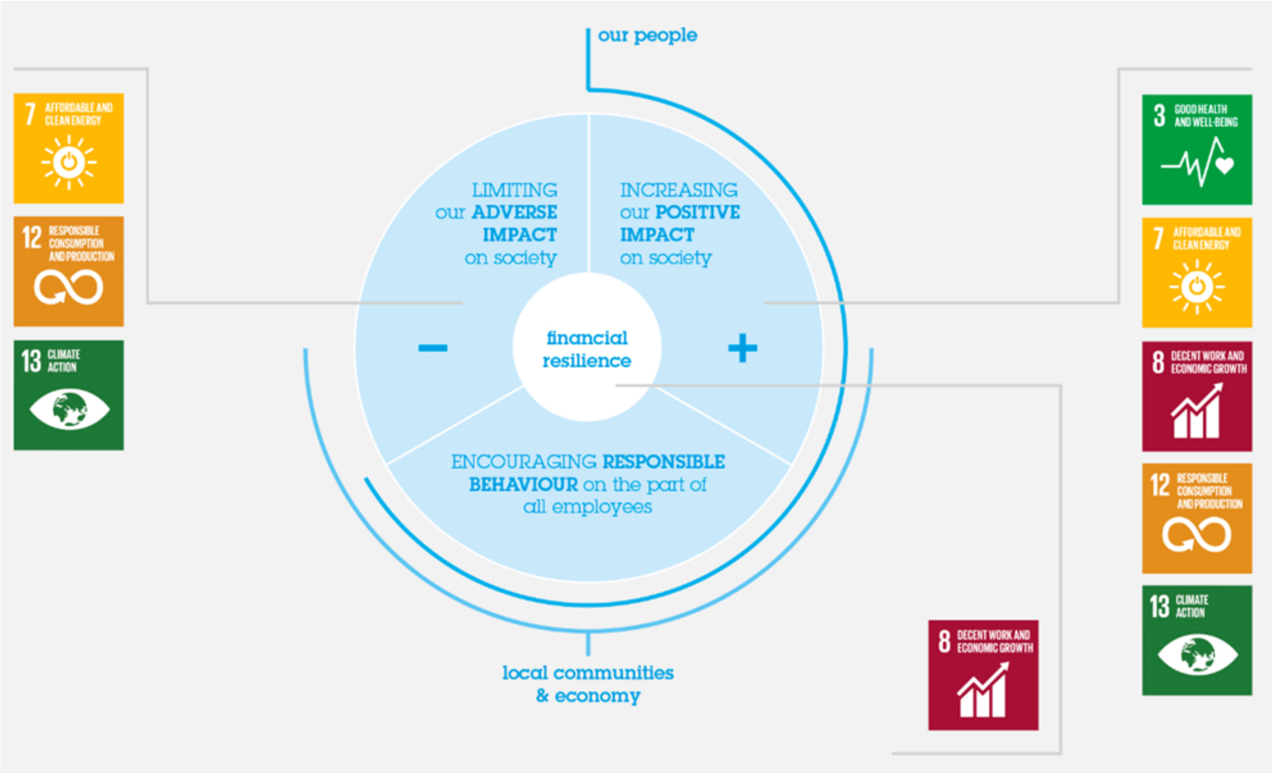
As a sustainable bank-insurer, we aim primarily to live up to the expectations of all our stakeholders. We also want to meet our obligations, so that we can deliver sustainable services not just today but also in the future. When engaging in this core business, we take full account of its ethical, social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

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

Sustainable Development Goals

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

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



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

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

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

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

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

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

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

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

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

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

Aiming to enhance our positive impact on society

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

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

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

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

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

Limiting any negative impact we might have on society

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

Our direct impact:

We limit our own environmental footprint by:

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

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

2018 (KBC Group)

595 thousand GJ of electricity used

314 thousand GJ of gas and heating oil used

377 million km in commuter and business travel

3 391 tonnes of paper used

86 thousand tonnes of CO_2e emissions

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

* See the KBC Group's sustainability report for details of the methodology used.

Our indirect impact:

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

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

We invest in renewable energy and less so in fossil fuels. For some years now, KBC has been scaling back its funding of polluting energy sources and we refuse to finance large-scale biomass operations, oil and gas extraction, and oil and coal-fired power generation. The Czech Republic is the sole exception to this. We amended our policy in this regard in 2018, deciding that ČSOB will withdraw from the coal sector in that country and that the current exposure to coal-fired power generation would be phased out by 2023 at the latest. This means no funding will be provided to any new or existing coal-fired power stations or coal mines from mid-2018 on (with one exception: existing coal-fired plants for centrally controlled heating systems can continue to be funded until 2035 to allow further ecological improvements to be made to them). At year-end 2018, coal funding by KBC/ČSOB totalled less than 40 million euros, compared to 252 million euros two years previously. We are not only ceasing to fund polluting energy companies, we will no longer insure them either. KBC has set itself the target of providing 50% of its energy loans to renewable energy by 2030 (44% at year-end 2018). KBC already accounts for a significant proportion of the financing of wind energy in Flanders, both on land and offshore. We have also signed the 'Green Deal for Circular Procurement' to help achieve a more circular economy in Flanders.

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

More information on climate-related risks and how we address them under 'New developments' in the 'Risk Management' section.

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

Human rights

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

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

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

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

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

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

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

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

Our sustainability governance

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

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

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

The **Corporate Sustainability Division** is responsible for developing the sustainability strategy and implementing it across the group. The team monitors implementation of the strategy and informs the Executive Committee and the Board of Directors on progress twice per year via the KBC Sustainability Dashboard.

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

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

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

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

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

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

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

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

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

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

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

Sector-specific risks	How are we addressing them?
Credit risk The potential negative deviation from the expected value of a financial instrument caused by default on the part of a party to a contract, due to the inability or unwillingness of that party to pay or perform, or due to particular measures on the part of political or monetary authorities in a particular country.	• Existence of a robust management framework • Recording impairment charges, taking risk-mitigating measures, optimising the overall credit risk profile, reporting, stress testing, etc. • Limit systems to manage concentration risk in the loan portfolio.
Market risk in trading activities The potential negative deviation from the expected value of a financial instrument caused by fluctuations in the level or volatility of market prices, such as interest rates, exchange rates, and share and commodity prices.	• Existence of a robust management framework • Historical VaR method, BPV and basis risk limits, 'greeks' and scenario limits for products with options, stress tests, etc.
Operational and other non-financial risks Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems, human error or sudden external events, whether man-made or natural. Other non-financial risks include reputational risk, business risk and strategic risks, including climate-change-related risks.	• Existence of a robust management framework • Group key controls, risk scans, Key Risk Indicators (KRIs), etc.
Market risk in non-trading activities Structural market risks, such as interest risk, equity risk, real estate risk, spread risk, currency risk and inflation risk. Structural risks are risks inherent to the commercial activity or long-term positions.	• Existence of a robust management framework • Basis Point Value (BPV), sensitivity of net interest income, sensitivity per risk type, stress tests, limit tracking for crucial indicators, etc.
Liquidity risk The risk that an organisation will be unable to meet its obligations on time, without incurring higher-than-anticipated costs.	• Existence of a robust management framework • Drawing up and testing emergency plans for managing a liquidity crisis • Liquidity stress tests, management of funding structure, etc.
Technical insurance risks Risks stemming from uncertainty as to how often insured events will occur and how extensive they will be.	• Existence of a robust management framework • Underwriting, pricing, claims reserving, reinsurance and claims handling policies, etc.

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

Review of the consolidated financial statements

- We review the consolidated results in this section of the annual report. A review of the non-consolidated results and the balance sheet is provided in the 'Company annual accounts' section.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was – on balance – very limited.
- Information on financial instruments, hedge accounting and the use thereof is provided in the 'Consolidated financial statements' section (Notes 1.2, 3.3, and 4.1–4.8 among others) and in the 'Risk management' section.
- We believe that all our business units will perform solidly in 2019. For information on forecast economic growth in our core countries, see the section dealing with the business units.
- For Belgium, the recent reform of the Belgian corporation tax system has a recurring positive impact on our results in the years ahead. The negative upfront effect recorded in the last quarter of 2017 should be fully recouped in roughly three years' time.
- We expect IFRS 16 (effective from 2019) to have an impact of roughly -6 basis points on the common equity ratio.
- We expect Basel IV to increase our risk-weighted assets by roughly 8 billion euros (based on year-end 2018 figures).
- For information on significant post-balance-sheet events, see Note 6.8 of the 'Consolidated financial statements'.
- All KBC Bank shares are owned directly and indirectly by KBC Group. KBC Bank paid KBC Group a final dividend of 1 199 million euros for 2017.
- We have started applying IFRS 9 with effect from 2018, which means that the classification of financial assets and liabilities and the impairment methodology have changed considerably. Consequently, some of the income statement and balance sheet figures are not fully comparable to the 2017 reference figures (which are still based on IAS 39, as KBC is making use of transition relief for comparative data). To enhance transparency – and in line with IFRS 9 requirements – we have also moved accrued interest from foreign exchange derivatives in the banking book from 'Net result from financial instruments at fair value through profit or loss' to 'Net interest income'. We have also moved network income (i.e. revenue from margins earned on foreign exchange transactions carried out by the network for our clients) from 'Net result from financial instruments at fair value through profit or loss' to 'Net fee and commission income'. More detailed information can be found in Note 1.1 of the 'Consolidated financial statements'. For the sake of comparability, we have added certain comparisons with pro forma (restated and unaudited) figures for 2017 in the analysis below. This is indicated by the words 'on a comparable basis'. A pro forma restatement of the reference figures for the main income lines has been carried out (see table below).

Pro forma restatement of reference figures for the main income lines, KBC Bank (in millions of EUR, unaudited figures)	2018	2017
Net interest income	4 033	3 546
+ accrued interest from foreign exchange derivatives		+305
= *pro forma* reference figure (used in the analysis of the results)		=3 851
Net result from financial instruments at fair value through profit or loss (FVPL)	161	860
- accrued interest from foreign exchange derivatives		-305
- network income		-99
= *pro forma* reference figure (used in the analysis of the results)		=455
Net fee and commission income	2 062	2 023
+ network income		+99
= *pro forma* reference figure (used in the analysis of the results)		=2 122

Accrued interest from foreign exchange derivatives: this item has been moved from 'FVPL' to 'Net interest income' (in line with the transition to IFRS 9).
Network income (i.e. revenue received from margins earned on foreign exchange transactions carried out by the network for clients): this item has been moved from 'FVPL' to 'Net fee and commission income'.

Consolidated income statement

Consolidated income statement, KBC Bank (in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Net interest income	4 033	3 546
Dividend income	29	20
Net result from financial instruments at fair value through P&L[1]	161	860
Net realised result from available-for-sale assets	-	114
Net realised result from debt instruments at fair value through other comprehensive income	8	-
Net fee and commission income	2 062	2 023
Other net income	167	25
Total income	6 460	6 588
Operating expenses	-3 712	-3 568
Impairment	19	44
on loans and receivables[2]	-	87
on financial assets at amortised cost and at fair value through other comprehensive income[2]	59	-
Share in results of associated companies	12	8
Result before tax	2 779	3 073
Income tax expense	-598	-891
Net post-tax result from discontinued operations	0	0
Result after tax	2 181	2 182
Result after tax, attributable to minority interests[3]	171	179
Result after tax, attributable to equity holders of the parent	2 010	2 003
Ratio of ‘result before tax’ to ‘average total assets’	1.10%	1.24%

[1] Also referred to as ‘Trading and fair value income’.
[2] Also referred to as ‘Loan loss impairment’.
[3] Primarily the 48.14% stake that KBC Group holds in KBC Asset Management.

Key consolidated balance sheet and solvency figures

Selected balance-sheet and solvency items, KBC Bank (in millions of EUR)	2018	2017
Total assets	248 940	256 322
Loans and advances to customers (excl. reverse repos)	144 810	139 090
Securities (equity and debt instruments)	44 387	47 995
Deposits from customers and debt securities (excluding repos)	194 837	194 257
Risk-weighted assets (Basel III, fully loaded)	85 474	83 117
Total equity	16 709	15 656
of which parent shareholders’ equity	14 150	14 083
Common equity ratio (Basel III, fully loaded)	14.8%	14.5%
Liquidity coverage ratio (LCR)	139%	139%
Net stable funding ratio (NSFR)	136%	134%

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

The growth figures for the volume of deposits and loans have been systematically adjusted for the main exchange rate effects and are based on calculations for KBC Group (intragroup transactions between KBC Bank and other KBC entities, for instance, are eliminated).

Analysis of the result

Net interest income

Our net interest income came to 4 033 million euros in 2018, up 5% on its year-earlier level (on a comparable basis). Pressure on commercial credit margins in most core countries, the adverse effect of low reinvestment rates in our core countries in the euro area and the lower net positive effect of ALM forex swaps were more than compensated for by factors including increased lending volumes (see below), lower funding costs, higher interest rates in the Czech Republic and the full inclusion of UBB and Interlease in the figures (instead of just six months in 2017).

Our loans and advances to customers (excluding reverse repos) went up by almost 5% in 2018 to 145 billion euros. There was a 5% increase at the Belgium Business Unit, 6% at the Czech Republic Business Unit and an unchanged level at the International Markets Business Unit, with growth in all countries apart from Ireland, which was affected by the sale of part of the legacy portfolio (when adjusted for this sale, growth at the International Markets Business Unit came to 4%). Our total volume of deposits (195 billion euros in deposits from customers and debt securities (excluding repos)) rose by 1% in 2018, with the Belgium Business Unit recording a fall of 1%, the Czech Republic Business Unit growth of 8% and the International Markets Business Unit an increase of 2%, with growth in all countries apart from Ireland. Disregarding debt securities (which were down due to lower certificates of deposit, redemption of the contingent capital note, etc.), our total volume of deposits rose by as much as 5%. The net interest margin came to 2.00%, 5 basis points higher than in 2017. It amounted to 1.72% in Belgium, 3.07% in the Czech Republic and 2.80% at the International Markets Business Unit.

Net fee and commission income

Our net fee and commission income came to 2 062 million euros in 2018, down 3% on the year-earlier figure (on a comparable basis). Most of the decline was accounted for by a decrease in entry and management fees relating to our asset management activities (due in part to the more uncertain investment climate), but was offset to a limited extent by slightly higher fees for banking services (mainly payments) and the positive effect of the full inclusion of UBB/Interlease.

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

Other income

Other income came to an aggregate 365 million euros, as opposed to 614 million euros in 2017 (on a comparable basis). The 2018 figure includes 29 million euros in dividends received and the 8-million-euro net result from debt instruments at fair value through other comprehensive income. It also includes 161 million euros in trading and fair value income. The latter figure was down 294 million euros year-on-year on a comparable basis, due primarily to the lower dealing room results (chiefly in Belgium and the Czech Republic), a decline in the value of derivatives used for asset/liability management purposes and the negative influence of various market value adjustments Lastly, other income also included 167 million euros in other net income. This was 142 million euros more than in 2017, when -116 million euros had to be recognised in respect of a sector-wide review of tracker rate mortgage loans originated in Ireland before 2009. More information on this matter can be found in Note 3.6 of the 'Consolidated financial statements'.

Operating expenses

Our expenses amounted to 3 712 million euros in 2018, up 4% on the year-earlier figure. This reflected a number of items, including higher ICT expenditure, staff expenses (due in part to wage inflation), special bank taxes, professional fees and depreciation, several one-off items and the full inclusion of UBB/Interlease in 2018 (as opposed to six months in 2017). As a result, the cost/income ratio of our banking activities came to 57,5%, compared to 54,2% in 2017. It was 58% for the Belgium Business Unit, 47% for the Czech Republic Business Unit and 65% for the International Markets Business Unit.

Impairment

There was a net reversal of loan loss impairment of 59 million euros in 2018, compared to a net reversal of 87 million euros in 2017.

As was the case in the previous year, the net reversal in 2018 was largely attributable to Ireland (reversal of 112 million euros in 2018 and 215 million euros in 2017, partially reflecting the positive impact in both cases of higher house prices on the mortgage portfolio in that country). There was also a net reversal – albeit smaller – of loan loss impairment in Bulgaria (10 million euros), in Hungary (9 million euros) and at the Group Centre (34 million euros), while net provisioning in the other countries remained relatively limited (i.e. 4 million euros in Slovakia, 8 million euros in the Czech Republic and 94 million euros in Belgium). As a result, our overall credit cost ratio amounted to -4 basis points in 2018, compared to -6 basis points in 2017. A negative figure signifies a net reversal of impairments and hence a positive impact on the results.

There was a further improvement in the quality of our loans. The proportion of impaired loans (see the 'Glossary of financial ratios and terms' for a definition) in our loan portfolio was 4.3% at year-end 2018, compared to 6% for 2017. This breaks down into 2.6% at the Belgium Business Unit, 2.4% at the Czech Republic Business Unit and 12.2% at the International Markets Business Unit (this relatively high figure was chiefly attributable to Ireland, which had a ratio of 23% due to the property crisis of recent years). The ratio in Ireland was positively influenced in 2018 by the sale of a portfolio of largely impaired loans (approximately 1.9 billion euros) at the end of November 2018, reducing the Irish impaired loans ratio by roughly 10 percentage points. For the group as a whole, the proportion of impaired loans more than 90 days past due came to 2.5%, compared to the year-earlier figure of 3.4%. At year-end 2018, 45% of impaired loans were covered by accumulated impairment charges. More information on the composition of the loan portfolio is provided in the 'Risk management' section.

Other impairment charges totalled 40 million euros in 2018 and related to the impact of revising the residual values of financial car leases in the Czech Republic and various other smaller items.

Income tax expense

Our income tax expense came to 598 million euros in 2018, compared to the year-earlier figure of 891 million euros. This decline partly reflected the reduction in Belgian corporation tax (including the one-off negative effect of 218 million euros in 2017 relating to the impact on deferred taxes recognised on the balance sheet). More information in this regard is provided in Note 3.11 of the 'Consolidated financial statements' section.
Besides paying income tax, we pay special bank taxes (444 million euros in 2018 (419 million euros a year earlier) and included under 'Operating expenses').

Analysis of the balance sheet

Total assets

At the end of 2018, our consolidated total assets came to 249 billion euros, down 3% year-on-year. Risk-weighted assets (Basel III, fully loaded) increased by 3% to 85 billion euros. More information in this regard can be found in the 'Capital adequacy' section.

Loans and deposits

Our core banking business is to attract deposits and use them to provide loans. Indeed, this is reflected in the importance of the figure for loans and advances to customers on the assets side of our balance sheet (145 billion euros (excluding reverse repos) at year-end 2018). Loans and advances to customers rose by almost 5% for the group as a whole, with growth of 5% at the Belgium Business Unit, 6% at the Czech Republic Business Unit, and an unchanged level at the International Markets Business Unit (with growth in all countries apart from Ireland, due to the sale of part of the legacy portfolio). The main lending products at group level were again term loans (65 billion euros) and mortgage loans (60 billion euros).

On the liabilities side, our customer deposits (deposits from customers and debt securities, excluding repos) grew by 1% to 195 billion euros. Deposits fell by 1% at the Belgium Business Unit, but increased by 8% at the Czech Republic Business Unit and by 2% at the International Markets Business Unit. Disregarding debt securities (which were down due in part to lower certificates of deposit), the group's total volume of deposits rose by as much as 5%. The main deposit products at group level were again demand deposits (80 billion euros) and savings accounts (60 billion euros).

Securities

We also hold a portfolio of securities, which totalled roughly 44 billion euros at year-end 2018. The portfolio comprised 2% shares and 98% bonds (with bonds decreasing by 3.8 billion euros in 2018). Roughly 86% of these bonds at year-end 2018 consisted of government paper, the most important being Belgian, Czech, French, Slovak, Spanish and Hungarian. A detailed list of these bonds is provided in the 'Risk management' section.

Other assets and other liabilities

Other important items on the assets side of the balance sheet were loans and advances to credit institutions and investment firms (5 billion euros, virtually the same as a year earlier), reverse repos (22 billion euros, nearly 1 billion euros more than the year-earlier figure), derivatives (positive mark-to-market valuation of 5 billion euros mainly for interest rate contracts, almost 1 billion euros less than a year earlier) and cash and cash balances with central banks and other demand deposits at credit institutions (19 billion euros, 11 billion euros less than at year-end 2017).

Other significant items on the liabilities side of the balance sheet were derivatives (negative mark-to-market valuation of 6 billion euros mainly for interest rate contracts, down slightly more than 1 billion euros year-on-year) and deposits from credit institutions and investment firms (24 billion euros, down 4 billion euros year-on-year).

Equity

On 31 December 2018, our total equity came to 16.7 billion euros. This figure included 14.2 billion euros in parent shareholders' equity, 2.4 billion euros in additional tier-1 instruments and 0.2 billion euros in minority interests. Total equity rose by 1.1 billion euros in 2018, with the most important components in this respect being the first time application of IFRS 9 (-0.6 billion euros (see Note 1.4)), the inclusion of the annual profit (+2.2 billion euros, including minority interests), the issue of a new additional tier-1 instrument in April 2018 (+1 billion euros), the dividend payment to KBC Group (-1.2 billion euros)), changes in the revaluation reserves (-0.1 billion euros), the change in minority interests (-0.2 billion euros) and various smaller items.

Our solvency position remained strong as a result, with a fully loaded common equity ratio of 14.8%. Our leverage ratio came to 5.2%. Detailed calculations of our solvency indicators are given in the 'Capital adequacy' section. The group's liquidity position also remained excellent, as reflected in an LCR ratio of 139% and an NSFR ratio of 136%.

Review of the business units

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

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

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

The economic context

Belgium

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

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

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

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

Czech Republic

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

To offset the increasing shortage of workers, Czech businesses invested more in order to raise their production capacity and productivity.

At 2.0%, average inflation in 2018 remained slightly below its year-earlier level but around the 2% target set by the central bank (CNB). This, combined with a persistently good macroeconomic performance and a weaker-than-expected exchange rate for the Czech currency, prompted the CNB to continue tightening its monetary policy. As a result, its two-week repo rate rose to 1.75% at year-end 2018, compared to the year-earlier figure of 0.50%.

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

International Markets

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

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

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

With real GDP growth of 7%, the Irish economy was once again one of the euro area's strongest performers in 2018. An important provision in this respect is that Irish GDP figures are heavily distorted by the activities of large multinationals in the country, which means that underlying economic growth in Ireland might be lower. Other economic indicators, however, confirmed the favourable economic climate. Irish inflation was up on its 2017 level, but nevertheless remained very limited at just 0.7% in 2018. Persistently robust economic growth in 2018 again ensured that Irish public debt declined further to 64% of GDP. We expect growth to slow to 3.5% in 2019, which is still well above the rate forecast for the euro area.

Where do we stand in each of our countries?

Market position in 2018[1]	Belgium	Czech Republic	Slovakia	Hungary	Bulgaria	Ireland
Main brands	KBC CBC KBC Brussels	ČSOB	ČSOB	K&H	UBB	KBC Bank Ireland
Network	585 bank branches Online channels	235 bank branches[2] Online channels	122 bank branches Online channels	206 bank branches Online channels	214 bank branches Online channels	16 bank branches Online channels
Clients (millions, estimate)	3.2	3.0	0.4	0.8	1.0	0.3
Loan portfolio (in billions of EUR)	108	26	8	5	3	11
Deposits and debt securities (in billions of EUR)	138	32	6	8	4	5
Market share (estimate)						
- bank products	20%	19%	10%	11%	10%	9%[3]
- investment funds	32%	23%	7%	13%	14%	-
Main activities and target groups	We offer a wide range of loan, deposit, asset management, insurance and other financial products in virtually all our countries, where our focus is on private individuals, SMEs and high-net-worth clients. Services for corporate clients additionally include cash management, payments, trade finance, lease, money market activities, capital market products, stockbroking and corporate finance.					
Macroeconomic indicators for 2018[4]						
- GDP growth (real)	1.4%	2.9%	4.1%	4.5%	3.5%	7.0%
- Inflation (average annual increase in consumer prices)	2.3%	2.0%	2.5%	2.9%	2.6%	0.7%
- Unemployment (% of the labour force at year-end; Eurostat definition)	5.5%	2.0%	6.1%	3.6%	4.8%	5.3%
- Government budget balance (% of GDP)	-0.8%	0.7%	-0.7%	-2.4%	0.2%	-0.4%
- Public debt (% of GDP)	102.3%	32.2%	49.0%	72.2%	22.0%	64.0%

[1] Market shares and client numbers: based on own estimates. For traditional bank products: average estimated market share for loans and deposits. Loan portfolio: see 'Risk management'. Deposits and debt securities: deposits from customers and debt securities (excluding repos). The number of bank branches does not include self-service branches. The Belgium Business Unit also includes the small network of 11 KBC Bank branches established in the rest of Europe, the US and Southeast Asia, which focus on activities and clients with links to KBC's core markets (not included in the number of branches in the table). Market shares are based on the latest available data (e.g., from the end of September 2018).
[2] ČSOB bank branches and Postal Savings Bank financial centres.
[3] Retail segment (home loans and deposits for private individuals (excluding demand deposits)).
[4] Data based on estimates made at the start of 2019.

Belgium

Specific objectives

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

A few achievements in 2018

We have deliberately chosen to pursue an omnichannel strategy, where clients themselves decide how they want to contact us. We are seeing an increase in contacts via KBC Live (telephone, video and chat facilities) and growing use of our digital systems and apps. In response, we are investing heavily to further expand and improve these systems (such as KBC Touch, KBC Sign, KBC Mobile, KBC Invest, KBC Assist, K'Ching and the Business Dashboard), with the emphasis on innovative solutions that make our clients' lives easier. For instance, we were the first bank in Belgium to add multibanking options to its mobile app and have also integrated a variety of non-banking services in the same app. It is now possible to use it, for example, to pay for parking, to buy public transport tickets and to check luncheon voucher balances directly. In October 2018, we welcomed our millionth KBC/CBC/KBC Brussels Mobile client. Moving on specifically to our business clients, we developed the 'KBC Trade Club'. This platform, which is designed for companies and businesses in various KBC home markets, offers access to numerous companies in different countries via the Trade Club Alliance and focuses on two important services, namely a matchmaking community and an extensive library of market and other information. We also invested in KBC Live to substantially expand its service offering. Businesses too can now contact it for all types of information.

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

For several years now, we have been active in Brussels under the separate KBC Brussels brand, which has a metropolitan, innovative image and a tailored network. We continued to modernise the branch network in 2018, part of which entailed bolstering the provision of remote advice by further expanding KBC Brussels Live. This service has gone down very well with our clientele in the capital, thanks to its ease of use and accessibility. This, together with a range of other initiatives, helped KBC Brussels attract over 10 000 new clients in 2018. Our growth strategy advanced significantly in Wallonia too, one aspect of which includes the opening of several new branches. In 2018 specifically, we also moved into the new CBC head office in Namur.

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

We give concrete shape to our wider role in the community via initiatives relating to entrepreneurship, environmental awareness, financial literacy and demographic ageing.
Several years ago, we launched our business incubator Start it @kbc to stimulate entrepreneurship. It provides new start-ups with accommodation and above all with support and advice, with input from external partners. The focus in 2018 was on women entrepreneurs, internationalisation and corporate ventures.
A fine example in the area of financial literacy is the 'Get-a-Teacher' initiative, which aims to further enhance financial knowledge among young people. 'Get-a-Teacher' gives schools the opportunity to 'order' a teacher from KBC. He or she

is a KBC employee who has been screened and selected for this role. The initiative is a free, no-obligation offer and is separated from the group's commercial communication. We also view it as part of our job to guide clients through the digitalisation process by means of our 'DigiWise' offering, for instance, which includes 'Digi Tuesday' sessions, modules on cyber-security and other relevant themes.
As regards the environment and sustainability in general, we issued a green bond and launched an SRI pension-saving fund (discussed in more detail elsewhere in this annual report). Our KBC Mobility project aims to support the transition to 'multi-mobility'. KBC Autolease, for instance, is steadily evolving into a mobility provider by committing itself to different modes of transport. This includes bicycles, as reflected in the successful KBC Cycle Lease product. Our Olympus app, meanwhile, enables our clients to opt for alternative forms of transport such as train, bus, tram, metro, bike and car share, depending on their destination and the time of day.

Czech Republic

Specific objectives

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

A few achievements in 2018

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

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

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

We took a number of initiatives in terms of our social engagement, focusing on environmental awareness, financial literacy, entrepreneurship and demographic ageing.
On the environmental front, for example, we decided that we would exit the coal sector in the Czech Republic and that the current exposure to coal-fired power generation would be reduced to zero by 2023 at the latest. This means no further funding will be provided to any new or existing coal-fired power stations or coal mines from mid-2018 on (with one

exception: existing coal-fired power plants, which supply heat to 40% of the Czech population, can continue to be funded until 2035 to allow further ecological improvements to be made to them).
In terms of financial literacy, ČSOB has for several years now boasted over 300 ambassadors from among its ranks who are sent to schools to provide interactive and engaging lessons on financial subjects. Our Education Fund, meanwhile, has worked with the Olga Havel Foundation for many years in supporting students in difficulty. Voluntary work and cooperation with NGOs in the Czech Republic remain highly successful. For example, no fewer than 1 586 colleagues offered their knowledge and skills to an NGO for a day in 2018.
We want to support our clients throughout their lives and, therefore, pay particular attention to senior citizens. In collaboration with the Sue Ryder Home advisory centre, we launched the online portal 'Don't get lost in old age', which provides elderly people and their families with lots of practical information and professional advice.

International Markets

Specific objectives

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

A few achievements in 2018

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

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

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

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

How do the business units contribute to the group result?

Consolidated income statement, KBC Bank: Result after tax, attributable to equity holders of the parent (in millions of EUR)	2018	2017
Belgium Business Unit	903	1 021
Czech Republic Business Unit	619	669
International Markets Business Unit	496	417
Hungary	182	137
Slovakia	73	69
Bulgaria	86	44
Ireland	155	167
Group Centre (including planned divestments)	-8	-104
Total net result, KBC Bank	2 010	2 003

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

Risk Management

Mainly active in banking and asset management, we are exposed to a number of typical industry-specific risks such as credit risk, movements in interest rates and exchange rates, liquidity risk, operational risk, etc.

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

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, 'Credit risk management at transactional level', 'Managing credit risk at portfolio level', part of the 'Loan and investment portfolio' table (audited parts are indicated in the footnote to the table), the 'Details for the loans and investment portfolio of KBC Bank Ireland' table, 'Forbearance measures' and the 'Other credit exposure' 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 KBC Bank' table , the 'Exposure to sovereign bonds 'table and 'Foreign exchange risk';
- parts of the 'Liquidity risk' section: the introduction, 'Managing liquidity risk' and 'Maturity analysis';

Risk governance

Main elements in our risk governance model:

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

Relevant risk management bodies and control functions:

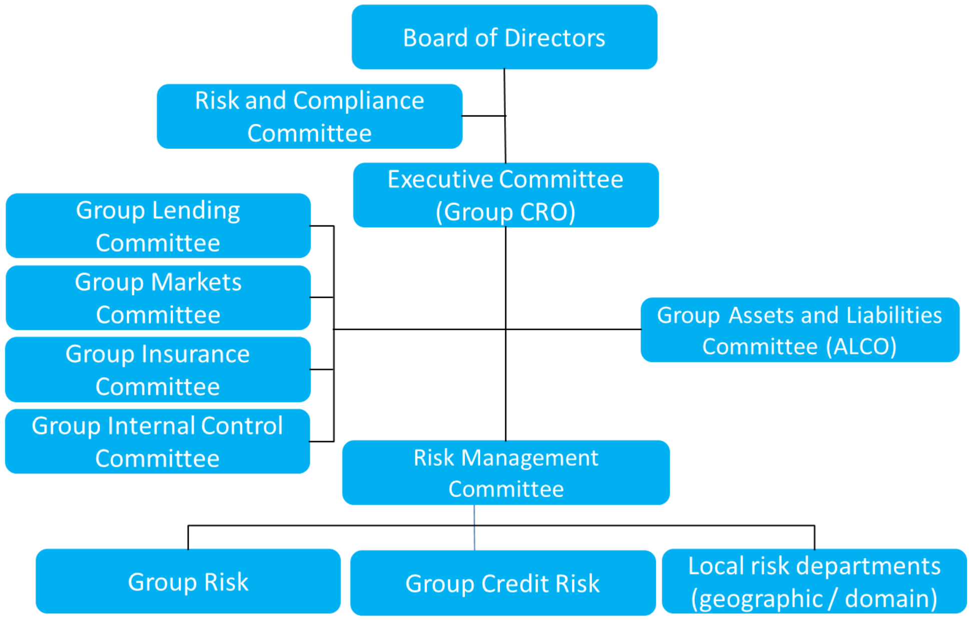
- Executive Committee:
  - makes proposals to the Board of Directors about risk and capital strategy, risk appetite, and the general concept of the risk management framework;
  - decides on the integrated and risk-type-specific risk management frameworks and monitors their implementation throughout the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

- The Group Internal Control Committee (GICC) supports the Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system.

- In order to strengthen the voice of the risk function and to ensure that the decision-making bodies of the business entities are appropriately challenged on matters of risk management and receive expert advice, KBC has deployed independent Chief Risk Officers (CROs) throughout the group according to a logical segmentation based on entity and/or business unit. Close collaboration with the business is assured since they take part in the local decision-making process and, if necessary, can exercise a veto. Independence of the CROs is achieved through a direct reporting line to the Group CRO.
  - Group Risk and Group Credit Risk (known collectively as 'the Group risk function') have a number of responsibilities, including monitoring risks at an overarching group-wide level, developing risk and capital models (while business models are typically developed by business), performing independent validations of all risk and capital models, developing risk frameworks, advising/reporting on issues handled by the Executive Committee and the risk committees and challenging/supporting the business in managing the risks related to the full lifecycle of their activities and projects.

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

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



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

Risk appetite

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

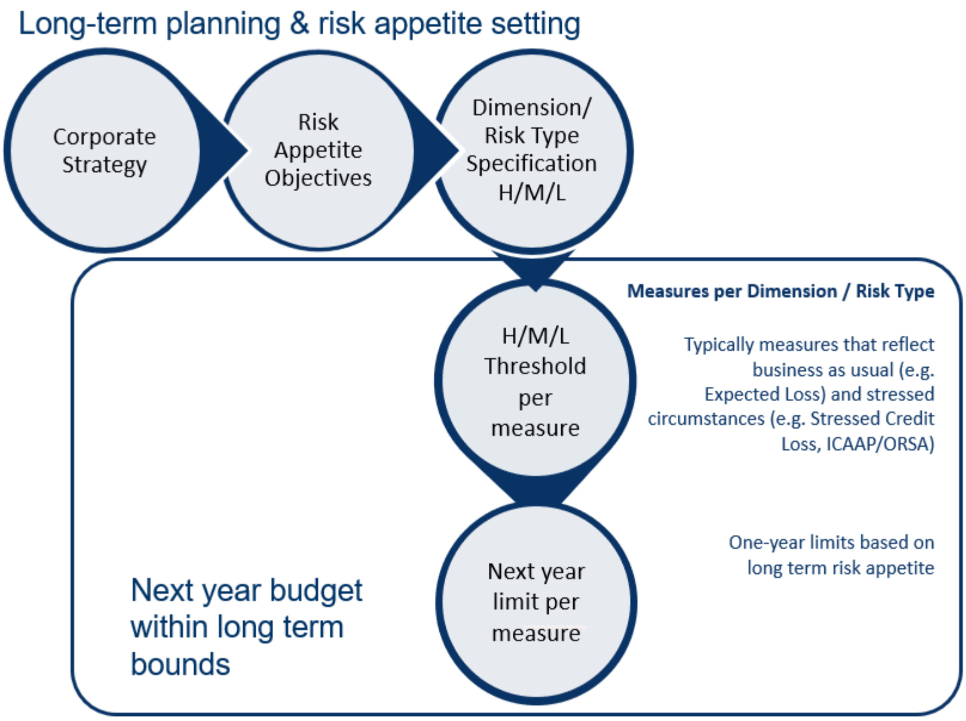
How much risk KBC is prepared to assume and its tolerance for risk is captured in the notion of 'risk appetite'. It is a key instrument in the overall (risk) management function of the KBC group, as it helps us to better understand and manage risks by explicitly expressing – both qualitatively and quantitatively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

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

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

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

The layered nature of the risk appetite statement is illustrated as follows.



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

Credit risk

What is it?

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

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

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

Managing credit risk at transactional level

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

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

Managing credit risk at portfolio level

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

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

Risk modelling

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

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

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

For credit linked to defaulted borrowers in PD classes 10, 11 and 12, we record impairment losses based on an estimate of the net present value of the recoverable amount. This is done on a case-by-case basis, and on a statistical basis for smaller credit facilities. In addition, for non-defaulted credit in PD classes 1 to 9, we record impairment losses on a portfolio basis'.

As of 2018, impairment losses are recorded according to IFRS 9 requirements (calculated on a lifetime expected credit loss (ECL) basis for defaulted borrowers and on a 12-month or lifetime ECL basis for non-defaulted borrowers, depending on whether there has been a significant increase in credit risk and a corresponding shift from 'Stage 1' to 'Stage 2'). Specific IFRS 9 models are used for this purpose.

Credit risk exposure in the banking activities stemming from lending and investment

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

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.

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

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

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

2018

Outstanding loan portfolio of
165
billion euros

95%
in Europe

4.3%
in impaired loans

Credit cost ratio account for
-0.04%
of the outstanding loan portfolio

Total loan portfolio	31-12-2018	31-12-2017
Total loan portfolio (in billions of EUR)		
Outstanding and undrawn amount	205	191
Amount outstanding	165	154
Loan portfolio breakdown by business unit (as a % of the outstanding portfolio)[1]		
Belgium[2]	65.8%	63.4%
Czech Republic	15.6%	15.8%
International Markets	16.3%	18.0%
Group Centre	2.3%	2.8%
Total	100.0%	100.0%
Loan portfolio breakdown by counterparty sector (as a % of the outstanding portfolio)[1]		
Private individuals	39.9%	42.1%
Finance and insurance	7.4%	5.2%
Governments	3.5%	2.8%
Corporates	49.2%	49.8%
Services	11.2%	11.6%
Distribution	7.5%	7.6%
Real estate	6.6%	7.0%
Building and construction	4.1%	4.2%
Agriculture, farming, fishing	2.7%	2.8%
Automotive	2.5%	2.3%
Other (sectors < 3%)	14.5%	14.3%
Total	100.0%	100.0%
Loan portfolio breakdown by region (as a % of the outstanding portfolio)[1,3]		
Home countries	86.6%	88.5%
Belgium	55.0%	55.5%
Czech Republic	15.0%	14.8%
Ireland	6.5%	7.8%
Slovakia	5.0%	4.9%
Hungary	3.2%	3.3%
Bulgaria	2.0%	2.1%
Rest of Western Europe	7.9%	7.4%
Rest of Central and Eastern Europe	0.5%	0.4%
North America	1.4%	1.4%
Asia	1.6%	0.8%
Other	1.9%	1.4%
Total	100.0%	100.0%
Loan portfolio breakdown by risk class (as a % of the outstanding portfolio, based on internal rating scale)[1]		
Unimpaired		
PD 1 (lowest risk, default probability ranging from 0.00% up to, but not including, 0.10%)	28.8%	27.3%
PD 2 (0.10% – 0.20%)	9.0%	8.4%
PD 3 (0.20% – 0.40%)	14.9%	16.7%
PD 4 (0.40% – 0.80%)	14.1%	14.5%
PD 5 (0.80% – 1.60%)	12.0%	11.5%
PD 6 (1.60% – 3.20%)	8.5%	7.9%
PD 7 (3.20% – 6.40%)	4.6%	3.9%
PD 8 (6.40% – 12.80%)	1.9%	1.8%
PD 9 (highest risk, ≥ 12.80%)	1.8%	1.8%
Unrated	0.1%	0.2%
Impaired		
PD 10	1.9%	2.6%
PD 11	0.7%	1.0%
PD 12	1.8%	2.4%
Total	100.0%	100.0%
Loan portfolio breakdown by IFRS 9 ECL stage[4] (as a % of the outstanding portfolio)[1]		
Stage 1 (credit risk has not increased significantly since initial recognition)	83.9%	-
Of which: PD 1 -4	63.1%	-
Of which: PD 5 – 9, incl. unrated	20.8%	-
Stage 2 (credit risk has increased significantly since initial recognition – not credit impaired) incl POCI[5]	11.8%	-
Of which: PD 1 -4	3.7%	-
Of which: PD 5 – 9, incl. unrated	8.1%	-
Stage 3 (credit risk has increased significantly since initial recognition – credit impaired) incl. POCI[5]	4.3%	-
Of which: PD 10 – 12 (impaired)	4.3%	-
Total	100.0%	-

Impaired loan portfolio	31-12-2018	31-12-2017
Impaired loans (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans[6]	7 151	9 186
Of which more than 90 days past due	4 099	5 242
Impaired loans by business unit (as a % of the impaired loan portfolio[1]		
Belgium[2]	38.9%	29.6%
Czech Republic	8.8%	6.3%
International Markets	45.9%	59.6%
Ireland	34.2%	46.3%
Slovakia	2.2%	2.1%
Hungary	2.7%	3.5%
Bulgaria	6.8%	7.7%
Group Centre	6.4%	4.6%
Total	100.0%	100.0%
Impaired loans by sector (as a % of impaired loan portfolio)[1]		
Private individuals	43.0%	47.1%
Distribution	13.2%	8.7%
Real estate	9.1%	14.1%
Services	6.9%	7.4%
Building and construction	6.8%	6.4%
Metals	4.5%	1.6%
Electricity	2.4%	1.1%
Other (sectors <2%)	14.2%	13.6%
Total	100.0%	100.0%
Loan Loss impairments (in millions of EUR)		
Portfolio-based impairment (i.e. based on PD 1 to 9, incl unrated)	-	237
Specific impairment (i.e. based on PD 10 – 12)	-	4 039
Of which:specific impairment for impaired loans that are more than 90 days past due	-	3 361
Impairment for stage 1 portfolio	130	-
Impairment for stage 2 portfolio, incl. POCI cured	321	-
Impairment for stage 3 portfolio, incl. POCI still impaired	3 203	-
Of which: impairment for impaired loans that are more than 90 days past due	2 695	-
Credit cost ratio		
Belgium Business Unit[2]	0.09%	0.09%
Czech Republic Business Unit	0.03%	0.02%
International Markets Business Unit	-0.46%	-0.74%
Ireland	-0.96%	-1.70%
Slovakia	0.06%	0.16%
Hungary	-0.18%	-0.22%
Bulgaria	-0.31%	0.83%
Group Centre	-0.83%	0.40%
Total	-0.04%	-0.06%
Impaired loans ratio		
Belgium Business Unit[2]	2.6%	2.8%
Czech Republic Business Unit	2.4%	2.4%
International Markets Business Unit	12.2%	19.7%
Ireland	23.0%	35.0%
Slovakia	2.0%	2.6%
Hungary	3.8%	6.5%
Bulgaria	15.0%	21.6%
Group Centre	12.0%	9.8%
Total	4.3%	6.0%
Of which more than 90 days past due	2.5%	3.4%
Coverage ratio		
Loan loss impairments / impaired loans	44.8%	44.0%
Of which: more than 90 days past due	65.7%	64.1%
Loan loss impairments / impaired loans, mortgages excluded	49.3%	54.0%
Of which: more than 90 days past due	73.5%	73.4%

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

3 A more detailed breakdown by country is available in KBC's Quarterly Reports (at www.kbc.com).
4 Under IFRS 9 financial instruments that are subject to impairment are classified into three stages, namely Stage 1: Performing; Stage 2: Underperforming (where lifetime expected credit losses are required to be measured); and Stage 3: Non-performing or impaired; More information on these IFRS 9 stages can be found under Notes on statement of compliance and changes in accounting policies
5 Purchased or originated credit impaired assests; gross amounts, as opposed to net amount in accounting reporting.
6 Figures differ from those appearing in Note 4.2 of the 'Consolidated financial statements' section, due to differences in scope. The 2 035-million-euro decline between year-ends 2017 and 2018 breaks down as follows: an increase at the Belgium Business Unit (+ 66 million euros), an increase at the Czech Republic Business Unit (+ 53 million euros), a decrease at the International Markets Business Unit (- 2 191 million euros, - 1 805 million euros of which was attributable to Ireland) and an increase at the Group Centre (+ 37 million euros).

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

Details for the loan and investment portfolio of KBC Bank Ireland*	31-12-2018	31-12-2017
Total portfolio (outstanding, in billions of EUR)	11	12
Breakdown by loan type		
Mortgage retail	96%	90%
Non mortgage retail	1%	0%
Corporate	4%	10%
Breakdown by risk class		
Normal (PD 1–9)	77%	65%
Impaired (PD 10)	10%	18%
Impaired (PD 11+12)	13%	17%
Credit cost ratio	-0.96%	-1.70%
Coverage ratio	39%	36%

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

Forbearance measures

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

Forbearance measures consist of concessions towards a borrower facing, or about to face, financial difficulties. They may involve:
lowering or postponing interest or fee payments;
extending the term of the loan to ease the repayment schedule;
capitalising arrears;
declaring a moratorium (temporary principal and/or interest payment holidays);
providing debt forgiveness.

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

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

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

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

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

On-balance-sheet exposures with forbearance measures (in millions of EUR) – movements between opening and closing balances							
Gross carrying value		Movements					
	Opening balance	Loans which have become forborne	Loans which are no longer considered to be forborne	Repayments	Write-offs	Other[1]	Closing balance
2018							
Total	5 841	417	-746	-239	-196	-1 187	3 890
Of which KBC Bank Ireland	3 824	97	-361	-7	-115	-1 243	2 195
2017							
Total	7 083	954	-1 677	-375	-478	335	5 841
Of which KBC Bank Ireland	5 083	167	-787	-220	-419	–	3 824
Impairment		Movements					
	Opening balance	Existing impairment on loans which have become forborne	Decrease in impairment because loans are no longer forborne	Increase in impairment on forborne loans	Decrease in impairment on forborne loans	Other[2]	Closing balance
2018							
Total	1 422	48	-298	216	-176	-557	655
Of which KBC Bank Ireland	838	0	-148	192	-34	-495	353
2017							
Total	1 967	75	-586	222	-284	28	1 422
Of which KBC Bank Ireland	1 511	0	-537	92	-227	0	838

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

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

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

Other credit risks

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

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

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

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

1 Excluding a nominative list of central governments, and all exposure to EU institutions and multilateral development banks.

2 After deduction of collateral received and netting benefits.

3 Decrease is mainly the result of the transfer of money market placements to the overall Loan and investment portfolio as of 2018.

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

Exposure to sovereign bonds

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

Structured credit exposure

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

Regulatory capital

The regulatory capital requirements for credit risk increased from 5 507 million euros at the end of 2017 to 5 698 million euros at the end of 2018. This increase in weighted credit risks during 2018 was driven largely by new regulatory requirements and limitations imposed by supervising authorities and by volume increases in the core countries. For more details, please see the 'Credit risk' section in KBC's Risk Report, which is available at www.kbc.com.

Market risk in trading activities

What is it?

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

We are exposed to market risk via the trading books of our dealing rooms in Belgium, the Czech Republic, Slovakia and Hungary, as well as via a minor presence in the UK and Asia. Limited trading activities are also carried out at the recently acquired United Bulgarian Bank (UBB) in Bulgaria (regulatory capital charges for market risk amounted to 3 million euros at the end of 2018).

For the sake of completeness, it should be mentioned that, although the remaining three legacy business lines (i.e. reverse mortgages, insurance derivatives and fund derivatives) have effectively been wound down, they still attract some market risk capital charges by virtue of the current regulatory framework (accounting for about 1% of the total regulatory capital charges for market risk set out in the table at the end of this section).

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

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Managing market risk

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

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

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

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

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

In addition to the risk limit framework, we conduct extensive stress tests. Whereas the HVaR model captures potential losses under normal market conditions, stress tests show the impact of exceptional circumstances and events with a low degree of probability. The historical and hypothetical stress-test scenarios incorporate both market risk and the liquidity aspects of disruptions in the market. The stress tests are discussed at GMC meetings to enable the members to gain an insight into potential weaknesses in the positions held by the group. During 2018, the GMC approved a new historical stress testing framework. This new framework uses full revaluation for interest rate risk, foreign exchange risk and equity risk factors, as well as an integrated historical stress test result, and includes scenarios from the more recent past. A new stress testing framework was also approved for the equity desk. For more details about stress testing, please refer to the relevant sub-section of the 'Market risk management' section in KBC's Risk Report, which is available at www.kbc.com.

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

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

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

Risk analysis and quantification

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

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

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

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

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

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

Regulatory capital

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

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

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

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

Non-financial risks

Operational risk

What is it?

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

Managing operational risk

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

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

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

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

The building blocks for managing operational risks

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

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

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

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

Regulatory capital requirements

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

Additional focus on information risk management

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

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

Reputational risk

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

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

The Reputational Risk Framework is in line with the overarching KBC Risk Management Framework. The pro-active and re-active management of reputational risk is the responsibility of the business, supported by many specialist units (including Group Communication and Group Compliance). The Reputational Risk Management Framework will be updated in order to reflect the new KBC methodology on how to deal with 'step-in' risk in line with the new Basel Committee on Banking Supervision guidelines on this topic.

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

Business and strategic risks

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

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

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

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

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

Market risk in non-trading activities

Managing market risk in non-trading activities

> **What is it?**
> The process of managing our structural exposure to market risks (including interest rate risk, equity risk, real estate risk, foreign exchange risk and inflation risk) is also known as Asset/Liability Management (ALM).
> 'Structural exposure' encompasses all exposure inherent in our commercial activity or in our long-term positions (banking and insurance). Trading activities are consequently not included. Structural exposure can also be described as a combination of:
> - mismatches in the banking activities linked to the branch network's acquisition of working funds and the use of those funds (via lending, among other things);
> - 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).

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

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

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

The main building blocks of KBC's ALM Risk Management Framework are:
- a broad range of risk measurement methods such as Basis-Point-Value (BPV), gap analysis and economic sensitivities;
- net interest income simulations performed under a variety of market scenarios. Simulations over a multi-year period are used in budgeting and risk processes;
- capital sensitivities arising from banking book positions that impact available regulatory capital (e.g. Fair value through Other Comprehensive Income);
- stress testing and sensitivity analysis.

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

Interest rate risk

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

Impact of a parallel 10-basis-point increase in the swap[2] curve for KBC Bank (in millions of EUR)	Impact on value[1]	
	2018	2017
Total	-65	-76

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

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

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

Swap BPV (10 basis points) of the ALM book * (in millions of EUR)	2018	2017
Average for 1Q	-76	-79
Average for 2Q	-64	-74
Average for 3Q	-61	-73
Average for 4Q	-65	-76
As at 31 December	-65	-76
Maximum in year	-76	-79
Minimum in year	-61	-73

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

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

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

Interest sensitivity gap of the ALM book (including derivatives) (in millions of EUR)	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2018	7 337	-5 922	763	3 558	5 561	1 512	-12 810	0
31-12-2017	-624	-7 114	4 165	5 656	4 540	2 120	-8 743	0

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

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

Credit spread risk

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

Exposure to sovereign bonds at year-end 2018, carrying value[1] (in millions of EUR)						
Total (by portfolio)	At amortised cost	At fair value through other comprehensive income	Held for trading	Total	*For comparison purposes: total at year-end 2017*	Economic impact of +100 basis points[3]
KBC Core Countries						
Belgium	10 165	939	79	11 184	12 993	-477
Czech Republic	4 849	623	342	5 814	6 079	-280
Hungary	1 926	290	82	2298	2 224	-100
Slovakia	2 335	163	35	2532	2 483	-141
Bulgaria	454	504	13	971	978	-54
Ireland	1 064	67	0	1 131	1 153	-51

Other countries						
France	3 455	854	0	4 309	4 406	-275
Spain	2 014	337	0	2 351	2 640	-115
Italy	819	475	0	1 295	1 463	-54
Poland	1 185	163	0	1 349	1 372	-51
Germany	395	0	0	395	400	-7
Austria	328	114	0	442	469	-19
US	1 008	0	0	1 008	976	-39
Rest[2]	2095	355	4	2 454	3 195	-66
Total carrying value	32 091	4 883	556	37 530	40 830	–
Total nominal value	30 339	4 365	541	35 244	37 530	–

1 The carrying amount refers to the amount at which an asset or a liability is recognised in the company's books, i.e. the fair value amount for instruments categorised as 'At fair value through other comprehensive income' and 'Held for trading', and the amortised cost for instruments categorised as such. The table excludes exposure to supranational entities of selected countries. No material impairment on the government bonds in portfolio.
2 Sum of countries whose individual exposure is less than 0.5 billion euros at year-end 2018.
3 Theoretical economic impact in fair value terms of a parallel 100-basis-point upward shift in the spread over the entire maturity structure (in millions of euros). Only a portion of this impact is reflected in profit or loss and/or equity. Figures relate to non-trading positions in sovereign bonds for the banking and insurance businesses (impact on trading book exposure was very limited and amounted to -1.5 million euros at year-end 2018).

Main changes in 2018:

- The carrying value of the total sovereign bond exposure decreased by 3.3 billion euros. There was a limited increase in exposure to sovereign bonds in some of our Central Europe Markets (Hungary +74 million euros, and Slovakia +49 million euro) and the United States (+32 million euro) and a generalized decrease in exposure to other sovereign , of which Belgium (-1.8 billion euros).

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

- The carrying value of the total FVOCI government bond portfolio incorporated a revaluation reserve of 0.3 billion euros, before tax (114 million euros for Belgium, 27 million euros for France, 26 million euros for Bulgaria, 23 million for Czech Republic and 90 million euros for the other countries combined).

Portfolio of Belgian government bonds:

- Despite the decline, Belgian sovereign bonds accounted for 30 % of our total government bond portfolio at the end of 2018, reflecting the importance to KBC of Belgium, the group's primary core market.
- At year-end 2018, the credit ratings assigned to Belgium by the three main international agencies were 'Aa3' from Moody's, 'AA' from Standard & Poor's and 'AA-' from Fitch. More information on Belgium's macroeconomic performance is provided in the separate section dealing with Belgium. For more information, please refer to the rating agencies' websites.
- Apart from interest rate risk, the main risk to our holdings of Belgian sovereign bonds is a widening of the credit spread. To assess the potential impact of a 100-basis-point upward shift in the spread (by year-end 2018) we apply two approaches:
  - Theoretical full economic impact approach. This approach assumes a potential full sale of the portfolio at market pirces. The impact of a 100-basis-point shift would then amount to a change in value of -477 million euros (see previous table).
  - IFRS approach: the impact on IFRS profit or loss is marginal since the lion's share of the portfolio of Belgian sovereign bonds was classified as 'At amortised cost' implying sales prior to maturity date are unlikely (74.9%; impact only upon realisation). The remaining part is classified as 'FVOCI' (24.6%; no impact on profit or loss); the impact on IFRS unrealised gains regarding FVOCI assets is -155 million euros (after tax) for an increase of 100 basis points.

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

Banking book exposure to non-sovereign bonds at year-end, by rating: economic impact of +100 basis points (in millions of EUR)	31-12-2018	31-12-2017
Bonds rated AAA	-108	-122
Bonds rated AA+, AA, AA-	-64	-80
Bonds rated A+, A, A-	-15	-31
Bonds rated BBB+, BBB, BBB-	-21	-30
Non-investment grade and non-rated bonds	-18	-42
Total carrying value	5 906	6 444
Total nominal value	6 332	6 793

Equity risk

KBC Bank and KBC Asset Management hold smaller equity portfolios. We have provided more information on total non-trading equity exposures at KBC Bank in the tables below.

Equity portfolio of KBC Bank (breakdown by sector, in %)	31-12-2018	31-12-2017
Financials	46%	47%
Consumer non-cyclical	1%	0%
Communication	0%	0%
Energy	0%	0%
Industrials	36%	37%
Utilities	0%	0%
Consumer cyclical	7%	8%
Materials	0%	0%
Other and not specified	10%	8%
Total	100%	100%
In billions of EUR	0.26	0.25
of which unlisted	0.21	0.2

* The main differences between the 0.26 billion euros in this table and the 0.95 billion euros for 'Equity instruments' in the table appearing in Note 4.1 of the 'Consolidated financial statements' section – besides a number of minor differences in the scope of consolidation – are that:
(a) Shares in the trading book are excluded above, but are included in the table in Note 4.1.
(b) Real estate participations that are not consolidated are classified as 'investments in building' in this table, but classified as 'shares' in the table in Note 4.1 (as they are not consolidated).
(c) Most 'investments in funds' are treated on a 'look-through' basis (according to the underlying asset mix of the fund and therefore also partially classified as 'fixed-income instruments'), whereas they are classified as 'shares' in the table in Note 4.1.

Impact of a 25% drop in equity prices (in millions of EUR)	Impact on value	
	2018	2017
Total	-65	-69

Non-trading equity exposure (in millions of EUR)	Net realised gains (in income statement)		Net unrealised gains on year-end exposure (in equity)	
	31-12-2018	31-12-2017	31-12-2018	31-12-2017
Total	0	89	16	60

Real estate risk

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

Impact of a 25% drop in real estate prices (in millions of EUR)	Impact on value	
	2018	2017
Total	-94	-100

Inflation risk

KBC's exposure to inflation is secondary in nature, i.e. via changes in interest rates. We monitor and hedge these risks in line with the policy for managing the interest rate risk (see above). The direct exposures of KBC to the inflation risk is limited and mainly arises from contractual payments that are linked to wage inflation, e.g. in the non-life insurance business in Central Europe and in the pension fund for own employees.

Foreign exchange risk

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

Impact of a 10% decrease in currency value*	Impact on value	
(in millions of EUR)	Banking	
	31-12-2018	31-12-2017
USD	-0,64	-0,63
GBP	0,03	0,14
CHF	0,00	0,02
SEK	0,00	-0,00
RON	-2,33	-5,13
DKK	0,00	-0,01
CZK	-0,67	-0,96

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

Capital sensitivity to market movements

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

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

CET1 sensitivity to main market drivers, KBC Bank (as %-points of CET1 ratio))		
IFRS impact caused by	31-12-2018	31-12-2017
+100-basis-point parallel shift in interest rates	-0.2%	-0.2%
+100-basis-point parallel shift in spread	-0.2%	-0.7%
-25% in equity prices	0%	-0.2%
Joint scenario	-0.4%	-1.2%

Hedge accounting

Assets and liabilities management uses derivatives to mitigate interest rate and FX risks. The goal of hedge accounting is to reduce the volatility in P&L resulting from the use of these derivatives.
KBC decided not to apply the hedge accounting for credit and equity risks. Hedge accounting is implemented at group and local level. When the necesarry criteria are met, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. For more information about hedge accounting, please see the Notes to the accounting policies in the Consoliated annual accounts.

Risk categories applying for hedge accounting

Interest rates

Hedging derivatives are used to mitigate an interest rate risk that arises from a different interest rate profile between assets and their funding liabilities. The hedge accounting status of a hedge can be associated to 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 cash flow 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 cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

KBC Group uses macro-hedge accounting strategies for homogeneous portfolio's of smaller items where the frequency of the occurrence or the relative small size of the average operation makes the one to one relationship sub-optimal. It is the case for, among others, mortgages, SME credits or customer deposits. Macro hedge strategies might be dynamic and undergo frequent changes depending on, among others, balancing the portfolio ("open portfolio hedge").
Micro hedge designation is used in case of hedging individual large-sized assets or liabilities. Typical assets are large corporate credits and bond acquisitions for which the credit spread profile is relevant. Liabilities can be KBC own issues or specific long term facilities offered by a central bank. Micro hedges are either fair value or cash flow based.

Foreign exchange

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

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and 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 to qualify the strategy for hedge accounting.
Prospective tests are mostly based either on a sensitivity analysis (verifying if the basis point value of the hedged portfolio versus 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 cash flow macro hedges, extensive forward looking analysis will 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 a comparison of the fair value change of the portfolio of hedging instruments versus the fair value change of the hedged eligible items imputable to the hedged risk on a given period (ratio of the fair value changes stays within the 80-125% interval).
For FX hedging, effectiveness is ensured by adjusting the sum of the nominal amount of the funding deals and FX derivatives to the nominal amount of the net asset value of the strategic participations.

Sources of Hedge ineffectiveness

Ineffectiveness for interest rate swaps may occur due to:

- Differences in relevant terms between the hedged item and the hedging instrument; this might include discrepancy in interest curves and in the 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 is not matched by the loan. However, hedging swaps are fully collateralized or traded through clearing houses and the credit value adjustement is limited.

Regarding the hedge of the net currency 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 will impact profit and loss. A de-designated hedging instrument can be re-designated in a new hedge relationship. Effective hedge accounting strategies could also be discontinued for technical or strategic reasons.

Liquidity risk

What is it?
Liquidity risk is the risk that an organisation will be unable to meet its liabilities/obligations as they come due, without incurring higher than expected costs

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

Managing liquidity risk

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

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

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

- *Contingency liquidity risk.* This is the risk that KBC may not be able to attract additional funds or replace maturing liabilities under stressed market conditions. This risk is assessed on the basis of liquidity stress tests, which measure how the liquidity buffer of the group’s bank 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 of the group.
- *Structural liquidity risk.* This is the risk that KBC’s long-term assets and liabilities might not be (re)financed on time or can only be refinanced at a higher-than-expected cost. We manage our funding structure so as to maintain substantial diversification, to minimise funding concentrations in time buckets, and to limit the level of reliance on short-term wholesale funding. We manage the structural funding position as part of the integrated strategic planning process, where funding – in addition to capital, profits and risks – is one of the key elements. At present, our strategic aim is to maintain sufficiently high buffers in terms of LCR and NSFR via a funding management framework, which sets clear funding targets for the subsidiaries (own funding, reliance on intra-group funding) and provides further incentives via a system of intra-group pricing to the extent subsidiaries face a funding mismatch.

  In the table below, we have illustrated the structural liquidity risk by grouping the assets and liabilities according to the remaining term to maturity (using the contractual maturity date). The difference between the cash inflows and outflows is referred to as the ‘net funding gap’. At year-end 2018, KBC had attracted 24 billion euros’ worth of funding on a gross basis from the professional interbank and repo markets.
- *Operational liquidity risk*. Operational liquidity management is conducted in the treasury departments, based on estimated funding requirements. Group-wide trends in funding liquidity and funding needs are monitored on a daily basis by the Group Treasury function, ensuring that a sufficient buffer is available at all times to deal with extreme liquidity events in which no wholesale funding can be rolled over.

Maturity analysis

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

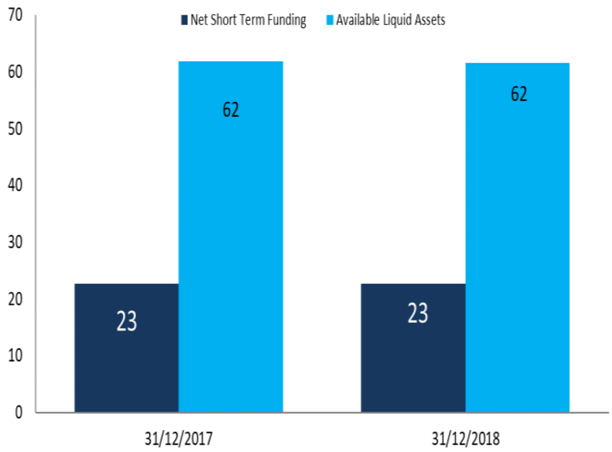
* Cashflows exclude interest rate flows consistent with internal and regulatory liquidity reporting. Inflows/outflows that arise from margin calls posted/received for MtM positions in derivatives are reported in the 'not defined' bucket. Professional funding' includes all deposits from credit institutions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

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

Liquid asset buffer

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

* Compared to last year's Annual Report, these figures on unencumbered central bank eligible assets take into account the legal lending limits.



Funding information

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

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

- Funding from customers (circa 164.7 billion euros, 79% of the total figure), consisting of demand deposits, term deposits, savings deposits, other deposits, savings certificates and debt issues placed in the network. Some 62% of the funding from customers relates to private individuals and SMEs.
- Debt issues placed with institutional investors (14.4 billion euros, 7% of the total figure), mainly comprising IFIMA debt issues (0.9 billion euros), covered bonds (7.9 billion euros), tier-2 issues (1.5 billion euros) and KBC Group NV senior debt (4.0 billion euros).
- Net unsecured interbank funding (18.6 billion euros, 9% of the total figure).
- Net secured funding (-21.1 billion euros in repo funding, -10% of the total figure) and certificates of deposit (15.6 billion euros, 7% of the total figure). Net secured funding was negative at year-end 2018 due to the fact that KBC carried out more reverse repo transactions than repo transactions.
- Total equity (16.7 billion euros, 8% of the total figure, including additional tier-1 issues of 1.4 billion eurosand 1.0 billion euros).

Please note that:

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

LCR and NSFR

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

New developments in Risk during 2018

Brexit

At the time of approval of this report by the Board of Directors mid-March 2019, we still have no certainty on the outcome of negotiations. Despite the very difficult political labyrinth, we assume there will be a Brexit deal before or after the March 29th deadline, i.e. a softish but not smooth Brexit scenario. This would mean that a transition deal will be agreed that will last until end 2020. Negotiations on a final deal during that period will most likely move towards a deal entailing free trade in goods, broad regulatory alignment and the absence of a hard border. It is also assumed that the details of that deal and the broader outline of the proposed future relationship between the UK and EU ensure that Brexit will not materially derail the expected growth scenario for either the euro area or the UK.
Apart from this assumption, KBC keeps track of all possible consequences of harder scenarios for which strategic contingency plans were developed in 2018.

KBC Bank UK branch

The Prudential Regulatory Authority of the Bank of England confirmed that KBC does not have to separately apply to be part of the Temporary Permissions Regime because we did already submit our application for direct authorisation as a third country branch in April 2018. Provided the ECB also agrees with KBC's application to act as a third country branch in the UK, KBC's UK activities are safeguarded for a period of 3 years.

Clearing of derivatives by UK players.

End December 2018, the EU also decided emergency measures for issues which could cause financial disruption or systemic risks such as the derivative clearing business in a hard Brexit scenario. This resulted in transitional arrangements for EU banks and companies, which are allowed to continue using UK based clearing houses to process derivatives trades if Brexit negotiations fail, but strictly short term (1 year for derivatives and 2 years for central securities depositaries). In order to deal with the limited transition period, KBC is already active on an alternative platform for derivatives clearing on the EU continent.

Domains of main impact in case of Brexit:

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

Interest rate benchmarks

Interest rate benchmarks play a key role for the smooth functioning of the financial market and are widely used by banks and other market participants. Currently interest rate benchmarks are undergoing in-depth reform.
After the scandals surrounding the setting of LIBOR the Financial Conduct Authority of the UK announced that they would no longer oblige banks to contribute to the LIBOR setting panel from the end of 2020.
In European Union, the Benchmark Regulation (EU 2016/1011, "BMR" - currently due to come into effect from 1st January 2020) set revised guidelines and regulations surrounding the eligibility of a benchmark calculation methodology to move the focus away from 'professional judgement' to a more transaction based methodology. The European Security and Markets Association (ESMA) was given the role of overseeing this transition. The ECB has launched two initiatives in this field: the development of a daily euro unsecured overnight interest rate (ESTER) and the set-up of an industry working group, together with other European institutions, tasked with identifying alternative risk-free rates for widespread adoption.
In this context, KBC Group has set up a Working Group to quantify the risks associated with these changes and prepare a transition plan. KBC Group are monitoring all market developments and are contributing to the public consultations from the ECB Risk Free Rate Working Group. KBC Group will also start pre-studies and implementation plans for ESTER.

Model Risk

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

Digital transformation in risk management

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

Climate change

Climate related risks and opportunities remain high on the agenda of the business and control functions such as Risk, Compliance and Legal. Climate related risks are part of the KBC Corporate Sustainability Strategy and are continuously monitored and if needed, reported as risk signals towards senior management.
To deal with the growing expectations from different stakeholders such as institutional investors, government and customers, a project on Sustainable Finance was launched in 2018 to further support the gradual implementation of climate-related risks in the overall KBC Risk Management Framework in a more structured way.

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

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

Capital adequacy

Capital adequacy (or solvency) risk is the risk that the capital base of the bank might fall below an acceptable level.

The statutory auditors have audited the information in this section that forms part of the IFRS financial statements, namely the ‘Solvency at group level’ table (the audited parts are indicated in a footnote to the table), ‘ICAAP’ and ‘Stress testing’.

Solvency at KBC Bank

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

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

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

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

The overall capital requirement for KBC is determined not only by the ECB, but also by the decisions of the local competent authorities in its core markets. The decision taken by the relevant Czech and Slovak authorities to gradually increase the countercyclical buffer requirement to 1.5% and the introduction of a countercyclical capital buffer in Ireland raised the countercyclical buffer at the level of KBC Bank to 0.55%.

For Belgian systemic financial institutions, the National Bank of Belgium (NBB) had already announced its systemic capital buffers at an earlier date. For the KBC group, this meant that an additional capital buffer of 1.5% of CET1 was required for 2018. Lastly, the conservation buffer currently stands at 1.875% for 2018, and is to increase to 2.5% in 2019.

Altogether, this brings the fully loaded CET1 requirement to 10.8% (4.5% (pillar 1) + 1.75% (P2R) + 2.5% (conservation buffer) + 1.5% (systemic buffer) + 0.55% (countercyclical buffer)), with an additional P2G of 1%. KBC clearly exceeds this requirement: at year-end 2017, the fully loaded CET1 ratio came to 14.8%, which represented a capital buffer of 3 382 million euros relative to the minimum requirement of 10.8%. Furthermore, since part of the capital requirements is to be gradually built up by 2019, the relevant requirement for 2018 on a phased-in basis amounts to 9.875% of CET1 (4.5% (pillar 1) + 1.75% (P2R) + 1.875% (conservation buffer) +1.5% (systemic buffer) + 0.25% (countercyclical buffer)). The regulatory minimum solvency targets were also amply exceeded throughout the entire financial year.

Solvency KBC Bank (in millions of EUR) consolidated, CRD IV,/CRR (Basel III), fully loaded	31/12/2018	31/12/2017
Total regulatory capital (after profit appropriation)	15 749	15 756
Tier-1 capital[1]	13 625	13 484
Common equity	12 618	12 077
Parent shareholders' equity (excluding minorities)	14 150	14 083
Intangible fixed assets (including deferred tax impact) (-)	-299	-271
Goodwill on consolidation (including deferred tax impact) (-)	-750	-752
Minority interests	34	33
Hedging reserve (cash flow hedges) (-)	1263	1 339
Valuation diff. in fin. liabilities at fair value - own credit risk (-)	-14	-1
Value adjustment due to the requirements for prudent valuation (-)[2]	-63	-124
Dividend payout (-)	-906	-1 199
Renumeration of AT1 instruments (-)	-8	-2
Deduction re. financing provided to shareholders (-)	-91	-91
Deduction re. Irrevocable payment commitments (-)	-32	-
IRB provision shortfall (-)	-100	-268
Deferred tax assets on losses carried forward (-)	-565	-670
Additional going concern capital	1 007	1 407
CRR compliant AT1 instruments[3]	1 000	1 400
Minority interests to be included in additional going concern capital	7	7
Tier-2 capital	2 124	2 273
IRB provision excess (+)	204	316
Subordinated liabilities	1 911	1 947
Minority interests to be included in tier 2 capital	9	9
Capital requirement		
Total weighted risks	85 474	83 117
Solvency ratios		
Common equity ratio	14,8%	14,5%
Tier-1 ratio	15,9%	16,2%
Total Capital ratio	18,4%	19,0%

[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] it was announced that – on 19 March 2019 – KBC Group would call the additional tier-1 instrument it issued in 2014. The European Central Bank (ECB) granted KBC Group permission to call this instrument, which has a nominal value of 1.4 billion euros, and at the same time to call the subordinated intercompany loan of the same amount that KBC Group NV granted to KBC Bank NV.: see Consolidated financial statements, note 6.8.

Leverage ratio

At year-end 2018, our fully loaded leverage ratio at KBC Bank stood at 5.2% (see table below). More details, including a description of the processes used to manage the risk of excessive leverage, can be found in KBC's Risk Report, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor).

In millions of EUR Leverage ratio KBC Bank (Basel III fully loaded)	31/12/2018	31/12/2017
Tier-1 capital	13 625	13 484
Total exposures	263 249	269 242
Total Assets	248 940	256 322
Adjustment for derivatives	-3 101	-3 911
Adjustment for regulatory corrections in determining Basel III Tier-1 capital	-1 900	-2 176
Adjustment for securities financing transaction exposures	408	816
Off-balance sheet exposures	18 902	18 191
Leverage ratio	5,2%	5.0%

ICAAP

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

A backbone process in our ICAAP is the Alignment of Planning Cycles (APC). This yearly process aims to create an integrated three-year plan in which the strategy, finance, treasury and risk perspectives are collectively taken into account. In this process, the risk appetite of the group is set and cascaded by setting risk limits at entity level.

The APC is not only about planning, it is also about closely monitoring the execution of the plan in all its aspects (P&L, risk weighted assets, liquidity). Such monitoring is reflected in dedicated reports drawn up by the various Group functions.

Stress testing

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

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

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

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

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

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

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

EBA 2018 stress test

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

Corporate governance statement

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

Name	Position	Period served on the Board in 2018	Expiry date of current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors	Members of the EC	AC	RCC
Number of meetings in 2018				11					6	9
LEYSEN Thomas	Chairman	Full year	2019	10	●					
THIJS Johan	President of the Executive Committee	Full year	2021	11				● (c)		
FALQUE Daniel	Executive Director	Full year	2020	11				●		
HOLLOWS John	Executive Director	Full year	2021	9				●		
LUTS Erik	Executive Director	Full year	2021	9				●		
POPELIER Luc	Executive Director	Full year	2021	11				●		
SCHEERLINCK Hendrik	Executive Director	Full year	2021	11				●		
VAN RIJSSEGHEM Christine	Executive Director	Full year	2021	10				●		
ARISS Nabil	Independent Director	Full year	2022	11	●		●		6	9
CALLEWAERT Katelijn	Non-Executive Director	Full year	2021	11	●	●				
DE BECKER Sonja	Non-Executive Director	Full year	2020	10	●	●				
DEPICKERE Franky	Non-Executive Director	Full year	2019	11	●	●				9 (c)
KIRÁLY Júlia	Non-Executive Director	From 21 December	2019	0	●					
MAGNUSSON Bo	Independent Director	Full year	2020	11	●		●		6	9
PAPIRNIK Vladimira	Non-Executive Director	From 21 December	2019	0	●					
WITTEMANS Marc	Non-Executive Director	Full year	2022	11	●	●			6 (c)	

Statutory auditor: PwC Bedrijfsrevisoren cvba, represented by Roland Jeanquart and Gregory Joos.
Secretary to the Board of Directors: Johan Tyteca.
Abbreviations: Board of Directors: Board; Executive Committee: EC; Audit Committee: AC; Risk & Compliance Committee: RCC.
(c) Chairman of this committee.
* Matthieu Vanhove, who was a non-executive director up to and including 20 December, attended 11 Board meetings. Walter Nonneman, who was a non-executive director up to and including 20 December, likewise attended 11 Board meetings.

Changes in the composition of the Board in 2018

At the General Meeting of 25 April 2018, Marc Wittemans and Christine Van Rijsseghem were re-appointed for a term of four years, while Nabil Ariss was re-appointed as an independent director, within the meaning of and in line with the criteria set out in Article 526*ter* of the Companies Code, likewise for a term of four years.

Matthieu Vanhove and Walter Nonneman resigned as non-executive directors with effect on 21 December. The Board co-opted Vladimira Papirnik and Júlia Király to replace them as non-executive directors with effect from that date.

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

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

Proposed changes in the composition of the Board in 2019

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

On the advice of the Nomination Committee, it will be proposed that Vladimira Papirnik and Júlia Király be appointed definitively as non-executive directors for a term of four years that will end after the General Meeting of 2023.

Composition of the EC

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

Statutory auditor

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

Main features of the internal control and risk management systems

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

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

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

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

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

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

Corporate culture and integrity policy

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

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

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

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

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

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

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

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

Combating corruption and bribery

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

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

Combating corruption and avoiding conflicts of interest, in general, are dealt with as part of an authoritative training course. In 2018, branch network staff, KBC Insurance employees and tied agents and their staff were trained specifically on how to avoid conflicts of interest. At KBC group's Central European entities, anti-corruption and anti-bribery courses are integrated into compliance training and provided face-to-face or via e-learning. More than 7 000 members of staff took these courses in the Czech Republic, over 2 000 in Slovakia and almost 900 in Hungary, while over 1 600 people at ČSOB's insurance entities took part in this training, too. At United Bulgarian Bank, courses were provided to more than 300 new and existing employees. In Ireland, this training formed part of the compliance ethics e-learning course, which is provided each year (almost 1 500 staff members took the course).

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

Anti-money laundering practices

Given that KBC does not want to be involved in any activity that could be considered as money laundering or the funding of terrorism, an anti-money laundering policy has been developed at group level. The aim of this policy is to establish a general framework for combating money laundering and the funding of terrorism (including proliferation financing of weapons of mass destruction). Each group entity has developed its own AML programme based on specific, group-wide compliance rules (including 'Know Your Customer' and 'Know Your Transactions' standards) covering the minimum requirements, but also ensuring that there is scope to implement local legislation.

In order to properly identify all the risks, an annual risk assessment is carried out at all entities.
Precisely because KBC does not want to be involved in these activities, training courses are provided at regular intervals to all employees, tied agents and their staff.

Furthermore, employees, tied agents and their staff are expected to strictly follow established procedures and guidelines and to exercise due vigilance when identifying customers and checking transactions. They are also expected to report anything suspicious to the Compliance function.

Responsible taxpayer

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

Whistleblower policy

KBC has a policy in place regarding whistleblowers. It expects its employees, tied agents and their staff – when going about their work – to look out for signs of crime, any serious infringements of rules or regulations and other malpractice on the part of employees and clients. All employees, tied agents and their staff have a basic moral duty – as well as the legal means – to report any suspicions of such conduct.

KBC prefers customary lines of reporting to be used so that specific concerns can be discussed with line management. If that is not possible, the person in question can resort to one of the reporting channels specified in the policy for the protection of whistleblowers. A new procedure has been drawn up specifically for and communicated to Belgian employees, associated agents and their staff. KBC may report directly and anonymously to the respective supervisors in their areas of competence.

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

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

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

1 The business side assumes responsibility for managing its own risks

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Shareholder structure on 31 December 2018

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

At 31 December 2018, the shareholder structure of KBC Bank NV was as follows:

	Number of shares
KBC Group NV	915 228 481
KBC Insurance NV	1
Total	915 228 482

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

Article 34 of the Belgian Royal Decree of 14 November 2007 concerning the obligations of issuers of financial instruments admitted to trading on a regulated market, does not apply to KBC Bank because it has not permitted any securities carrying voting rights to be included on a regulated market for trading.

Additional information

- Acquisition of treasury shares. KBC Bank NV and its subsidiaries do not hold any treasury shares.
- Conflicts of interest that fall within the scope of Articles 523, 524 and 524*ter* of the Belgian Companies Code. There were no such conflicts during financial year 2018.
- The Board worked out an arrangement regarding transactions and other contractual ties between the company (including its affiliated companies) and its directors, not covered by the conflict of interest rule set out in Articles 523 or 524*ter* of the Companies Code. It has been incorporated into the *Corporate Governance Charter* of KBC Bank NV.
- Discharge to directors and to the statutory auditor. It will be requested at the General Meeting to grant discharge to the directors and auditor for the performance of their mandate in financial year 2018.
- At year-end 2018, the AC comprised the following members:

- Marc Wittemans (non-executive director), who holds a Master's Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences. He is Managing Director of MRBB CVBA, the holding company of the Boerenbond (farmers' union), and is the Chairman of the AC.
- Nabil Ariss (independent director), who is a graduate from HEC Paris (1983) and holds an MBA from the University of Chicago Booth School of Business (1987). He has advised the boards of directors of companies and financial institutions on strategy, organisation, business operations and business finance for more than 30 years, first at McKinsey, then at J.P. Morgan. He retired from J.P. Morgan as vice chairman in May 2013 and is currently an independent adviser.
- Bo Magnusson (independent director), who is a graduate of the High School Social Science Programme and holds certificates in Accounting, Macroeconomics, Treasury Management and Financial & Risk Management. He held different positions at SEB (1982-2011), including in the areas of accounting and finance. During his career there, he was Head of the Retail Division (2005-2008), Deputy President and CEO (2008-2011) and Head of Group Staff & Business Support (2009-2011). He was Chairman of 4T Sverige AB (2012-2015) and Chairman of Norrporten AB (2013-2016). He is Chairman of the Board of Carnegie Holding AB and of Carnegie Investment Bank AB, Chairman of SBAB Bank AB and of Sveriges Säkerställda Obligationer AB (a subsidiary of SBAB Bank AB), and Chairman of Rikshem AB and of Rikshem Intressenter AB (holding company and owner of Rikshem AB).

These members possess the requisite individual and collective expertise in the activities conducted by the bank and in the areas of accounting and/or auditing, based on their education and extensive business experience.

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

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

- The Remuneration Committee of KBC Group NV is also authorised to act in relation to KBC Bank NV. It advises the Board of Directors of KBC Group NV regarding the remuneration policy pursued at both KBC Group NV and KBC Bank NV. At year-end 2018, the Remuneration Committee was made up of Thomas Leysen (Chairman), Júlia Király and Philippe Vlerick.
- The Nomination Committee of KBC Group NV is also authorised to act in relation to KBC Bank NV. At year-end 2018, the Nomination Committee was made up of Thomas Leysen, Philippe Vlerick, Franky Depickere, Sonja De Becker and Vladimira Papirnik.
- KBC Group NV and CBC Banque SA intends to transfer the shares it holds in KBC Asset Management (48.14% and 4.51% of the outstanding shares) to KBC Bank on 25 April 2019 by means of a share sale, after which KBC Bank will hold all of KBC Asset Management's shares (apart from one which will continue to be held by KBC Insurance).The transfer fits in with the aim to simplify and optimise the shareholder structure of KBC Asset Management by means of a share sale, after which KBC Group NV will carry out a capital increase at KBC Bank. After the sale, KBC Bank will preserve its solid solvency position. The reorganisation is subject to the regulatory approval of the Financial Services and Markets Authority.
- In compliance with the laws on the incompatibility of offices held by managers of credit institutions, the following is a list of the external offices held by the executive managers and directors of KBC Bank NV in other companies, with the exception of those offices performed in companies within the meaning of Article 27, §3, para. three of the Act of 22 March 1993.

Annex 1
to the annual report of the Board of Directors for the financial year ending on 31 December 2018

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

Company name	Reg.office	Sector	Office held	Listed (N= not)	Share of capital held (N= none)
Nabil Ariss, Independent Director					
Fresnel1823 Limited	UK	Consulting	Executive Director	N	N
Callewaert Katelijn, Director					
Cera Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Almancora Beheersmaatschappij NV	Belgium	Management	Executive Director	N	N
Cera cvba	Belgium	Management	Member of the Executive Committee	N	N
Sonja De Becker, Director					
SBB Accountants en Belastingconsulenten BV cvba	Belgium	Accountancy & consulting	Chairman of the Board of Directors	N	N
M.R.B.B. cvba	Belgium	Holding company	Chairman of the Board of Directors	N	N
SBB Bedrijfsdiensten BV cvba	Belgium	Accountancy & consulting	Executive Director	N	N
BB-Patrim cvba	Belgium	Holding company	Chairman of the Board of Directors	N	N
Agri Investment Fund cvba	Belgium	Holding company	Director	N	N
Acerta cvba	Belgium	Holding company	Director	N	N
Franky Depickere, Director					
Almancora Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Cera cvba	Belgium	Management	Executive Director	N	N
Cera Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Euro Pool System International BV	Netherlands	Packaging	Director	N	N
BRS Microfinance Coop cvba	Belgium	Finance	Director	N	15.66%
Julia Kiraly, Director					
Fintor Holding Ltd	Hungary	Management	Member of the Board	N	N
Thomas Leysen, Chairman of the Board of Directors					
Umicore nv	Belgium	Non-ferrous metals	Chairman of the Board of Directors	Euronext	N
Mediahuis Partners nv	Belgium	Media	Chairman of the Board of Directors	N	N
Booischot nv	Belgium	Real estate	Director	N	N
Mediahuis NV	Belgium	Publishing	Chairman of the Board of Directors	N	N
Bo Magnusson, Independent Director					
Rikshem AB	Sweden	Real estate	Chairman of the Board of Directors	N	N
Rikshem Intressenter AB	Sweden	Holding company	Chairman of the Board of Directors	N	N
Carnegie Investment Bank AB	Sweden	Investment company	Chairman of the Board of Directors	N	N
SBAB AB	Sweden	Mortgage company	Chairman of the Board of Directors	N	N
Sveriges Sakerstallda obligationer AB	Sweden	Mortgage company	Chairman of the Board of Directors	N	N
Carnegie Holding AB	Sweden	Holding company	Chairman of the Board of Directors	N	N
Val Papirnik, Director					
Marc Wittemans, Director					
Aktiefinvest cvba	Belgium	Real estate	Executive Director/CEO – Chairman of the Board of Directors	N	N
Arda Immo nv	Belgium	Real estate	Chairman of the Board of Directors	N	N
SBB Accountants en Belastingconsulenten bv cvba	Belgium	Accountancy & consulting	Director	N	N
SBB Bedrijfsdiensten bv cvba	Belgium	Accountancy & consulting	Director	N	N
M.R.B.B. cvba	Belgium	Holding company	Executive Director/CEO	N	N
Agri Investment Fund cvba	Belgium	Holding company	Director	N	N
Acerta cvba	Belgium	Holding company	Director	N	N
Acerta Consult cvba	Belgium	HR services	Director	N	N
Acerta Public nv	Belgium	IT services & software	Director	N	N
Shéhérazade développement cvba	Belgium	IT services & software	Director	N	N
Arvesta NV	Belgium	Agricultural and horticultural	Director	N	N

Consolidated financial statements

Abbreviations used

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

Consolidated income statement

(in millions of EUR)	Note	2018 (IFRS 9)	2017 (IAS 39)
Net interest income	3.1	4 033	3 546
Interest income	3.1	6 485	5 760
Interest expense	3.1	- 2 452	- 2 214
Dividend income	3.2	29	20
Net result from financial instruments at fair value through profit or loss	3.3	161	860
Net realised result from available-for-sale assets	3.4	-	114
Net realised result from debt instruments at fair value through OCI	-	8	-
Net fee and commission income	3.5	2 062	2 023
Fee and commission income	3.5	2 572	2 706
Fee and commission expense	3.5	- 509	- 683
Other net income	3.6	167	25
TOTAL INCOME		6 460	6 588
Operating expenses	3.8	- 3 712	- 3 568
Staff expenses	3.8	- 1 735	- 1 690
General administrative expenses	3.8	- 1 808	- 1 718
Depreciation and amortisation of fixed assets	3.8	- 168	- 160
Impairment	3.10	19	44
on loans and receivables	3.10	-	87
on financial assets at AC and at FVOCI	3.10	59	-
on available-for-sale assets	3.10	-	- 2
on goodwill	3.10	0	0
other	3.10	- 41	- 41
Share in results of associated companies and joint ventures	3.11	12	8
RESULT BEFORE TAX		2 779	3 073
Income tax expense	3.12	- 598	- 891
RESULT AFTER TAX		2 181	2 182
attributable to minority interests	-	171	179
attributable to equity holders of the parent	-	2 010	2 003

- We are preparing the financial statements for 2018 and subsequent years in accordance with IFRS 9 (see Note 1.1 for more details) and have elected to make use of transition relief for disclosing comparative information.
- We have dealt with the main items in the income statement under ‘Review of the consolidated financial statements’ in the ‘Report of the Board of Directors’ and ‘Review of the business units’ sections. The statutory auditor has not audited these sections.
- The results for United Bulgarian Bank and Interlease, which were acquired in mid-2017, have been incorporated into the group's results as of the second half of 2017 (contribution to net profit for that period: 27 million euros). For more information on this matter, see Note 6.6 in this report.
- The breakdown of interest income and interest expense on financial instruments calculated using the effective interest rate method and on other financial instruments (not calculated using the effective interest rate method) is provided in Note 3.1.

Consolidated statement of comprehensive income

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
RESULT AFTER TAX	2 181	2 182
attributable to minority interests	171	179
attributable to equity holders of the parent	2 010	2 003
OCI TO BE RECYCLED TO PROFIT OR LOSS	- 29	24
Net change in revaluation reserve for equity instruments	-	- 63
Fair value adjustments before tax	-	12
Deferred tax on fair value changes	-	0
Transfer from reserve to net result	-	- 75
Impairment	-	0
Net gains/losses on disposal	-	- 75
Deferred taxes on income	-	0
Net change in revaluation reserve for bonds	-	77
Fair value adjustments before tax	-	74
Deferred tax on fair value changes	-	37
Transfer from reserve to net result	-	- 33
Impairment	-	0
Net gains/losses on disposal	-	- 32
Amortisation and impairment of revaluation reserve for available-for-sale financial assets following reclassification to ‘loans and receivables’ and ‘held-to-maturity assets’	-	- 14
Deferred taxes on income	-	13
Net change in revaluation reserve (FVOCI debt instruments)	- 82	-
Fair value adjustments before tax	- 99	-
Deferred tax on fair value changes	22	-
Transfer from reserve to net result	- 5	-
Impairment	0	-
Net gains/losses on disposal	- 6	-
Deferred taxes on income	2	-
Net change in hedging reserve (cashflow hedges)	76	17
Fair value adjustments before tax	46	220
Deferred tax on fair value changes	- 9	- 245
Transfer from reserve to net result	39	42
Gross amount	60	64
Deferred taxes on income	- 21	- 22
Net change in translation differences	- 57	- 105
Gross amount	- 57	- 105
Deferred taxes on income	0	0
Hedge of net investments in foreign operations	37	98
Fair value adjustments before tax	40	182
Deferred tax on fair value changes	- 11	- 92
Transfer from reserve to net result	9	8
Gross amount	13	12
Deferred taxes on income	- 4	- 4
Net change in respect of associated companies and joint ventures	- 4	0
Gross amount	- 4	- 2
Deferred taxes on income	1	2
Other movements	0	- 1

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
OCI NOT TO BE RECYCLED TO PROFIT OR LOSS	- 25	74
Net change in revaluation reserve (FVOCI equity instruments)	- 6	-
Fair value adjustments before tax	- 17	-
Deferred tax on fair value changes	- 1	-
Transfer to retained earnings on realisation of assets	12	-
Gross amount	12	-
Deferred taxes on income	0	-
Net change in defined benefit plans	- 26	80
Remeasurements	- 35	113
Deferred tax on remeasurements	9	- 33
Net change in own credit risk	7	- 6
Fair value adjustments before tax	9	- 8
Deferred tax on fair value changes	- 2	3
Transfer to retained earnings on realisation of assets	0	0
Gross amount	0	0
Deferred taxes on income	0	0
Net change in respect of associated companies and joint ventures	0	0
Remeasurements	0	0
Deferred tax on remeasurements	0	0
TOTAL COMPREHENSIVE INCOME	2 126	2 280
attributable to minority interests	171	181
attributable to equity holders of the parent	1 955	2 100

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

Consolidated balance sheet

(in millions of EUR)	Note	31-12-2018 (IFRS 9)	31-12-2017 (IAS 39)
ASSETS			
Cash, cash balances with central banks and other demand deposits with credit institutions	-	18 804	29 762
Financial assets	4.0	223 552	220 184
Held for trading	4.0	-	7 509
Designated at fair value through profit or loss	4.0	-	63
Available for sale	4.0	-	19 637
Loans and receivables	4.0	-	166 927
Held to maturity	4.0	-	25 803
Amortised cost	4.0	210 870	-
Fair value through OCI	4.0	5 908	-
Fair value through profit or loss	4.0	6 591	-
of which held for trading	4.0	6 467	-
Hedging derivatives	4.0	183	245
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	-	64	- 78
Tax assets	5.2	1 474	1 575
Current tax assets	5.2	52	45
Deferred tax assets	5.2	1 422	1 530
Non-current assets held for sale and disposal groups	5.11	14	21
Investments in associated companies and joint ventures	5.3	185	210
Property, equipment and investment property	5.4	2 904	2 846
Goodwill and other intangible assets	5.5	1 050	1 019
Other assets	5.1	892	785
TOTAL ASSETS		248 940	256 322
LIABILITIES AND EQUITY			
Financial liabilities	4.0	230 239	238 273
Amortised cost	4.0	221 224	228 509
Fair value through profit or loss	4.0	7 903	8 479
of which held for trading	4.0	5 842	6 998
Hedging derivatives	4.0	1 111	1 284
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	-	- 79	- 86
Tax liabilities	5.2	95	210
Current tax liabilities	5.2	50	72
Deferred tax liabilies	5.2	45	139
Liabilities associated with disposal groups	5.11	0	0
Provisions for risks and charges	5.7	211	373
Other liabilities	5.8	1 766	1 895
TOTAL LIABILITIES		232 231	240 666
Total equity	5.10	16 709	15 656
Parent shareholders' equity	5.10	14 150	14 083
Additional tier-1 instruments included in equity	5.10	2 400	1 400
Minority interests	-	159	173
TOTAL LIABILITIES AND EQUITY		248 940	256 322

- For information on the sale of a portfolio of loans in Ireland, see Note 3.10.
- We are preparing the financial statements for 2018 and subsequent years in accordance with IFRS 9 (see Note 1.1 for more details) and have elected to make use of transition relief for disclosing comparative information. The opening balance sheet positions under IFRS 9 at 1 January 2018 for a selection of items are given below.

Opening balance sheet position under IFRS 9 at 01-01-2018 for selected items (in millions of EUR)	01-01-2018 (IFRS 9)
Financial assets	219 442
Amortised cost	205 377
Fair value through OCI	6 394
Fair value through profit or loss	7 426
of which held for trading	7 225
Hedging derivatives	245
Financial liabilities	238 273
Amortised cost	228 509
Fair value through profit or loss	8 479
of which held for trading	6 998
Hedging derivatives	1 284
Parent shareholders' equity	13 483

Consolidated statement of changes in equity

(in millions of EUR)	Issued and paid up share capital	Share premium	Treasury shares	Retained earnings	Total revaluation reserves	Parent shareholders' equity	Additional tier-1 instruments included in equity	Minority interests	Total equity
2018 (IFRS 9)									
Balance at the end of the previous period	**8 948**	**895**	**0**	**4 974**	**- 735**	**14 083**	**1 400**	**173**	**15 656**
Impact of the first-time adoption of IFRS 9	0	0	0	- 222	- 378	- 600	0	0	- 600
Balance at the beginning of the period after impact IFRS 9	**8 948**	**895**	**0**	**4 752**	**- 1 113**	**13 483**	**1 400**	**173**	**15 057**
Net result for the period	0	0	0	2 010	0	2 010	0	171	2 181
Other comprehensive income for the period	0	0	0	0	- 55	- 54	0	0	- 55
Subtotal	**0**	**0**	**0**	**2 010**	**- 55**	**1 955**	**0**	**171**	**2 126**
Dividends	0	0	0	- 1 199	0	- 1 199	0	0	- 1 199
Coupon on additional tier-1 instruments	0	0	0	- 73	0	- 73	0	0	- 73
Transfer from revaluation reserves to retained earnings on realisation	0	0	0	- 12	0	- 12	0	0	- 12
Issue of additional Tier-1 instruments included in equity	0	0	0	- 5	0	- 5	1 000	0	995
Change in minorities interests	0	0	0	0	0	0	0	- 186	- 186
Total change	**0**	**0**	**0**	**721**	**- 55**	**666**	**1 000**	**- 15**	**1 652**
Balance at the end of the period	**8 948**	**895**	**0**	**5 473**	**- 1 167**	**14 150**	**2 400**	**159**	**16 709**
of which relating to application of the equity method					13	13			13

(in millions of EUR)	*Revaluation reserve (AFS assets)*	*Revaluation reserve (FVOCI debt instruments)*	*Revaluation reserve (FVOCI equity instruments)*	*Hedging reserve (cashflow hedges)*	*Translation differences*	*Hedge of net investments in foreign operations*	*Remeasure-ment of defined benefit plans*	*Own credit risk through OCI*	*Total revaluation reserves*
2018 (IFRS 9)									
Balance at the end of the previous period	***651***	***0***	***0***	***- 1 339***	***- 10***	***47***	***- 73***	***- 10***	**- 735**
Impact of the first-time adoption of IFRS 9	- 651	254	19	0		0		0	- 378
Balance at the beginning of the period after impact IFRS 9	***0***	***254***	***19***	***- 1 339***	***- 10***	***47***	***- 73***	***- 10***	**- 1 113**
Net result for the period	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	0
Other comprehensive income for the period	*0*	*- 84*	*- 6*	*76*	*- 58*	*38*	*- 26*	*7*	- 55
Subtotal	***0***	***- 84***	***- 6***	***76***	***- 58***	***38***	***- 26***	***7***	**- 55**
Dividends	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	0
Coupon on additional tier-1 instruments	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	0
Transfer from revaluation reserves to retained earnings on realisation	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	0
Issue of additional Tier-1 instruments included in equity	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	0
Change in minorities interests	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	0
Total change	***0***	***- 84***	***- 6***	***76***	***- 58***	***38***	***- 26***	***7***	**- 55**
Balance at the end of the period	***0***	***170***	***12***	***- 1 263***	***- 69***	***85***	***- 99***	***- 3***	**- 1 167**
of which relating to application of the equity method	*0*	*0*	*0*	*0*	*14*	*0*	*0*	*0*	13

(in millions of EUR)	Issued and paid up share capital	Share premium	Treasury shares	Retained earnings	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Translation differences	Hedge of net investments in foreign operations	Remeasure-ment of defined benefit plans	Own credit risk through OCI	Total revaluation reserves	Parent shareholders' equity	Additional tier-1 instruments included in equity	Minority interests	Total equity
2017 (IAS 39)															
Balance at the end of the previous period	**8 948**	**895**	**0**	**3 556**	**645**	**- 1 356**	***88***	***- 51***	***- 153***	***- 4***	**- 832**	**12 568**	**1 400**	**190**	**14 158**
Net result for the period	0	0	0	2 003	0	0	*0*	-	*0*	*0*	0	2 003	0	179	2 182
Other comprehensive income for the period	0	0	0	- 1	6	17	*- 98*	*98*	*80*	*- 6*	98	97	0	1	98
Subtotal	**0**	**0**	**0**	**2 002**	**6**	**17**	***- 98***	***98***	***80***	***- 6***	**98**	**2 100**	**0**	**181**	**2 280**
Dividends	0	0	0	- 531	0	0	*0*	-	*0*	*0*	0	- 531	0	0	- 531
Coupon additional Tier-1 instruments	0	0	0	- 54	0	0	*0*	-	*0*	*0*	0	- 54	0	0	- 54
Change in minorities	0	0	0	0	0	0	*0*	-	*0*	*0*	0	0	0	- 198	- 198
Change in scope	0	0	0	0	0	0	*0*	-	*0*	*0*	0	0	0	0	0
Total change	**0**	**0**	**0**	**1 418**	**6**	**17**	***- 98***	***98***	***80***	***- 6***	**98**	**1 515**	**0**	**- 17**	**1 498**
Balance at the end of the period	**8 948**	**895**	**0**	**4 974**	**651**	**- 1 339**	**- 10**	**47**	**- 73**	**- 10**	**- 735**	**14 083**	**1 400**	**173**	**15 656**
of which revaluation reserve for shares	-	-	-	-	*57*	-	-	-	-	-	-	-	-	-	-
of which revaluation reserve for bonds	-	-	-	-	*593*	-	-	-	-	-	-	-	-	-	-
of which relating to equity method	-	-	-	*0*	*4*	*0*	*16*	*0*	*0*	*0*	*20*	20	-	-	20

- We are preparing the financial statements for 2018 and subsequent years in accordance with IFRS 9 (see Note 1.1 for more details) and have elected to make use of transition relief for disclosing comparative information. More information on the impact of IFRS 9 can be found in Note 1.4.
- For information on additional tier-1 instruments and the number of shares, see Note 5.10 and 6.8.
- The 'Dividends' item in 2018 (1 199 million euros) includes the final dividend for 2017 (paid in May 2018). The 'Dividends' item in 2017 (531 million euros) includes the final dividend for 2016 (paid in May 2017).
  Please note that, subject to the approval of the General Meeting of Shareholders, a final dividend of 906 million euros will be paid in May 2019 to KBC Group NV for financial year 2018.
- Revaluation reserves in 2018: the 'revaluation reserve (FVOCI debt instruments)' fell by 84 million euros in 2018, owing to the effect of an increase in long-term rates (including in Italy and, to a lesser extent, also in Belgium) and unwinding operations. Unwinding also accounted for the net change in the hedging reserve (cashflow hedges) of +76 million euros. The net change in defined benefit plans (-26 million euros) related mainly to the negative returns on plan assets (weak stock markets in the last quarter). The net change in translation differences (-58 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 (+38 million euros). The net impact of these two items was mainly attributable to the asymmetrical treatment of deferred taxes (no tax on the net change in translation differences, whereas deferred tax is calculated on the hedge).
- Revaluation reserves in 2017: the net change in the revaluation reserve for equity instruments amounted to -63 million euros and was mainly attributable to a transfer to the net result (gains on sales), partly offset by positive changes in fair value. In 2017, the announced reduction in the tax rate in Belgium (see Note 3.12), along with the offsetting effect of the increase in long-term interest rates, had primarily the following impact: net change in the revaluation reserve for bonds: +69 million euros; net change in hedging reserve (cashflow hedges): +17 million euros; and net change in defined benefit plans: +80 million euros (also positively impacted by the actual return on plan assets, which was higher than the expected return).

Consolidated cashflow statement

(in millions of EUR)	Note[1]	2018 (IFRS 9)	2017 (IAS 39)
OPERATING ACTIVITIES			
Result before tax	See Consolidated income statement	2 779	3 073
Adjustments for:	-	150	- 472
Result before tax from discontinued operations	See Consolidated income statement	0	0
Depreciation, impairment and amortisation of property, plant and equipment, intangible fixed assets, investment property and securities	3.10, 4.2, 5.4, 5.5	226	214
Profit/Loss on the disposal of investments	-	- 16	- 13
Change in impairment on loans and advances	3.10	- 59	- 87
Change in technical provisions (before reinsurance)	5.6	0	0
Change in the reinsurers' share in the technical provisions	5.6	0	0
Change in other provisions	5.7	- 56	120
Other unrealised gains/losses	-	67	- 698
Income from associated companies and joint ventures	3.11	- 12	- 8
Cashflows from operating profit before tax and before changes in operating assets and liabilities	-	2 929	2 601
Changes in operating assets (excluding cash and cash equivalents)	-	- 5 389	1 043
Financial assets held for trading	4.1	-	2 777
Financial assets initially recognised at FVPL	4.1	-	1 067
Available-for-sale assets	4.1	-	1 865
Loans and receivables	4.1	-	- 4 798
Financial assets at amortised cost (excluding debt securities)	4.1	- 6 589	-
Financial assets at fair value through OCI	4.1	369	-
Financial assets at fair value through profit or loss	4.1	833	-
of which financial assets held for trading	4.1	756	-
Hedging derivatives	4.1	109	165
Operating assets associated with disposal groups, and other assets	-	- 110	- 32
Changes in operating liabilities (excluding cash and cash equivalents)	-	- 5 184	9 816
Financial liabilities at amortised cost	4.1	- 3 587	13 745
Financial liabilities at fair value through profit or loss	4.1	- 1 259	- 3 816
of which financial liabilities held for trading	4.1	- 1 124	- 1 373
Hedging derivatives	4.1	- 173	- 199
Technical provisions, before reinsurance	5.6	0	0
Operating liabilities associated with disposal groups, and other liabilities	-	- 164	86
Income taxes paid	3.12	- 414	- 365
Net cash from or used in operating activities		- 8 057	13 095
INVESTING ACTIVITIES			
Purchase of held-to-maturity securities	4.1	-	- 2 029
Purchase of debt securities at amortised cost	4.1	- 2 503	-
Proceeds from the repayment of held-to-maturity securities	4.1	-	4 422
Proceeds from the repayment of debt securities at amortised cost	4.1	5 009	-
Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held)	6.6	- 12	185
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed of (including decreases in percentage interest held)	-	0	7

(in millions of EUR)	Note[1]	2018 (IFRS 9)	2017 (IAS 39)
Purchase of shares in associated companies and joint ventures	-	- 10	0
Proceeds from the disposal of shares in associated companies and joint ventures	-	17	0
Dividends received from associated companies and joint ventures	-	22	24
Purchase of investment property	5.4	- 30	- 14
Proceeds from the sale of investment property	5.4	23	17
Purchase of intangible fixed assets (excluding goodwill)	5.5	- 102	- 103
Proceeds from the sale of intangible fixed assets (excluding goodwill)	5.5	7	6
Purchase of property, plant and equipment	5.4	- 626	- 754
Proceeds from the sale of property, plant and equipment	5.4	273	145
Net cash from or used in investing activities		2 068	1 906
FINANCING ACTIVITIES			
Purchase or sale of treasury shares	See consolidated statement of changes in equity	0	0
Issue or repayment of promissory notes and other debt securities	4.1	878	- 2 747
Proceeds from or repayment of subordinated liabilities	4.1	- 427	1 401
Principal payments under finance lease obligations	-	0	0
Proceeds from the issuance of share capital	See consolidated statement of changes in equity	0	0
Issue of additional tier-1 instruments	See consolidated statement of changes in equity	995	0
Proceeds from the issuance of preference shares	See consolidated statement of changes in equity	0	0
Coupon additional Tier-1 instruments	See consolidated statement of changes in equity	- 73	- 54
Dividends paid	See consolidated statement of changes in equity	- 1 199	- 531
Net cash from or used in financing activities		174	- 1 931
CHANGE IN CASH AND CASH EQUIVALENTS			
Net increase or decrease in cash and cash equivalents	-	- 5 815	13 070
Cash and cash equivalents at the beginning of the period	-	40 447	26 771
Effects of exchange rate changes on opening cash and cash equivalents	-	- 165	606
Cash and cash equivalents at the end of the period	-	34 467	40 447
ADDITIONAL INFORMATION			
Interest paid[2]	3.1	- 2 452	- 2 214
Interest received[2]	3.1	6 485	5 760
Dividends received (including equity method)	3.2, 5.3	51	44
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash and cash balances with central banks and other demand deposits with credit institution	See consolidated balance sheet	18 804	29 762
Term loans to banks at not more than three months (excl. reverse repos)	4.1	674	642
Reverse repos with credit institutions and investment firms at not more than three months		20 955	19 475
Deposits from banks repayable on demand	4.1	- 5 966	- 9 431
Cash and cash equivalents belonging to disposal groups	-	0	0
Total	-	34 467	40 447
of which not available	-	0	0

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

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

- We are preparing the financial statements for 2018 and subsequent years in accordance with IFRS 9 (see Note 1.1 for more details) and have elected to make use of transition relief for disclosing comparative information.
- KBC uses the indirect method to report on cashflows from operating activities.
- Cash and cash equivalents fell in 2018, due largely to a decline in cash balances with central banks. This was caused by a decrease in net cashflows from operating activities on account of lower repo activity.
- Issue or repayment of promissory notes and other debt securities: KBC IFIMA, ČSOB (Czech Republic) and KBC Bank NV accounted for the lion's share of the figure for 2018, which related primarily to 1.8 billion euros' worth of these instruments being issued and 1 billion euros being redeemed by these companies. KBC IFIMA, KBC Group NV, ČSOB Bank (Czech Republic) and KBC Bank NV likewise accounted for the bulk of the figure for 2017, which related primarily to 0.6 billion euros' worth of these instruments being issued and 3 billion euros being redeemed by these companies.

- Proceeds from or repayment of subordinated liabilities: KBC IFIMA and KBC Bank NV accounted for the lion's share of the figure for 2018, which related primarily to 0.5 billion euros' worth of these instruments being issued and 0.9 billion euros being redeemed by these companies. KBC IFIMA and KBC Bank NV likewise accounted for the bulk of the figure for 2017, which related primarily to 2 billion euros' worth of these instruments being issued and 0.6 billion euros being redeemed.
- There were no material acquisitions or divestments of group companies or activities in 2018. In 2017, we acquired a 99.9% stake in United Bulgarian Bank (UBB) and a 100% stake in Interlease (see Note 6.6). With the acquisition being paid for entirely in cash, its impact on cashflows from investing activities was -0.6 billion euros (or +0.2 billion euros after deducting the cash and cash equivalents acquired).
- For information on the issue of additional tier-1 instruments, see Note 5.10.

1.0 Notes on the accounting policies

Note 1.1: Statement of compliance

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

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

- IFRS 9 (Financial Instruments) on the classification and measurement of financial instruments became effective on 1 January 2018, replacing IAS 39 (Financial Instruments: Recognition and Measurement). KBC also applies IFRS 9 to its insurance entities and, therefore, does not make use of the possibility offered by the IAS Board to temporarily defer implementation of IFRS 9 for these entities.
  Classification and measurement: classification and measurement of financial assets under IFRS 9 depends on the specific business model in place and the assets' contractual cashflow characteristics.

  Impairment of financial instruments: financial instruments that are subject to impairment will be classified into three stages, namely Stage 1, Stage 2 (where lifetime expected credit losses are required to be measured) and Stage 3: Non-performing or impaired. KBC has established policies and processes to assess whether credit risk has increased significantly at the end of each reporting period and, therefore, whether 'staging' is required (i.e. moving from one stage to another). For the loan portfolio, a multi-tier approach has been adopted to staging, based on internal credit ratings, forbearance measures, collective assessment and days past due as a backstop. A similar multi-tier approach is used for the investment portfolio, except that KBC uses the low-credit-risk exemption, meaning that all investment grade bonds in scope are considered to be in 'Stage 1', unless any of the other triggers indicate otherwise. For 'Stage 1' and 'Stage 2' – under IAS 39 – KBC recorded incurred-but-not-reported (IBNR) impairment losses, which are influenced by emergence periods. Under IFRS 9, impairment of financial assets is calculated on a 12-month expected credit loss (ECL) basis for 'Stage 1' and on a lifetime ECL basis for 'Stage 2'. Forward looking information is incorporated into the staging criteria and measurement of ECL. Different macroeconomic factors are taken into consideration and KBC applies three scenarios to evaluate a range of possible outcomes. The macroeconomic variables include GDP growth, the unemployment rate, policy interest rates, the exchange rate, government bond yields, house prices and inflation.

  Hedge accounting: KBC uses the option to continue with hedge accounting under IAS 39 and awaits further developments at the IASB regarding macro hedging.

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

For financial liabilities, the aspects of IFRS 9 relating to the presentation of gains and losses on own credit risk for financial instruments designated at fair value through profit or loss were early adopted with effect from 1 January 2017.

Change in the presentation of accrued interest from foreign exchange derivatives: this type of interest was moved from 'Net result from financial instruments at fair value through profit or loss' to 'Net interest income'. This new presentation is related to IFRS 9 following a decision taken by the International Financial Reporting Interpretation Committee (IFRIC) on 20 November 2017. The new presentation prevents a distortion of the figures, due to the fact that the accrued interest on the underlying transaction is also recognised under 'Net interest income'. Its impact came to 305 million euros in 2017.

KBC does not make use of any transitional arrangements with regard to the impact of IFRS 9 on capital, as it wants to provide full transparency. Consequently, own funds, capital and the leverage ratio reflect the full impact of IFRS 9.

The fact that KBC uses transition relief for disclosing comparative figures for 2017 and, therefore, does not or is unable to provide comparative figures for a number of items, means that the structure of several tables is also impacted. Although we try where possible to present the figures for 2017 and 2018 in the same table, we have not been able to do so for a number of tables (primarily in Note 4.0) and have had to provide two separate tables instead. For 2018, a new table structure has been provided to reflect the IFRS 9 requirements, whereas the structure of the table for 2017 is the same as the one published in the annual report for 2017.

- IFRS 15 (Revenue from Contracts with Customers) provides guidance on the recognition of revenue. KBC has identified the relevant contracts and assessed them using the new five-step model for revenue recognition. The main focus related to the (i) identification of the performance obligations and (ii) variable consideration in certain asset management contracts. The new requirements had no material impact on the revenue recognition of KBC.

The following change in presentation and accounting policies was also applied in 2018:

- A change in presentation was made to 'Network income', which was moved from 'Net result from financial instruments at fair value through profit or loss' to 'Net fee and commission income'. 'Network income' is the revenue from margins earned on foreign exchange transactions (related to payments, loans, deposits and investments) carried out by the network (branches and online) for clients. The new presentation gives a more reliable view, as 'Network income' reflects the revenue from margins that can be considered as part of the investment and payments business, which is fee-based. The financial statements have not been restated retroactively according to IAS 8, as the total impact on them is considered to be non-material (a one-off impact of 99 million euros, before tax).

The following IFRS standards were issued but not yet effective in 2018. KBC will apply these standards when they become mandatory.

- In January 2016, the IASB issued IFRS 16 (Leases), which will become effective on 1 January 2019. The new standard does not significantly change the accounting treatment of leases for lessors and, therefore, its impact is expected to be limited for KBC (given that it is mainly a lessor and not a lessee). We expect the impact of the first-time application of IFRS 16 on the common equity ratio to be restricted to about -6 basis points.
- Other: the IASB has published several limited amendments to existing IFRSs and IFRICs. They will be applied when they become mandatory, but their impact is currently estimated to be negligible.

Note 1. 2: Summary of significant accounting policies

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

General/Basic principle

The general accounting principles of KBC Bank (part 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 are prepared based on the going concern assumption. It presents each material class of similar items separately. Dissimilar items are presented separately unless they are immaterial, and items are only offset when explicitly required or permitted by the relevant IFRS.

Financial assets

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

Financial assets – recognition and derecognition

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

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

Classification of equity instruments and debt instruments

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

Classification and measurement – debt instruments

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

- Measured at fair value through profit or loss (FVPL).
    - Mandatorily measured at fair value through profit or loss (MFVPL) – this category includes held-for-trading instruments (HFT).
    - Designated upon initial recognition at fair value through profit or loss (FVO).
- Measured at fair value through other comprehensive income (FVOCI).
- Measured at amortised cost (AC).

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

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

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

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

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

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

Business model assessment

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

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

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

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

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

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

Reclassifications

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

Classification and measurement – equity instruments

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

- mandatorily measured at fair value through profit or loss (MFVPL) – only includes equity instruments held for trading (HFT).
- equity instruments elected to be measured at fair value through other comprehensive income (FVOCI).

In the banking business, there is a rebuttable presumption that all equity instruments are to be regarded as FVOCI if held for neither trading nor a contingent consideration in a business combination to which IFRS 3 applies. The election to include equity instruments in the FVOCI category is irrevocable on initial recognition and can be done on an investment-by-investment basis, which is interpreted by KBC as a share-by-share basis. Equity instruments categorised as FVOCI are subsequently measured at fair value, with all value changes recognised in other comprehensive income and without any recycling into the income statement, even when the investment is disposed of. The only exception applies to dividend income, which is recognised in the income statement under ‘Dividend income’.

Classification and measurement – derivatives (trading and hedging)

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

Trading derivatives

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

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

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

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

No ECLs are calculated for share investments.

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

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

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

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

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

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

Significant increase in credit risk since initial recognition

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

Multi-tier approach (MTA) – bond portfolio

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

- Low-credit exception: 12-month ECL is always recognised for bonds if they have a low credit risk on the reporting date (i.e. 'Stage 1'). KBC uses this exception for investment grade bonds.
- Internal rating: [only applicable if the first tier criterion is not met] this is a relative assessment that compares the probability of default (PD) upon initial recognition to that on the reporting date. KBC does the assessment at facility level for each reporting period.
- Management assessment: lastly, management review and assess the significant increase in credit risk for financial assets at an individual and portfolio level.

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

Loan portfolio

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

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

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

Measurement of ECL

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

ECL is calculated to reflect:

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

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

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

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

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

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

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

Purchased or originated credit impaired (POCI) assets

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

Significant judgements and uncertainties

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

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

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

Financial liabilities

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

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

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

Financial liabilities – recognition and derecognition

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

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

Financial liabilities – classification and measurement

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

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

Financial liabilities – own credit risk

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

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

Financial liabilities – financial guarantee contract

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

Offsetting

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

Fair value

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

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

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

Hedge accounting

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

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

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

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

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

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

Leasing

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

Equity

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

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

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

Employee benefits

Short-term employee benefits

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

Post-employment benefits

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

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

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

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

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

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

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

Net fee and commission income

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

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

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

Government grants

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

Levies

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

Income tax

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

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

Current tax assets/liabilities

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

Deferred tax assets/liabilities

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

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

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

Deferred tax assets/liabilities are not discounted.

Property and equipment

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

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

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

Investment property

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

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

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

Intangible assets

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

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

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

Internally generated intangible assets are initially measured at the development costs directly attributable to the design and testing of the unique software controlled by KBC. Directly attributable costs capitalised as part of the software developed in-house include software development employee costs and directly attributable overheads.

Research expenses, other development expenditure, costs associated with maintaining software and investment projects (large-scale projects introducing or replacing an important business objective or model) that do not meet the recognition criteria are recognised as an expense in the period they are incurred.

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

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

Impairment of non-financial assets

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

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

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

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

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

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

Provisions, contingent liabilities and contingent assets

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

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

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

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

Consolidated financial statements / interim financial statements

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

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

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

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

Business combinations and goodwill

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

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

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

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

Effects of changes in foreign exchange rates

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

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

Related-party transactions

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

- KBC subsidiaries and entities from the KBC group (primarily KBC Insurance NV and KBC Group NV);
- KBC associates and joint ventures;
- KBC Ancora, Cera and MRBB;
- KBC key management staff (i.e. the Board of Directors and the Executive Committee of KBC Group NV).

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

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

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

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

Discontinued operations

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

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

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

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

Events after the reporting period

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

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

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

Exchange rates used*

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

* Rounded figures.

Note 1.3: Critical estimates and significant judgements

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

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

Unlike 2017, we have followed the example of the Group annual report as regards the numbering of the notes this year. As a result, some tables now have a different number than in the 2017 report.

Note 1.4: Transition disclosures for IFRS 9

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

The total impact of transitioning from IAS 39 to IFRS 9 on 1 January 2018, including the impact on financial assets and provisions, was to reduce equity by -756 million euros (before tax) or 600 million euros (after tax). This can be broken down as follows:

- impact due to classification and measurement: 475 million euros (before tax) due mainly to a decline in the OCI reserves;
- increase in impairment and provisions of 280 million euros (before tax).

Transition disclosures for financial assets

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

Classification and measurement

- Virtually all the loans and advances to credit institutions, loans and advances to customers and debt securities classified in 'Loans and receivables' under IAS 39 have been moved to 'Amortised cost'. The (net negative) frozen available-for-sale (AFS) reserves for historical reclassifications of bonds from 'Available for sale' to 'Loans and receivables' were reversed for some of these instruments, which increased the OCI reserves by +33 million euros (before tax).
- Debt securities previously classified as 'Held to maturity' have been reclassified mainly to 'Amortised cost'. The (net positive) frozen AFS reserves for historical reclassifications of bonds from 'Available for sale' to 'Held to maturity' were reversed for those instruments, which reduced the OCI reserves by -31 million euros (before tax).
- Debt securities worth 15 060 million euros that had previously been classified as 'Available for sale' have been reclassified to 'Amortised cost'. The AFS reserves relating to those debt securities were reversed, which reduced the OCI reserves by -614 million euros (before tax). Under IFRS 9, 6 181 million euros' worth of debt securities have been classified as FVOCI, 4 349 million euros of which had been categorised as 'Available for sale' under IAS 39. The impact of fair value accounting on assets previously classified as 'Held to maturity' increased the OCI reserves by +143 million euros (before tax).
- Equity instruments (other than participating interests) previously classified as 'Available for sale' have been reclassified to FVOCI. Due to the reversal of impairment, 39 million euros (before tax) has been reclassified from retained earnings to the OCI reserves.
- Of the debt instruments measured at FVPL under IAS 39, 24 million euros has been reclassified to MFVPL because they failed the SPPI test, while 39 million euros remains in the FVO category due to accounting mismatches. None of these reclassifications had an impact on equity.
- Loans previously classified as 'Held for trading' have been reported at FVOCI since 1 January 2018. This reclassification of 284 million euros only resulted in a shift among the equity components: 18 million euros has been reclassified out of retained earnings into OCI reserves.

Impairment

- Implementation of the ECL model resulted in impairment on debt instruments measured at AC and FVOCI increasing by 280 million euros (before tax) as from 1 January 2018, causing retained earnings to fall by the same amount. As impairment on FVOCI debt instruments does not reduce the instruments' carrying value, 8 million euros has been moved into the OCI reserves. The increase in impairment came about primarily because of 'Stage 2' lifetime ECL and is situated in 'Loans and advances' (261 million euros in the form of mortgage loans, term loans and current accounts).

See table below.

Transition disclosures for financial liabilities

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

Transition disclosures for provisions

IFRS 9 requires the provisions for off-balance-sheet commitments to reflect ECL. As a result, provisioning for commitments and financial guarantees went up by approximately 4%, causing retained earnings to fall by 6 million euros (before tax).

Provisions (in millions of EUR)	Before IFRS 9 application				IMPACT IFRS 9 on Retained Earnings, 1-1-2018	
	Loan Commitments	Financial Guarantees	Other Commitments	Total	Before tax	After tax
Provisions: total carrying amount before IFRS 9 application (IFRS 7,42(a))	113	19	1	133		
Remeasurement	6	-1	0	6	-6	-5
Reversal specific impairments	-93	-18	0	-111		
Reversal IBNR provision	-20	-2	0	-22		
Transfer to lifetime ECL	107	17	0	124		
Transfer to 12-month ECL	12	2	0	14		
IFRS 9 measurement on 1 January 2018	119	18	1	138		

Financial Assets (in millions of EUR)	Before IFRS 9 application									IMPACT IFRS 9, 1-1-2018			
	Debt Instruments[2]					Equity Instruments			Total	Retained Earnings		OCI Reserve	
	Loans & Receivables	Held to maturity	Available for Sale	Designated at Fair Value	Held for Trading	Available for Sale	Designated at Fair Value	Held for Trading		Before tax	After tax	Before tax	After tax
FINANCIAL ASSETS, 31-12-2017 (total carrying amount before IFRS 9)	**166 927**	**25 803**	**19 424**	**63**	**1 156**	**213**	**0**	**509**	**214 095**	**- 255**	**- 210**	**- 483**	**- 375**
Amortised cost									205 377	- 265	- 221	- 611	- 471
Amount classified before IFRS 9 application	166 811	24 386	15 060	0	0	-	-	-	206 258	0	0	0	0
Remeasurement	- 227	- 34	- 621	0	0	-	-	-	- 881	0	0	0	0
due to reclassification: reversal revaluation reserve (IAS39)	33	- 31	- 614	-	-	-	-	-	- 611	-	-	- 611	- 471
due to reclassification: portfolio FV hedge (shifts to non-financial assets)	-	-	- 4	-	-	-	-	-	- 4	-	-	-	-
impact impairments	- 260	- 3	- 2	0	0	-	-	-	- 265	- 265	- 221	-	-
Reserved interests	688	0	0	0	0	-	-	-	688	0	0	0	0
Reversal specific impairments	3 840	4	8	-	-	-	-	-	3 853	0	0	0	0
Reversal IBNR provision	215	0	0	-	-	-	-	-	215	0	0	0	0
Transfer to lifetime ECL - stage 3	- 4 549	- 4	- 8	0	0	-	-	-	- 4 561	0	0	0	0
Transfer to lifetime ECL - stage 2	- 357	- 1	0	0	0	-	-	-	- 357	0	0	0	0
Transfer to 12-month ECL - stage 1	- 97	- 2	- 2	0	0	-	-	-	- 102	0	0	0	0
IFRS 9 measurement on 1 January 2018	166 584	24 353	14 440	0	0	-	-	-	205 377	0	0	0	0
Fair value through other comprehensive income									6 394	20	21	118	86
Amount classified before IFRS 9 application	0	1 410	4 349	0	284	213	0	0	6 256	0	0	0	0
Remeasurement	0	138	0	0	0	0	-	-	138	0	0	0	0
due to reclassification: reversal revaluation reserve (IAS39)	0	- 5	- 154	-	-	- 60	-	-	- 220	-	-	- 220	- 185
due to reclassification: impact revaluation reserve (IAS39) on OCI-reserve (IFRS9)	-	-	154	-	-	60	-	-	215	-	-	215	182
due to reclassification: other than reversal revaluation reserve	0	143	1	0	0	- 39	-	-	105	- 18	- 16	123	90
impact impairments	0	0	- 1	0	0	39	-	-	38	38	37	-	-
Reversal specific impairments	0	0	0	-	-	39	-	-	39	0	0	0	0
Reversal IBNR provision	0	0	0	-	-	-	-	-	0	0	0	0	0
Transfer to lifetime ECL - stage 3	0	0	0	0	0	-	-	-	0	0	0	0	0
Transfer to lifetime ECL - stage 2	0	0	0	0	0	-	-	-	0	0	0	0	0
Transfer to 12-month ECL - stage 1	0	0	- 1	0	0	-	-	-	- 1	0	0	0	0
IFRS 9 measurement on 1 January 2018	0	1 548	4 349	0	284	213	0	0	6 394	0	0	0	0
Fair value through P&L - HFT									1 381	0	0	0	0
Amount classified before IFRS 9 application	0	0	0	0	872	0	0	509	1 381	0	0	0	0
Remeasurement	0	0	0	-	-	0	-	-	0	0	0	0	0
IFRS 9 measurement on 1 January 2018	0	0	0	0	872	0	0	509	1 381	0	0	0	0

Financial Assets (in millions of EUR)	Before IFRS 9 application									IMPACT IFRS 9, 1-1-2018			
	Debt Instruments[2]					Equity Instruments			Total	Retained Earnings		OCI Reserve	
	Loans & Receivables	Held to maturity	Available for Sale	Designated at Fair Value	Held for Trading	Available for Sale	Designated at Fair Value	Held for Trading		Before tax	After tax	Before tax	After tax
Fair value through P&L - Fair value option (FVO)									39	0	0	0	0
Amount classified before IFRS 9 application	0	0	0	39	0	-	-	-	39	0	0	0	0
Remeasurement	0	0	0	-	-	-	-	-	0	0	0	0	0
IFRS 9 measurement on 1 January 2018	0	0	0	39	0	-	-	-	39	0	0	0	0
Fair value through P&L [1]									0	0	0	0	0
Amount classified before IFRS 9 application	0	0	0	-	-	0	-	-	0	0	0	0	0
Remeasurement	0	0	0	-	-	0	-	-	0	0	0	0	0
due to reclassification: reversal revaluation reserve (IAS39)	0	0	0	-	-	0	-	-	0	-	-	0	0
due to reclassification: impact revaluation reserve (IAS39) on retained earnings (IFRS9)	0	0	0	-	-	0	-	-	0	-	-	0	0
due to reclassification: other than reversal revaluation reserve	0	0	0	-	-	0	-	-	0	0	0	0	0
impact impairments	0	0	0	-	-	0	-	-	0	0	0	-	-
IFRS 9 measurement on 1 January 2018	0	0	0	-	-	0	-	-	0	0	0	0	0
Fair value through P&L - Mandatorily at fair value through profit and loss other than Held for trading [1]									162	- 9	- 10	10	10
Amount classified before IFRS 9 application	116	6	15	24	0	0	0	0	161	0	0	0	0
Remeasurement	2	- 2	0	-	-	0	0	-	1	0	0	0	0
due to reclassification: reversal revaluation reserve (IAS39)	12	0	- 1	-	-	0	-	-	10	-	-	10	10
due to reclassification: impact revaluation reserve (IAS39) on retained earnings (IFRS9)	- 12	0	1	-	-	0	-	-	- 10	- 10	- 10	-	-
due to reclassification: other than reversal revaluation reserve	0	- 2	0	-	-	0	-	-	- 2	- 2	- 2	-	-
impact impairments	3	0	0	-	-	0	-	-	3	3	3	0	0
IFRS 9 measurement on 1 January 2018	119	4	15	24	0	0	0	0	162	0	0	0	0
Hedging									245	-	-	-	-
Amount classified before IFRS 9 application	-	-	-	-	-	-	-	-	245	0	0	0	0
IFRS 9 measurement on 1 January 2018	-	-	-	-	-	-	-	-	245	0	0	0	0
FINANCIAL ASSETS 01-01-2018: TOTAL CARRYING AMOUNT IFRS 9	**166 703**	**25 906**	**18 804**	**63**	**1 156**	**213**	**0**	**509**	**213 352**				
Impact retained earnings exluding equity method, 1-1-2018 (IFRS 9)									- 210	- 255	- 210		
Impact OCI reserve excluding equity method, 1-1-2018 (IFRS 9)									- 375			- 483	- 375
Impact retained earnings - equity method, 1-1-2018 (IFRS 9)									- 4	- 5	- 4		
Impact OCI reserve - equity method, 1-1-2018 (IFRS 9)									- 3			- 3	- 3
Impact retained earning - Other, 1-1-2018 (IFRS 9)									- 3	- 3	- 3		
Total impact retained earnings and OCI reserve, 1-1-2018 (IFRS 9)									- 594	- 263	- 216	- 487	- 378
of which phase 1 impact										12	13	- 487	- 378
of which phase 2 impact										- 275	- 229	-	-

[1] Financial assets previously classified as 'Loans and receivables', 'Held to maturity' or 'Available for sale' that have been reclassified to FVPL, have a business model other than hold to collect (and sell) contractual cashflows or have failed the SPPI test.
[2] Debt instruments include loans and receivables (including finance leases that fall outside the scope of IAS 39/IFRS 9), debt securities and other financial assets.

2.0 Notes on segment reporting

Note 2.1: Segment reporting based on the management structure

Detailed information on the group's management structure and the results per segment can be found in the 'Our business units' section (which has not been audited by the statutory auditor). In line with IFRS 8, KBC has identified the Executive Committee and Board of Directors as 'chief operating decision-makers', responsible for allocating the resources and assessing the performance of the different parts of the company. The operating segments are based on the internal financial reporting to these policy bodies and on the location of the company's activities, resulting in geographical segmentation.

The three operating segments are (essentially):

- the Belgium Business Unit (all activities in Belgium);
- the Czech Republic Business Unit (all activities in the Czech Republic);
- the International Markets Business Unit (activities in Ireland, Hungary, Slovakia and Bulgaria, reported together in accordance with IFRS 8.16).

For reporting purposes, there is also a Group Centre (comprising the results of the holding company, items that have not been allocated to the other business units, and the results of companies to be divested).

Segment reporting

- The policy bodies analyse the performance of the segments based on a number of criteria, with the 'Result after tax' being the most important results indicator. The segment data is based entirely on IFRS data (with no adjustments).
- In principle, we assign a group company in its entirety to one specific segment/business unit. Exceptions are only made for those items that cannot clearly be allocated to a specific segment, such as charges attached to the subordination of loans (such items are recognised under Group Centre).
- We allocate the funding cost of participating interests to the Group Centre. Any funding cost in respect of leveraging at KBC Group NV level is also recognised under Group Centre.
- Transactions among the different segments are reported at arm's length.
- We recognise 'Net interest income' in the segment information without dividing it up into 'Interest income' and 'Interest expense'. This is permitted under IFRS because the bulk of the business units' income is in the form of interest, and management assesses and co-ordinates those business units primarily on the basis of net interest income.
- We do not provide any information on income from sales to external clients per group of products or services, since the information is prepared at consolidated level chiefly for each business unit, and not per client group or product group.
- Information on the impact of United Bulgarian Bank and Interlease (Bulgaria), which were acquired in mid-2017, is provided in Note 6.6.

Note 2.2: Results by segment

(in millions of EUR)	Belgium Business unit	Czech Republic Business unit	International Markets Business unit	Of which: *Hungary*	*Slovakia*	*Bulgaria*	*Ireland*	Group Centre	KBC Bank
INCOME STATEMENT FOR 2018 (IFRS 9)									
Net interest income	2 118	1 014	878	*236*	*205*	*146*	*291*	23	4 033
Dividend income	26	0	0	*0*	*0*	*0*	*0*	2	29
Net result from financial instruments at fair value through profit or loss	28	72	76	*63*	*6*	*13*	*- 5*	- 16	161
Net realised result from debt instruments at fair value through OCI	0	0	- 1	*- 1*	*0*	*0*	*0*	9	8
Net fee and commission income	1 391	329	342	*215*	*69*	*59*	*- 1*	0	2 062
Other net income	133	14	17	*15*	*4*	*- 1*	*- 1*	3	167
TOTAL INCOME	3 696	1 429	1 313	*528*	*285*	*217*	*284*	22	6 460
Operating expenses[a]	- 2 136	- 666	- 850	*- 325*	*- 186*	*- 123*	*- 216*	- 59	- 3 712
Impairment	- 95	- 38	118	*9*	*- 3*	*2*	*111*	34	19
on financial assets at amortised cost and at fair value through OCI	- 94	- 8	127	*9*	*- 4*	*10*	*112*	34	59
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
other	- 1	- 30	- 9	*- 1*	*1*	*- 9*	*0*	0	- 41
Share in results of associated companies and joint ventures	- 8	19	1	*0*	*0*	*1*	*0*	0	12
RESULT BEFORE TAX	1 456	744	582	*212*	*95*	*96*	*180*	- 3	2 779
Income tax expense	- 382	- 126	- 86	*- 30*	*- 22*	*- 10*	*- 24*	- 5	- 598
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	1 074	619	496	*182*	*73*	*86*	*155*	- 8	2 181
attributable to minority interests	171	0	0	*0*	*0*	*0*	*0*	0	171
attributable to equity holders of the parent	903	619	496	*182*	*73*	*86*	*155*	- 8	2 010
[a] Of which non-cash expenses	- 54	- 59	- 63	*- 28*	*- 14*	*- 5*	*- 17*	8	- 168
Depreciation and amortisation of fixed assets	- 45	- 57	- 66	*- 28*	*- 14*	*- 7*	*- 17*	0	- 168
Other	- 9	- 3	2	0	0	2	0	8	- 1
Acquisitions of non-current assets*	451	123	183	46	47	62	28	0	758

* Non-current assets held for sale and disposal groups, investment property, property 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 Bank
INCOME STATEMENT FOR 2017 (IAS 39)									
Net interest income	1 881	861	818	*236*	*205*	*99*	*278*	- 14	3 546
Dividend income	14	0	0	*0*	*0*	*0*	*0*	5	20
Net result from financial instruments at fair value through profit or loss	541	221	96	*62*	*15*	*13*	*5*	2	860
Net realised result from available-for-sale assets	40	17	2	*2*	*0*	*1*	*0*	54	114
Net fee and commission income	1 487	258	280	*178*	*60*	*40*	*- 1*	- 2	2 023
Other net income	95	40	- 112	*4*	*8*	*- 4*	*- 116*	2	25
TOTAL INCOME	4 058	1 398	1 084	*481*	*288*	*148*	*167*	47	6 588
Operating expenses[a]	- 2 105	- 594	- 781	*- 325*	*- 186*	*- 79*	*- 188*	- 88	- 3 568
Impairment	- 105	- 23	191	*8*	*- 12*	*- 20*	*215*	- 18	44
on loans and receivables	- 87	- 5	197	*11*	*- 11*	*- 17*	*215*	- 18	87
on available-for-sale assets	0	- 1	- 1	*0*	*0*	*- 1*	*0*	0	- 2
on goodwill	0	0	0	*0*	*0*	*0*	*0*	0	0
on other	- 18	- 17	- 5	*- 3*	*- 1*	*- 2*	*0*	0	- 41
Share in results of associated companies and joint ventures	- 13	21	0	*0*	*0*	*0*	*0*	0	8
RESULT BEFORE TAX	1 834	802	495	*164*	*90*	*49*	*193*	- 58	3 073
Income tax expense	- 632	- 133	- 79	*- 27*	*- 21*	*- 5*	*- 26*	- 46	- 891
Net post-tax result from discontinued operations	0	0	0	*0*	*0*	*0*	*0*	0	0
RESULT AFTER TAX	1 202	669	416	*137*	*69*	*44*	*167*	- 104	2 182
attributable to minority interests	180	0	- 1	*0*	*0*	*0*	*0*	0	179
attributable to equity holders of the parent	1 021	669	417	137	69	44	167	- 104	2 003
[a] Of which non-cash expenses	- 47	- 52	- 64	*- 27*	*- 14*	*- 9*	*- 15*	- 2	- 164
Depreciation and amortisation of fixed assets	- 46	- 53	- 60	*- 27*	*- 14*	*- 5*	*- 15*	- 1	- 160
Other	- 1	1	- 3	0	0	- 4	0	- 1	- 4
Acquisitions of non current assets*	451	210	209	45	113	22	30	0	871

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

How do the business units contribute to the group result?

The growth figures for the volume of deposits and loans have been systematically adjusted for the main exchange rate effects and are based on calculations for KBC Group (intragroup transactions between KBC Bank and other KBC entities, for instance, are eliminated).

Belgium

In 2018, the Belgium Business Unit recorded a net result of 903 million euros, compared with 1 021 million euros a year earlier.

Net interest income (2 118 million euros) declined by 3% on a comparable basis. This reflected a number of negative items, including pressure on credit margins and low reinvestment yields, but these were partially offset by factors including the positive effect of lower funding costs and growth in the volume of credit. Our net interest margin in Belgium narrowed slightly from 1.75% in 2017 to 1.72% in 2018. The volume of loans and advances to customers (97 billion euros, excluding reverse repos) rose by 5% and deposits from customers and debt securities (138 billion euros, excluding repos) fell by 1%. Adjusted for debt securities, deposits increased by 5%.

Our net fee and commission income (1 391 million euros) declined by 9% on a comparable basis, primarily on account of lower fee income (both entry and management fees) from our asset management activities (due to the more uncertain investment climate) and, to a lesser extent, to lower securities and credit-related commission income.

The other income items chiefly comprised dividends received on securities held in our portfolios (26 million euros), trading and fair value income (28 million euros, down on the 2017 figure due to lower dealing room results, a decline in the value of derivatives used for asset/liability management purposes and the negative influence of various market value adjustments) and other income (133 million euros). Besides mainly the usual items (including the results from KBC Autolease), 'other income' also included a variety of one-off items (including the positive impact of the settlement of old legal cases in 2018).

Our costs in Belgium rose by 1% to 2 136 million euros in 2018, due to various factors, the most notable of which were lower staff expenses and facility services costs, and higher ICT costs, bank taxes and several one-off items. The cost/income ratio for our banking activities came to 58%, compared with 52% in 2017.

As in 2017, loan loss impairment charges were relatively limited (94 million euros, as opposed to 87 million euros a year earlier). In terms of our overall loan portfolio, they amounted to 9 basis points (the same level as in 2017). Loan quality improved once again. Approximately 2.6% of the business unit's loan portfolio at year-end 2018 was impaired (see 'Glossary of financial ratios and terms' for definition), compared with 2.8% a year earlier. Impaired loans that were more than 90 days past due accounted for 1.2% of the portfolio (1.4% in 2017).

Taxes in Belgium came to 382 million euros compared with 632 million euros a year earlier. The decrease was partly attributable to the lower rate of corporation tax introduced in 2018 and the one-off, negative up-front effect of that tax cut, which was recognised in 2017 (85 million euros; also see 'Group Centre').

Czech Republic

In 2018, the Czech Republic Business Unit recorded a net profit of 619 million euros, compared with 669 million euros a year earlier. The Czech koruna appreciated by an average 3% against the euro.

On balance, net interest income in the Czech Republic (1 014 million euros) went up by 18% on a comparable basis, as pressure on commercial margins was offset by an increase in interest rates, volume growth of loans and the exchange rate effect. As regards volumes, our loans and advances to customers (23 billion euros, excluding reverse repos) rose by 6% in 2018 (due in part to robust growth in home loans). Deposits from customers and debt securities (32 billion euros, excluding repos) grew by 8% year-on-year. The net interest margin in the Czech Republic widened from 2.91% in 2017 to 3.07% in 2018.

At 329 million euros, our net fee and commission income was up by 11% on a comparable basis, due primarily to higher fee and commission income for asset management and banking services, one-off items and the exchange rate effect.

The other income items chiefly comprised trading and fair value income (72 million euros in 2018, as opposed to 182 million euros in 2017 (on a comparable basis), as dealing room results had been exceptionally strong that year) and other income (14 million euros: down on 2017, which had benefited from several positive one-off items).

Costs rose by 12% to 666 million euros in 2018, owing to higher staff expenses (partly related to wage inflation), higher ICT costs, increased depreciation, the exchange rate effect and one-off items. Consequently, the cost/income ratio for our banking activities amounted to what was still a very solid 47%, compared with 42% in 2017.

Once again, loan loss impairment charges were very limited in 2018 (8 million euros, as opposed to 5 million euros in 2017). In terms of our overall loan portfolio, therefore, these charges amounted to 3 basis points in 2018, compared with 2 basis points in 2017. Loan quality remained excellent. Approximately 2.4% of the business unit's loan portfolio was impaired at year-end 2018, the same level as a year earlier. Impaired loans that were more than 90 days past due accounted for 1.3% of the portfolio (1.6% in 2017). We also recorded 30 million euros in other impairment charges in 2018, mainly on account of revising the residual values of financial car leases.

International Markets

In 2018, the net result at our International Markets Business Unit amounted to 496 million euros, as opposed to 417 million euros a year earlier. Hungary accounted for 182 million euros of this figure, Slovakia for 73 million euros, Bulgaria for 86 million euros and Ireland for 155 million euros. The results for the business unit as a whole and for Bulgaria include the results recorded by United Bulgarian Bank (UBB) and Interlease for a full year in 2018 and for six months of 2017.

Net interest income for the business unit as a whole came to 878 million euros in 2018, up 7% year-on-year on a comparable basis, due primarily to Ireland and Bulgaria (UBB included for 12 rather than six months). As regards volumes, loans and advances to customers for the business unit as a whole (24 billion euros, excluding reverse repos) were at roughly their year-earlier level, with the decline in Ireland (-9%, mainly on account of the sale of a loan portfolio at the end of the year that was originally worth 1.9·billion euros) being largely offset by increases in Slovakia (+8%, due in part to home loans), Hungary (+7% for the same reason) and Bulgaria (+3%). Deposits from customers and debt securities at the business unit (23 billion euros, excluding repos) went up by 2%. Deposits were up in Slovakia (+5%), Hungary (+6%) and Bulgaria (+5%) but down in Ireland (-9%, mainly in the corporate segment). The business unit's average net interest margin widened from 2.77% to 2.80%.

Net fee and commission income (342 million euros) went up by 11% on a comparable basis, which was chiefly attributable to fees received for payments in Slovakia and Hungary, and also to Bulgaria (UBB included for 12 rather than six months).

The other income items chiefly comprised trading and fair value income (76 million euros), and other income (17 million euros). The latter was significantly higher than in 2017, when it had been negatively influenced in by a provision of 116 million euros being recognised for the sector-wide review of tracker mortgages originated in Ireland prior to 2009.

Costs rose by 9% to 850 million euros in 2018. This was mostly attributable to staff expenses (wage drift), ICT costs, professional fees and depreciation, and also to Bulgaria (UBB included for 12 rather than six months). Consequently, the cost/income ratio for the banking activities came to 65%, as opposed to 72% in 2017.

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

Group Centre

Besides financial reporting for three business units, we also report on a separate Group Centre. In 2018, it generated a net result of -8 million euros, compared with 104 million euros a year earlier.

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

The 2017 result was significantly influenced by:

- the change in the corporation tax system in Belgium (-140 million euros), especially the up-front impact of the announced reduction in the rate of corporation tax on deferred taxes recognised on the balance sheet;
- deferred tax assets in respect of the liquidation of IIB Finance (66 million euros).

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	*Of which: Hungary*	*Slovakia*	*Bulgaria*	*Ireland*	Group Centre	KBC Bank
BALANCE SHEET AT 31-12-2018 (IFRS 9)									
Deposits from customers and debt securities (excluding repos)	138 000	32 485	23 017	*7 530*	*6 390*	*4 167*	*4 930*	1 335	194 837
Demand deposits	47 276	20 838	12 263	*5 769*	*3 487*	*2 266*	*742*	0	80 377
Savings accounts	47 789	7 536	4 743	*944*	*1 293*	*810*	*1 696*	0	60 067
Time deposits	10 502	1 393	5 445	*633*	*1 228*	*1 092*	*2 492*	0	17 340
Debt securities	30 315	2 217	342	*184*	*158*	*0*	*0*	1 335	34 209
Other	2 118	502	224	0	224	0	0	0	2 844
Loans and advances to customers (excluding reverse repos)	97 417	23 387	24 006	*4 371*	*7 107*	*2 799*	*9 729*	0	144 810
Term loans	50 753	8 304	5 669	*1 969*	*2 314*	*1 033*	*353*	0	64 726
Mortgage loans	33 865	11 317	14 471	*1 260*	*3 248*	*642*	*9 320*	0	59 653
Other	12 799	3 766	3 866	1 142	1 545	1 123	55	0	20 431
BALANCE SHEET AT 31-12-2017 (IAS 39)									
Deposits from customers and debt securities (excluding repos)	138 970	30 336	22 746	*7 314*	*6 106*	*3 934*	*5 392*	2 205	194 257
Demand deposits	43 126	19 588	11 297	*5 496*	*3 071*	*1 926*	*805*	0	74 011
Savings accounts	44 416	7 668	4 609	*942*	*1 227*	*837*	*1 603*	0	56 692
Time deposits	12 975	750	6 236	*844*	*1 397*	*1 131*	*2 864*	0	19 961
Debt securities	36 415	1 839	340	*31*	*188*	*0*	*121*	2 205	40 798
Other	2 039	492	264	0	223	41	0	0	2 795
Loans and advances to customers (excluding reverse repos)	92 595	22 303	24 192	*4 215*	*6 574*	*2 709*	*10 694*	0	139 090
Term loans	47 276	8 104	5 405	*1 936*	*2 158*	*562*	*749*	0	60 784
Mortgage loans	33 682	10 653	15 503	*1 556*	*2 943*	*1 100*	*9 905*	0	59 838
Other	11 638	3 546	3 284	724	1 473	1 048	40	0	18 468

3.0 Notes to the income statement

Note 3.1: Net interest income

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	4 033	3 546
Interest income	6 485	5 760
Interest income on financial instruments calculated using the effective interest rate method		
Loans and receivables	-	3 772
Held-to-maturity investments	-	654
Financial assets at AC	5 049	-
Available-for-sale assets	-	351
Financial assets at FVOCI	114	-
Hedging derivatives	378	273
Other assets not at fair value	62	158
Interest income on other financial instruments		
Financial assets MFVPL other than held for trading	8	1
Financial assets held for trading	875	547
Of which economic hedges	847	521
Other financial assets at FVPL	0	5
Interest expense	-2 452	-2 214
Interest expense on financial instruments calculated using the effective interest rate method		
Financial liabilities at AC	-1 200	- 991
Hedging derivatives	- 573	- 476
Other	- 124	- 99
Interest expense on other financial instruments		
Financial liabilities held for trading	- 522	- 613
Of which economic hedges	- 494	- 590
Other financial liabilities at FVPL	- 29	- 30
Net interest expense relating to defined benefit plans	- 5	- 6

- Information on the change in presentation of accrued interest from foreign exchange derivatives is provided in Note 1.1.

Note 3.2: Dividend income

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	29	20
Equity instruments MFVPL other than held for trading	0	-
Equity instruments held for trading	17	11
Equity instruments initially recognised at FVPL	-	0
Equity instruments at FVOCI	11	-
Available-for-sale equity instruments	-	10

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

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	161	860
Financial instruments MFVPL other than held for trading	1	-
Trading instruments (including interest and fair value changes in trading derivatives)	157	338
Other financial instruments at FVPL	48	13
Foreign exchange trading	49	592
Fair value adjustments in hedge accounting	- 95	- 84
Hedge accounting broken down by type of hedge		
Fair value micro hedges	- 13	- 10
Changes in the fair value of the hedged items	- 122	- 24
Changes in the fair value of the hedging derivatives	110	14
Cashflow hedges	- 2	1
Changes in the fair value of the hedging derivatives, ineffective portion	- 2	1
Hedges of net investments in foreign operations, ineffective portion	0	0
Portfolio hedge of interest rate risk	- 14	8
Changes in the fair value of the hedged items	144	- 102
Changes in the fair value of the hedging derivatives	- 158	110
Discontinuation of hedge accounting for fair value hedges	- 15	- 18
Discontinuation of hedge accounting in the event of cashflow hedges	- 51	- 65

- The interest component of ALM derivatives is recognised under 'Net interest income'. Fair value changes in ALM derivatives, excluding those for which an effective cashflow hedge relationship exists, are recognised under 'Net result from financial instruments at fair value through profit or loss'. Under fair value hedge accounting, changes in the fair value of hedged assets are also recognised under this heading, and offsetting takes place insofar as the hedge is effective.
- Fair value changes (due to marking-to-market) of a large proportion of ALM hedging instruments (that are treated as trading instruments) also appear under 'Net result from financial instruments at fair value', whereas most of the related assets are not recognised at fair value (i.e. not marked-to-market).
- Day 1 profit: when the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or from the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case (i.e. the variables do not include only data from observable markets), day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. The impact of this is negligible for KBC.
- Foreign exchange trading results comprise total exchange differences, excluding those recognised on financial instruments at fair value through profit or loss.
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, we use the dollar offset method on a quarterly basis, with changes in the fair value of the hedged item offsetting changes in the fair value of the hedging instrument within a range of 80%–125%.
  - For cashflow hedges, we compare the designated hedging instrument with a perfect hedge of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the perfect hedge). The effectiveness of both tests must fall within a range of 80%–125%.
  - We use the rules set out in the European version of IAS 39 (carve-out) to assess the effectiveness of fair value hedges for a portfolio of interest rate risk. IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, we make sure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- Most significant fluctuations between 2017 and 2018: the result from financial instruments measured at fair value through profit or loss in 2018 was down 699 million euros on its level in 2017, due in part to a change in presentation (of accrued interest from foreign exchange derivatives (305 million euros in 2017) and network income (99 million euros in 2017). Disregarding these items, the result from financial instruments at fair value through profit or loss in 2018 was 294 million euros lower than in 2017, owing primarily to the lower value of derivatives used for asset/liability management purposes, the lower level of income generated by the dealing rooms in the Czech Republic and Belgium, and negative market value adjustments in 2018 as opposed to positive ones in 2017.

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

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	-	114
Fixed-income securities	-	26
Equity instruments	-	89

Note 3.5: Net fee and commission income

(in millions of EUR)	2018	2017
Total	2 062	2 023
Fee and commission income	2 572	2 706
Fee and commission expense	- 509	- 683
Breakdown by type		
Asset Management Services	1 084	1 184
Fee and commission income	1 137	1 230
Fee and commission expense	- 53	- 45
Banking Services	888	768
Fee and commission income	1 231	1 272
Fee and commission expense	- 343	- 504
Distribution	91	71
Fee and commission income	204	204
Fee and commission expense	- 113	- 133

- The lion's share of the fees and commissions related to lending is recognised under 'Net interest income' (effective interest rate calculations).
- As from 2018, the financial information has been prepared in accordance with IFRS 9, without affecting net fee and commission income. The impact of implementing IFRS 15 is negligible.
- Information on the change in presentation of 'Network income' can be found in Note 1.1.

Note 3.6: Other net income

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	167	25
of which gains or losses on		
Sale of loans and receivables	-	3
Sale of held-to-maturity investments	-	7
Sale of financial assets measured at amortised cost	15	-
Repurchase of financial liabilities measured at amortised cost	0	0
Other, including:	152	15
Income from (mainly operational) leasing activities, KBC Lease Group	54	59
Settlement of legacy legal cases	56	14
Provisioning for tracker mortgage review	0	- 116

- Provisioning for the tracker mortgage review concerns KBC Bank Ireland, which – like all major lenders in Ireland at the time – had offered tracker mortgages (i.e. between 2003 and 2008). In December 2015, the Central Bank of Ireland (CBI) requested the Irish banking industry, including KBC Bank Ireland, to undertake a broad and wide-ranging examination of tracker-mortgage related issues. The purpose of the tracker mortgage review was to identify cases where clients' contractual rights under the terms of their mortgage agreements had not been fully honoured and/or lenders had not fully complied with the various requirements and standards regarding disclosure and transparency for the client. In situations where client detriment was identified from this examination, KBC Bank Ireland had to provide appropriate redress and compensation in line with the CBI 'Principles for Redress'. The bank recognised a provision of 4 million euros in 2016 and 116 million euros in 2017 in respect of redress and compensation for clients identified as being impacted. In 2018, most of the clients concerned duly received redress and compensation payments.
- Settlement of legal cases relates primarily to cases in the Group Centre (5 million euros, in the third quarter of 2018), Belgium (18 million euros and 33 million euros, respectively, in the first and fourth quarters of 2018) and the Czech Republic (14 million euros in the first quarter of 2017).

Note 3.7: Insurance results

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

Note 3.8: Operating expenses

(in millions of EUR)	2018	2017
Total	- 3 712	- 3 568
Staff expenses	- 1 735	- 1 690
General administrative expenses	- 1 808	- 1 718
of which bank taxes	- 444	- 419
Depreciation and amortisation of fixed assets	- 168	- 160

- 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 419 million euros in 2017 and 444 million euros in 2018). The latter figure comprises 251 million euros in the Belgium Business Unit, 30 million euros in the Czech Republic Business Unit, 20 million euros in Slovakia, 14 million euros in Bulgaria, 110 million euros in Hungary and 19 million euros in Ireland.
- Share-based payments are included under staff expenses.
- Information on the main equity-settled share-based payments: since 2000, KBC has launched a number of stock option plans for its employees. There were no outstanding options KBC Group at year-end 2018 (changes in 2018 related to the remaining options that had expired (-63 730 options)).

Note 3.9: Personnel

(number)	2018	2017
Total average number of persons employed (in full-time equivalents)	29 937	29 079
By employee classification		
Blue-collar staff	57	75
White-collar staff	29 699	28 833
Senior management	181	171

- The figures in the table are annual averages, which – in terms of scope – may differ from year-end figures that are provided elsewhere.
- Due to the fact that United Bulgarian Bank and Interlease were only acquired in mid-2017, just half of their figures have been included for 2017 (1 156 FTEs). Complete figures for these entities have been included for 2018.

Note 3.10: Impairment (income statement)

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	19	44
Impairment on financial assets at AC and at FVOCI	59	-
Of which impairment on financial assets at AC (IFRS 9) and on loans and receivables (IAS 39)	59	87
By product		
Loans and advances	43	146
Debt securities	1	0
Off-balance-sheet commitments and financial guarantees	15	- 59
By type		
Stage 1 (12-month ECL)	- 22	-
Stage 2 (lifetime ECL)	38	-
Stage 3 (non-performing; lifetime ECL)	56	-
Purchased or originated credit impaired assets	- 13	-
Specific impairment, on-balance-sheet lending	-	86
Provisions for off-balance-sheet commitments and financial guarantees	-	- 59
Portfolio-based impairment	-	60
Of which impairment on financial assets at FVOCI (IFRS 9) and on available-for-sale assets (IAS 39)	0	- 2
Equity instruments	-	- 2
Debt securities	0	0
Stage 1 (12-month ECL)	0	-
Stage 2 (lifetime ECL)	0	-
Stage 3 (non-performing; lifetime ECL)	0	-
Impairment on goodwill	0	0
Impairment on other	- 41	- 41
Intangible fixed assets (other than goodwill)	0	- 11
Property, plant and equipment (including investment property)	- 42	- 27
Held-to-maturity assets (IAS 39)	-	0
Associated companies and joint ventures	0	0
Other	1	- 3

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

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

- Impairment on financial assets at AC and at FVOCI is also referred to as 'Impairment on loans'. In 2018, it comprised net provisioning of 94 million euros for the Belgium Business Unit (87 million euros a year earlier), net provisioning of 8 million euros for the Czech Republic Business Unit (5 million euros a year earlier), a net reversal of 34 million euros for the Group Centre (net provisioning of 18 million euros a year earlier) and a net reversal (i.e. with a positive impact on the net result) of 127 million euros for the International Markets Business Unit (197 million euros a year earlier). The 2018 figure for the International Markets Business Unit breaks down into a net reversal of 112 million euros in 2018 in Ireland (net reversal of 215 million euros in 2017), a net reversal of 9 million euros in Hungary (net reversal of 11 million euros in 2017), net provisioning of 4 million euros in Slovakia (net provisioning of 11 million euros in 2017) and a net reversal of 10 million euros in Bulgaria (net provisioning of 17 million euros in 2017).
- In Ireland, the loan portfolio – which contains a relatively large proportion of home loans and mortgages – has suffered in recent years as a consequence of the property crisis. The Irish loan portfolio stood at about 11 billion euros at the end of the year, 96% of which relates to mortgage loans. The group was able to recognise a net impairment reversal of 112 million euros for its Irish portfolio in 2018 (the net reversal came to 215 million euros in 2017). The net reversal in 2018 was accounted for in part by the rise in Irish house prices. At the beginning of August 2018, KBC Bank Ireland also reached agreement with Goldman Sachs to sell part (about 1.7 billion euros) of its legacy portfolio, comprising non-performing corporate loans, non-performing Irish buy-to-let home loans, and performing and non-performing UK buy-to-let home loans. The deal significantly reduced KBC Bank Ireland's impaired loans ratio (by roughly 10 percentage points) to around 23% in the last quarter. The deal was closed on 30 November 2018.
- For information on total impairment recognised in the balance sheet, see Note 4.2.
- KBC Bank uses three different forward-looking macroeconomic scenarios (with different probability weightings) to measure ECL. A sensitivity analysis of the impact of these multiple economic scenarios on ECL – performed by calculating the difference between the outcome of the probability-weighted scenario (which is recognised)

and the base scenario – gives a scenario-weighted ECL at year-end 2018 that is 0% to 0.3% higher than the base scenario, depending on the country concerned. If we take just the portfolios for which statistical macroeconomic variables are included in the model, the range rises to 0.2%-2.6%.

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

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	12	8
Of which:		
ČMSS	19	21
Joyn International NV	-6	-5
Bancontact Payconiq Company NV	0	-2
Payconiq International S.A.	-7	-6

- The share in results of associated companies and joint ventures is accounted for primarily by ČMSS, a joint venture of ČSOB in the Czech Republic. More details are provided in Note 5.3.
- Impairment on (goodwill on) associated companies and joint ventures is included in 'Impairment' (see Note 3.10). The share in results of associated companies and joint ventures does not therefore take this impairment into account.

Note 3.12: Income tax expense

(in millions of EUR)	2018 (IFRS 9)	2017 (IAS 39)
Total	- 598	- 891
By type		
Current taxes on income	- 414	- 365
Deferred taxes on income	- 184	- 525
Tax components		
Result before tax	2 779	3 073
Income tax at the Belgian statutory rate	29,58%	33,99%
Income tax calculated	- 822	- 1 044
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	217	288
tax-free income	55	162
adjustments related to prior years	9	2
adjustments to deferred taxes due to change in tax rate	- 24	- 231
unused tax losses and unused tax credits to reduce current tax expense	16	23
unused tax losses and unused tax credits to reduce deferred tax expense	0	16
reversal of previously recognised deferred tax assets due to tax losses	0	0
other (mainly non-deductible expenses)	- 49	- 105

- For information on tax assets and tax liabilities, see Note 5.2.
- 'Income tax expense' in 2017 was positively impacted by deferred tax assets, 66 million euros of which at KBC Bank following the liquidation of IIB Finance Ireland (under Belgian tax law, the loss in paid-up capital that KBC Bank sustained as a result of the liquidation of IIB Finance Ireland is tax deductible for the parent company on the date of liquidation, rather than at the time the losses were incurred).
- In 2017, adjustments to deferred taxes due to change in the tax rate concerned the reform of the Belgian corporation tax regime, which will affect KBC mainly because of the planned gradual decrease in the tax rate from 33.99% to 29.58% (from financial year 2018) and to 25% (from financial year 2020). This already had a slight, positive one-off impact (of roughly +0.1%) on our common equity ratio at the end of 2017 (thanks in part to higher revaluation reserves for available-for-sale assets (after tax) and lower risk-weighted assets resulting from the lower level of outstanding deferred tax assets) and a one-off negative impact on the income statement at year-end 2017 (-231 million euros due to a reduction in the amount of deferred tax assets). In addition, the increase in tax exemption for eligible dividends received (from 95% to 100%) had a positive impact of 13 million

euros. Both these factors had an aggregate negative impact of 218 million euros for 2017. In segment reporting (Note 2.2), the portion related to the legacy business was charged to the Group Centre (140 million euros) and the rest to the Belgium Business Unit.

- The reform of the Belgian corporation tax regime has been having a recurring positive impact on the income statement since 2018, because of the lower tax rate applying to the Belgian group companies and certain dividends received being 100% tax-exempt. However, the impact has been partly mitigated by other measures, including the reform of the notional interest deduction scheme.
- Breakdown of activities by country in 2018.
  The table below provides a better insight into the activities of KBC Bank at the consolidated level, broken down by country, and complies with the Royal Decree of 27 November 2014 (amending the royal decrees concerning the financial statements and consolidated financial statements of credit institutions, investment firms and management companies of undertakings for collective investment).
  The names of the different entities and the nature of their activities in each of the countries in this table can be found in the information included in the scope of consolidation (see Note 6.5).

(in million euros)	2018 Turnover (*)	Average number of employees in FTE	Result before tax	Income tax expense	Current tax on income	Deferred tax	Received government funding	2017 Turnover (*)	Average number of employees in FTE	Result before tax	Income tax expense	Current tax on income	Deferred tax	Received government funding
KBC home Countries (incl. Ireland)														
Belgium	3 218	10 427	1 052	- 341	- 165	- 175	0	3 565	10 597	1 358	- 617	- 139	- 478	0
Czech Republic	1 438	8 532	744	- 126	- 139	13	0	1 408	8 351	802	- 133	- 118	- 15	0
Hungary	527	3 554	212	- 30	- 27	- 3	0	481	3 654	164	- 27	- 25	- 2	0
Slovakia	273	2 541	97	- 23	- 17	- 6	0	277	2 503	91	- 21	- 18	- 3	0
Bulgaria	211	3 195	96	- 10	- 2	- 8	0	147	2 402	49	- 5	2	- 7	0
Ireland	484	1 312	376	- 50	- 24	- 26	0	394	1 141	415	- 54	- 26	- 28	0
Other countries														
Great Britain	75	40	57	- 3	- 3	0	0	82	50	51	- 1	- 1	0	0
USA	27	55	4	5	- 5	10	0	34	57	3	3	- 4	7	0
France	41	55	22	- 8	- 8	0	0	40	61	23	- 8	- 8	0	0
Netherlands	29	26	24	- 6	- 7	1	0	25	27	24	- 6	- 6	0	0
Luxembourg	73	49	64	- 4	- 13	9	0	90	47	82	- 22	- 21	0	0
Romania	6	0	6	0	0	0	0	0	0	0	0	0	0	0
Germany	8	21	2	- 1	0	- 1	0	6	21	- 1	0	0	0	0
Hong Kong	14	58	7	- 1	- 1	0	0	12	60	4	0	0	0	0
Singapore	19	43	9	- 1	- 1	0	0	15	44	7	- 1	- 1	0	0
Poland	1	0	0	0	0	0	0	0	27	- 1	0	0	0	0
China	15	29	7	- 1	- 1	0	0	12	30	2	0	- 1	1	0
Italy	0	0	- 1	0	0	0	0	0	7	- 1	0	0	0	0
India	1	0	1	0	0	0	0	1	0	1	0	0	0	0
Total	6 460	29 937	2 779	- 598	- 414	- 184	0	6 588	29 079	3 073	- 891	- 365	- 525	0

(*) Based on 'Total income'.
[1] including KBC Bank branch office.

Note 3.13: Earnings per share

Applies to KBC Group, but not to KBC Bank.

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

These notes should be read in conjunction with Note 1.1.

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

(in millions of EUR)	Measured at amortised cost (AC)	Measured at fair value through OCI (FVOCI)	measured at FVPL (other than held for trading) (MFVPL excl. HFT)	Held for trading (HFT)	Available for sale	Loans and receiva-bles	Held to maturity	Desig-nated at fair value[1] (FVO)	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2018 (IFRS 9)										
Loans and advances to credit institutions and investment firms (excl. reverse repos)[a]	5 068	0	0	0	-	-	-	0	0	5 068
Loans and advances to customers (excl. reverse repos)	144 712	0	85	0	-	-	-	13	0	144 810
Trade receivables	4 196	0	0	0	-	-	-	0	0	4 196
Consumer credit	4 520	0	0	0	-	-	-	0	0	4 520
Mortgage loans	59 582	0	71	0	-	-	-	0	0	59 653
Term loans	64 699	0	14	0	-	-	-	13	0	64 726
Finance lease	5 618	0	0	0	-	-	-	0	0	5 618
Current account advances	5 527	0	0	0	-	-	-	0	0	5 527
Other	570	0	0	0	-	-	-	0	0	570
Reverse repos[2]	22 117	0	0	0	-	-	-	0	0	22 117
with credit institutions and investment firms	20 976	0	0	0	-	-	-	0	0	20 977
with customers	1 141	0	0	0	-	-	-	0	0	1 141
Equity instruments	0	189	0	762	-	-	-	0	0	951
Debt securities issued by	36 979	5 719	26	712	-	-	-	0	0	43 436
Public bodies	32 091	4 883	0	556	-	-	-	0	0	37 530
Credit institutions and investment firms	2 487	780	0	76	-	-	-	0	0	3 343
Corporates	2 400	56	26	79	-	-	-	0	0	2 562
Derivatives	0	0	0	4 988	-	-	-	0	183	5 170
Other[3]	1 994	0	0	6	-	-	-	0	0	2 000
Total	210 870	5 908	111	6 467	-	-	-	13	183	223 552
[a] *of which loans and advances to banks repayable on demand and term loans to banks at not more than three months*										*674*
FINANCIAL ASSETS, 31-12-2017 (IAS 39)										
Loans and advances to credit institutions and investment firms (excl. reverse repos)[a]	-	-	-	0	0	4 856	0	0	0	4 856
Loans and advances to customers (excl. reverse repos)	-	-	-	0	0	139 052	0	38	0	139 090
Trade receivables	-	-	-	0	0	3 985	0	0	0	3 985
Consumer credit	-	-	-	0	0	3 857	0	0	0	3 857
Mortgage loans	-	-	-	0	0	59 815	0	23	0	59 838
Term loans	-	-	-	0	0	60 769	0	15	0	60 784
Finance lease	-	-	-	0	0	5 308	0	0	0	5 308
Current account advances	-	-	-	0	0	4 728	0	0	0	4 728
Other	-	-	-	0	0	590	0	0	0	590
Reverse repos[2]	-	-	-	2	0	21 516	0	0	0	21 517
with credit institutions and investment firms	-	-	-	2	0	19 570	0	0	0	19 572
with customers	-	-	-	0	0	1 945	0	0	0	1 945
Equity instruments	-	-	-	509	213	0	0	0	0	722
Debt securities issued by	-	-	-	1 154	19 424	868	25 803	24	0	47 273
Public bodies	-	-	-	954	14 701	52	25 123	0	0	40 830
Credit institutions and investment firms	-	-	-	121	2 766	125	511	0	0	3 523
Corporates	-	-	-	79	1 957	691	169	24	0	2 921
Derivatives	-	-	-	5 844	0	0	0	0	245	6 090
Other[3]	-	-	-	0	0	636	0	0	0	636
Total	-	-	-	7 509	19 637	166 927	25 803	63	245	220 184
[a] *of which loans and advances to banks repayable on demand and term loans to banks at not more than three months*										*642*

(in millions of EUR)	Measured at amortised cost (AC)	Held for trading (HFT)	Designated at fair value (FVO)	Hedging derivatives	Total
FINANCIAL LIABILITIES, 31-12-2018 (IFRS 9)					
Deposits from credit institutions and investment firms (excl. repos)[a]	23 684	0	0	-	23 684
Deposits from customers and debt securities (excl. repos)	192 549	226	2 061	-	194 837
Demand deposits	80 377	0	0	-	80 377
Time deposits	16 995	49	296	-	17 340
Savings accounts	60 067	0	0	-	60 067
Special deposits	2 629	0	0	-	2 629
Other deposits	215	0	0	-	215
Certificates of deposit	15 575	0	8	-	15 583
Savings certificates	1 700	0	0	-	1 700
Convertible bonds	0	0	0	-	0
Non-convertible bonds	9 058	176	1 572	-	10 806
Convertible subordinated liabilities	0	0	0	-	0
Non-convertible subordinated liabilities	5 933	0	186	-	6 119
Repos[4]	1 001	0	0	-	1 001
with credit institutions and investment firms	932	0	0	-	932
with customers	69	0	0	-	69
Derivatives	-	4 680	0	1 111	5 791
Short positions	-	935	0	-	935
In equity instruments	-	16	0	-	16
In debt securities	-	919	0	-	919
Other[5]	3 990	0	0	-	3 990
Total	221 224	5 842	2 062	1 111	230 239
[a] of which deposits from banks repayable on demand					*5 966*
FINANCIAL LIABILITIES, 31-12-2017 (IAS 39)					
Deposits from credit institutions and investment firms (excl. repos)[a]	27 746	3	12	-	27 762
Deposits from customers and debt securities (excl. repos)	192 568	219	1 470	-	194 257
Demand deposits	74 011	0	0	-	74 011
Time deposits	19 547	11	403	-	19 961
Savings accounts	56 692	0	0	-	56 692
Special deposits	2 235	0	0	-	2 235
Other deposits	560	0	0	-	560
Certificates of deposit	22 579	0	14	-	22 593
Savings certificates	1 721	0	0	-	1 721
Convertible bonds	0	0	0	-	0
Non-convertible bonds	8 863	208	866	-	9 937
Convertible subordinated liabilities	0	0	0	-	0
Non-convertible subordinated liabilities	6 361	0	186	-	6 547
Repos[4]	5 835	0	0	-	5 836
with credit institutions and investment firms	5 575	0	0	-	5 575
with customers	260	0	0	-	260
Derivatives	-	5 867	0	1 284	7 151
Short positions	-	905	0	-	905
In equity instruments	-	13	0	-	13
In debt securities	-	892	0	-	892
Other[5]	2 360	3	0	-	2 363
Total	228 509	6 998	1 482	1 284	238 273
[a] of which deposits from banks repayable on demand					*9 431*

[1] The carrying value comes close to the maximum credit exposure.
[2] The amount of the reverse repos is virtually identical to the amount of the underlying assets (that have been lent out).
[3] Financial assets not included under 'Loans and advances to customers' as they are not directly related to commercial lending.
[4] The amount of the repos is virtually identical to the amount of the underlying assets (that have been lent out), with the assets being partly reflected on the balance sheet and partly obtained through reverse repo transactions.
[5] Financial liabilities not included under deposits from customers as they are not directly related to commercial deposit acquisition.

- In order to obtain a more transparent view of the different products, a slight change has been made to the presentation of the figures in Note 4.1. As of 2018, repos and reverse repos are no longer recognised in loans and advances to credit institutions and customers (or in deposits from credit institutions and customers), but instead are presented separately. The reference figures have been restated accordingly.
- 'Non-convertible bonds' comprise mainly KBC Bank issues and, to a lesser extent, KBC Group and KBC IFIMA issues. They are usually recognised under 'Measured at amortised cost'. However, if they contain closely related embedded derivatives, they are recorded under 'Designated at fair value' (see accounting policies). This item also includes a green bond issued on 20 June 2018 (for 500 million euros and a term of five years), which has been recognised at amortised cost.
- 'Non-convertible subordinated liabilities' in 2017 included the contingent capital note (CoCo) issued in January 2013 for an amount of 1 billion US dollars. Pursuant to IAS 32, this note was classified as a liability because it has a fixed term and obligatory interest payments. KBC called this CoCo in January 2018.
- More information on major new debt issues or redemptions is provided under the 'Consolidated cashflow statement'.
- 'Deposits from credit institutions and investment firms' include funding of 6.5 billion euros obtained from the ECB's TLTRO II programme. KBC's management has reasonable assurance that KBC will comply with the conditions attached and hence the interest has accordingly been recognised.
- We have changed the definition of mortgage loans for reasons of consistency. The figures for 2018 do not include loans taken out by corporate clients for purchasing property (reclassified into 'Term loans'). As the amount involved was limited (0.5 billion euros at year-end 2017), we have not restated the reference figures for 2017.
- Transferred financial assets that continue to be recognised in their entirety: KBC regularly lends and/or sells securities with the commitment to buy them back at a later date (repo transactions). Securities lent or sold with such a commitment are transferred to the counterparty, and, in exchange, KBC receives cash or other financial assets. However, KBC retains the main risks and income relating to these securities, and, therefore, continues to recognise them on its balance sheet. In addition, a financial liability is recognised equalling the cash collateral received.
- At year-end 2018, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 3 412 million euros (debt instruments classified as 'Held for trading' (113 million euros) and 'Measured at amortised cost' (3 298 million euros); and an associated financial liability with a carrying value of 1 001 million euros (48 million euros classified as 'Held for trading' and 953 million euros as 'Measured at amortised cost'). At year-end 2017, KBC had transferred the following types of financial asset, which continued to be recognised in their entirety: repo transactions and securities lent out with a carrying value of 7 975 million euros (debt instruments classified as 'Held for trading' (178 million euros), 'Available for sale' (421 million euros), and 'Held to maturity' (7 376 million euros)); and an associated financial liability with a carrying value of 5 312 million euros (178 million euros classified as 'Held for trading', 422 million euros as 'Available for sale', and 4 712 million euros as 'Held to maturity'). It should be noted that, at year-ends 2018 and 2017, KBC had fewer transferred securities on its balance sheet than outstanding repo transactions, since securities obtained in reverse repo transactions are often used for repo transactions. These securities are not presented on the balance sheet and, therefore, do not qualify for disclosure as stated in this paragraph.

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

Note 4.2.1: Impaired financial assets

31-12-2018 (IFRS 9)

(in millions of EUR)	Carrying value before impairment	Impairment	Carrying value after impairment
FINANCIAL ASSETS AT AMORTISED COST			
Loans and advances	175 419	- 3 522	171 897
Stage 1 (12-month ECL)	151 879	- 112	151 767
Stage 2 (lifetime ECL)	16 925	- 305	16 620
Stage 2 (lifetime ECL) - incl. POCI	16 983	- 303	
Stage 3 (lifetime ECL)	6 461	- 3 062	3 398
Purchased or originated credit impaired assets (POCI)	154	- 42	112
Debt Securities	36 990	- 11	36 979
Stage 1 (12-month ECL)	36 825	- 5	36 821
Stage 2 (lifetime ECL)	157	- 1	156
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	5 720	- 1	5 719
Stage 1 (12-month ECL)	5 720	- 1	5 719
Stage 2 (lifetime ECL)	0	0	0
Stage 3 (lifetime ECL)	0	0	0
Purchased or originated credit impaired assets (POCI)	0	0	0

31-12-2017 (IAS 39)

(in millions of EUR)	Held for trading	Available for sale	Loans and receivables	Held to maturity	Designated at fair value	Hedging derivatives
Unimpaired assets	7 509	19 572	162 143	25 802	63	245
Impaired assets	-	103	8 842	6	-	-
Impairment	-	- 38	- 4 058	- 5	-	-
Total	7 509	19 637	166 927	25 803	63	245

- Sale of portfolio in Ireland: at the end of November 2018, KBC Bank Ireland sold part of its legacy corporate and buy-to-let mortgage loan portfolio to entities established and financed by Goldman Sachs. The sale, worth approximately 1.9 billion euros, comprised non-performing corporate loans, non-performing Irish buy-to-let mortgage loans and performing and non-performing UK buy-to-let mortgage loans. This deal has accelerated the run-down of the non-performing portfolio and reduced the impaired loans ratio for KBC Bank Ireland by 12 percentage points in the fourth quarter of 2018 (compared to the third quarter).
- In 2018, ‘Stage 2’ and ‘Stage 3’ financial assets with a net carrying value of 375 million euros were subject to modifications that did not result in derecognition. The gross carrying value of ‘Stage 1’ financial assets subject to modifications that did not result in derecognition came to 746 million euros in 2018. Modification gains or losses are recognised under impairment, but were limited in 2018.
- In 2018, financial assets at amortised cost with a carrying value of 245 million euros were written off, but were still subject to *enforcement* activities.

Note 4.2.2: Impairment details

31-12-2018 (IFRS 9)

(in millions of EUR)	Stage 1 Subject to 12-month ECL	Stage 2 Subject to lifetime ECL	Stage 3 Subject to lifetime ECL (non-performing)	Subject to lifetime ECL (purchased or originated credit impaired)	Total
LOANS AND ADVANCES AT AMORTISED COST					
Impairment on 01-01-2018 (IFRS 9)	97	356	4 495	58	5 006
Movements with an impact on results[1]	26	- 41	44	- 13	15
Transfer of financial assets					
Stage 1 (12-month ECL)	- 9	62	58	0	111
Stage 2 (lifetime ECL)	4	- 89	49	0	- 36
Stage 3 (lifetime ECL)	1	17	- 76	- 4	- 62
New financial assets[2]	66	83	159	5	312
Changes in risk parameters during the reporting period	- 27	- 99	124	3	1
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets	- 9	- 14	- 278	- 18	- 318
Other	0	- 1	7	0	6
Movements without an impact on results	- 10	- 10	- 1 476	- 2	- 1 499
Derecognised financial assets (incl. disposals, write-offs and repayments)	- 9	- 7	- 1 454	- 22	- 1 492
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	- 1	- 3	- 23	20	- 7
Impairment on 31-12-2018	112	305	3 062	42	3 522
DEBT SECURITIES AT AMORTISED COST					
Impairment on 01-01-2018 (IFRS 9)	5	1	9	0	15
Movements with an impact on results[1]	- 1	0	0	0	- 1
Transfer of financial assets					
Stage 1 (12-month ECL)	0	1	0	0	1
Stage 2 (lifetime ECL)	0	0	0	0	0
Stage 3 (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	- 1
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets	0	0	0	0	0
Other	0	0	0	0	0
Movements without an impact on results	0	0	- 4	0	- 4
Derecognised financial assets (incl. disposals, write-offs and repayments)	0	0	- 2	0	- 2
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	- 1	0	- 1
Impairment on 31-12-2018	5	1	6	0	11
DEBT SECURITIES AT FAIR VALUE THROUGH OCI					
Impairment on 01-01-2018 (IFRS 9)	1	0	0	0	1
Movements with an impact on results[1]	0	0	0	0	0
Transfer of financial assets					
Stage 1 (12-month ECL)	0	0	0	0	0
Stage 2 (lifetime ECL)	0	0	0	0	0
Stage 3 (lifetime ECL)	0	0	0	0	0
New financial assets[2]	0	0	0	0	0
Changes in risk parameters during the reporting period	0	0	0	0	0
Changes in the model or methodology	0	0	0	0	0
Derecognised financial assets	0	0	0	0	0
Other	0	0	0	0	0
Movements without an impact on results	0	0	0	0	0
Derecognised financial assets (incl. disposals, write-offs and repayments)	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0
Transfers under IFRS 5	0	0	0	0	0
Other	0	0	0	0	0
Impairment on 31-12-2018	1	0	0	0	1

[1] In addition, 58 million euros recovered in respect of loans that had already been written off was recognised in the income statement. Amounts recovered do not have any impact on impairment losses on the balance sheet.

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

31-12-2017 (IAS 39)

(in millions of EUR)	Available-for-sale fixed-income assets	Available-for-sale equity instruments	Held-to-maturity fixed-income assets	Individually impaired loans and receivables	Portfolio impaired loans and receivables
Opening balance	0	61	5	4 829	264
Movements with an impact on results					
Impairment recognised	0	2	0	512	80
Impairment reversed	0	0	0	- 599	- 139
Movements without an impact on results					
Write-offs	0	- 1	0	- 1 237	0
Changes in the scope of consolidation	8	4	0	476	6
Transfers to/from non-current assets held for sale and disposal groups	0	0	0	0	0
Other	0	- 35	- 1	- 140	3
Closing balance	8	30	5	3 843	215

- For information on provisions for commitments and financial guarantees, see Note 5.7.2.
- For information regarding the impact of changes in impairment on the income statement, see Note 3.10.
- Additional information on impairment relating to the loan portfolio is provided under ‘Credit risk’ in the ‘Risk management’ section.

Note 4.3: Maximum credit exposure and *offsetting*

(in millions of EUR)	Maximum credit exposure (A)	Collateral and other credit enhancements received (B)	Net (A-B)
31-12-2018 (IFRS 9)			
Subject to impairment	250 196	96 128	154 068
of which Stage 3 'non-performing' (AC and FVOCI)	3 732	2 476	1 256
Debt securities	42 698	59	42 639
Loans and advances (excl. reverse repos)	149 780	69 596	80 184
Reverse repos	22 117	22 066	51
Other financial assets	1 994	0	1 994
Off-balance-sheet liabilities	33 607	4 407	29 200
Not subject to impairment	6 012	1 361	4 651
Debt securities	738	0	738
Loans and advances (excl. reverse repos)	98	53	44
of which designated upon initial recognition at fair value through profit or loss (FVO)	13	13	0
Reverse repos	0	0	0
Derivatives	5 170	1 308	3 863
Other financial assets	6	0	6
Off-balance-sheet liabilities	0	0	0
Total	256 208	97 489	158 719
31-12-2017 (IAS 39)			
Debt securities	47 273	70	47 203
Loans and advances (incl. reverse repos)	165 464	90 975	74 488
of which designated at fair value	38	11	27
Derivatives	6 090	1 902	4 188
Other	34 479	4 427	30 051
Total	253 305	97 375	155 930

- 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 are set out in detail under 'Credit risk' in the 'Risk management' section. All parts of that particular section which have been audited by the statutory auditor are listed at the start of the section.
- Collateral and credit enhancements received: recognised at market value and limited to the outstanding amount of the relevant loans.

Financial instruments subject to offsetting, enforceable master netting agreements and similar arrangements (in millions of EUR)	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments set off	Net amounts of financial instruments presented in the balance sheet	Amounts not set off in the balance sheet: Financial instruments	Cash collateral	Securities collateral	Net amount
FINANCIAL ASSETS, 31-12-2018 (IFRS 9)							
Derivatives	8 486	3 316	5 170	2 914	741	310	1 206
Derivatives (excluding central clearing houses)	5 159	0	5 159	2 914	741	310	1 194
Derivatives with central clearing houses*	3 327	3 316	11	0	0	0	11
Reverse repos, securities borrowing and similar arrangements	31 769	9 651	22 117	0	0	22 115	3
Reverse repos	31 769	9 651	22 117	0	0	22 115	3
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	40 255	12 967	27 287	2 914	741	22 424	1 208
FINANCIAL ASSETS, 31-12-2017 (IAS 39)							
Derivatives	9 463	3 374	6 090	3 343	1 262	450	1 034
Derivatives (excluding central clearing houses)	6 080	0	6 080	3 343	1 262	450	1 024
Derivatives with central clearing houses*	3 384	3 374	10	0	0	0	10
Reverse repos, securities borrowing and similar arrangements	32 802	11 285	21 517	0	0	21 483	34
Reverse repos	32 802	11 285	21 517	0	0	21 483	34
Securities borrowing	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	42 266	14 659	27 607	3 343	1 262	21 933	1 068
FINANCIAL LIABILITIES, 31-12-2018 (IFRS 9)							
Derivatives	9 107	3 316	5 791	2 914	1 581	330	967
Derivatives (excluding central clearing houses)	5 777	0	5 777	2 914	1 581	330	953
Derivatives with central clearing houses*	3 330	3 316	14	0	0	0	14
Repos, securities lending and similar arrangements	10 653	9 651	1 001	0	0	943	58
Repos	10 653	9 651	1 001	0	0	943	58
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	19 760	12 967	6 793	2 914	1 581	1 273	1 025
FINANCIAL LIABILITIES, 31-12-2017 (IAS 39)							
Derivatives	10 525	3 374	7 151	3 343	1 661	891	1 256
Derivatives (excluding central clearing houses)	7 141	0	7 141	3 343	1 661	891	1 246
Derivatives with central clearing houses*	3 384	3 374	10	0	0	0	10
Repos, securities lending and similar arrangements	17 120	11 285	5 836	151	0	5 684	1
Repos	17 120	11 285	5 836	151	0	5 684	1
Securities lending	0	0	0	0	0	0	0
Other financial instruments	0	0	0	0	0	0	0
Total	27 645	14 659	12 987	3 494	1 661	6 575	1 257

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

- The criteria for offsetting are met if KBC currently has a legally enforceable right to set off the recognised financial assets and financial liabilities and intends either to settle the transactions on a net basis, or to realise the financial asset and settle the financial liability simultaneously. Financial assets and financial liabilities that are set off relate to financial instruments that were traded on (central) clearing houses.
- The amounts presented in the 'Financial instruments' column under the 'Amounts not set off in the balance sheet' heading are for financial instruments entered into under an enforceable master netting agreement or similar arrangement that does not meet the criteria defined in IAS 32. The amounts stated refer to situations in which offsetting can only be applied if one of the counterparties defaults, becomes insolvent or goes bankrupt. The same principle applies for financial instruments given or received as collateral. The value given in the table for non-cash collateral received (the 'Securities collateral' column under the 'Amounts not set off in the balance sheet' heading) corresponds with the market value. This is the value that is used if one of the counterparties defaults, becomes insolvent or goes bankrupt.

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

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

Fair value of financial assets and liabilities that are not measured at fair value in the balance sheet (in millions of EUR)	Financial assets measured at amortised cost – Carrying value	Financial assets measured at amortised cost – Fair value	Loans and receivables – Carrying value	Loans and receivables – Fair value	Financial assets held to maturity – Carrying value	Financial assets held to maturity – Fair value	Financial liabilities measured at amortised cost – Carrying value	Financial liabilities measured at amortised cost – Fair value
FINANCIAL ASSETS, 31-12-2018 (IFRS 9)								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	26 044	26 217	-	-	-	-	-	-
Loans and advances to customers (incl. reverse repos)	145 853	144 743	-	-	-	-	-	-
Debt securities	36 979	38 698	-	-	-	-	-	-
Other	1 994	1 994	-	-	-	-	-	-
Total	210 870	211 652	-	-	-	-	-	-
Level 1	-	34 756	-	-	-	-	-	-
Level 2	-	41 667	-	-	-	-	-	-
Level 3	-	135 230	-	-	-	-	-	-
FINANCIAL ASSETS, 31-12-2017 (IAS 39)								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	-	-	24 426	24 572	-	-	-	-
Loans and advances to customers (incl. reverse repos)	-	-	140 997	140 574	-	-	-	-
Debt securities	-	-	868	899	25 803	28 381	-	-
Other	-	-	636	636	-	-	-	-
Total	-	-	166 927	166 681	25 803	28 381	-	-
Level 1	-	-	-	72	-	27 182	-	-
Level 2	-	-	-	38 055	-	662	-	-
Level 3	-	-	-	128 554	-	537	-	-
FINANCIAL LIABILITIES, 31-12-2018 (IFRS 9)								
Deposits from credit institutions and investment firms (incl. repos)	-	-	-	-	-	-	24 616	24 830
Deposits from customers and debt securities (incl. repos)	-	-	-	-	-	-	192 618	193 304
Other	-	-	-	-	-	-	3 990	3 988
Total	-	-	-	-	-	-	221 224	222 122
Level 1	-	-	-	-	-	-	-	0
Level 2	-	-	-	-	-	-	-	106 053
Level 3	-	-	-	-	-	-	-	116 069
FINANCIAL LIABILITIES, 31-12-2017 (IAS 39)								
Deposits from credit institutions and investment firms (incl. repos)	-	-	-	-	-	-	33 321	33 246
Deposits from customers and debt securities (incl. repos)	-	-	-	-	-	-	192 828	193 667
Other	-	-	-	-	-	-	2 360	2 352
Total	-	-	-	-	-	-	228 509	229 265
Level 1	-	-	-	-	-	-	-	6
Level 2	-	-	-	-	-	-	-	126 409
Level 3	-	-	-	-	-	-	-	102 850

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

(in millions of EUR)	31-12-2018 (IFRS 9)				31-12-2017 (IAS 39)			
Fair value hierarchy	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS AT FAIR VALUE								
Mandatorily measured at fair value through profit or loss (other than held for trading)								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	-	-	-	-
Loans and advances to customers (incl. reverse repos)	0	0	85	85	-	-	-	-
Equity instruments	0	0	0	0	-	-	-	-
Debt securities	18	3	4	26	-	-	-	-
of which sovereign bonds	*0*	*0*	*0*	*0*	-	-	-	-
Other	0	0	0	0	-	-	-	-
Held for trading								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	0	2	0	2
Loans and advances to customers (incl. reverse repos)	0	0	0	0	0	0	0	0
Equity instruments	562	200	0	762	503	5	0	509
Debt securities	453	181	77	712	619	406	129	1 154
of which sovereign bonds	*397*	*127*	*33*	*556*	*571*	*354*	*28*	*954*
Derivatives	0	4 069	918	4 988	0	4 067	1 777	5 844
Other	0	6	0	6	0	0	0	0
Designated upon initial recognition at fair value through profit or loss (FVO)								
Loans and advances to credit institutions and investment firms (incl. reverse repos)	0	0	0	0	0	0	0	0
Loans and advances to customers (incl. reverse repos)	0	13	0	13	0	38	0	38
Equity instruments	-	-	-	-	0	0	0	0
Debt securities	0	0	0	0	14	0	10	24
of which sovereign bonds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
At fair value through OCI								
Equity instruments	9	4	177	189	-	-	-	-
Debt securities	5 370	241	108	5 719	-	-	-	-
of which sovereign bonds	*4 728*	*122*	*34*	*4 883*	-	-	-	-
Available for sale								
Equity instruments	-	-	-	-	10	10	193	213
Debt securities	-	-	-	-	16 334	2 907	183	19 424
of which sovereign bonds	-	-	-	-	*12 909*	*1 758*	*34*	*14 701*
Hedging derivatives								
Derivatives	0	183	0	183	0	245	0	245
Total								
Total financial assets at fair value	6 412	4 900	1 370	12 682	17 480	7 681	2 293	27 454
FINANCIAL LIABILITIES AT FAIR VALUE								
Held for trading								
Deposits from credit institutions and investment firms (incl. repos)	0	0	0	0	0	3	0	3
Deposits from customers and debt securities (incl. repos)	0	49	176	226	0	219	0	219
Derivatives	0	3 311	1 369	4 680	0	3 649	2 218	5 867
Short positions	831	104	0	935	905	0	0	905
Other	0	0	0	0	0	3	0	3
Designated at fair value								
Deposits from credit institutions and investment firms (incl. repos)	0	0	0	0	0	12	0	12
Deposits from customers and debt securities (incl. repos)	0	838	1 223	2 061	0	885	585	1 470
Other	0	0	0	0	0	0	0	0
Hedging derivatives								
Derivatives	0	1 111	0	1 111	0	1 284	0	1 284
Total								
Total financial liabilities at fair value	831	5 414	2 768	9 014	905	6 056	2 803	9 764

- The fair value hierarchy prioritises the valuation techniques and the respective inputs into three levels.
  - The fair value hierarchy gives the highest priority to 'level 1 inputs'. This means that, when there is an active market, quoted prices have to be used to measure the financial assets or liabilities at fair value. Level 1 inputs are prices that are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency (and that are quoted in active markets accessible to KBC). They represent actual and regularly occurring market transactions on an arm's length basis. The fair value is then based on a mark-to-market valuation derived from currently available transaction prices. No valuation technique (model) is involved.
  - If there are no price quotations available, the reporting entity establishes fair value using a model based on observable or unobservable inputs. The use of observable inputs needs to be maximised, whereas the use of unobservable inputs has to be minimised. Observable inputs are also referred to as 'level 2 inputs' and reflect the assumptions market participants would use in pricing the asset or liability based on

market data obtained from sources independent of the reporting entity. Examples of observable inputs are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs include discounted cashflow analysis, or reference to the current or recent fair value of a similar instrument.
  - Unobservable inputs are also referred to as ‘level 3 inputs’ and reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions regarding the risks involved). Unobservable inputs reflect a market that is not active. For example, proxies and correlation factors can be considered to be unobservable in the market.
- When the inputs used to measure the fair value of an asset or a liability can be categorised into different levels of the fair value hierarchy, the fair value measurement is classified in its entirety into the same level as the lowest level input that is significant to the entire fair value measurement. For example, if a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.
- The valuation methodology and the corresponding classification in the fair value hierarchy of the most commonly used financial instruments are summarised in the table. This table provides an overview of the level in which the instruments are generally classified, but exceptions are possible. In other words, whereas the majority of instruments of a certain type are within the level indicated in the table, a small portion may actually be classified in another level.
- KBC follows the principle that transfers into and out of levels of the fair value hierarchy are made at the end of the reporting period. Transfers between the various levels are dealt with in more detail in Note 4.6.

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

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

- In 2018, KBC transferred 227 million euros' worth of financial assets and liabilities out of level 1 and into level 2. It also reclassified approximately 110 million euros' worth of financial assets and liabilities from level 2 to level 1. Most of these reclassifications were carried out due to a change in the liquidity of government bonds and corporate bonds.
- In 2017, KBC reclassified 1 153 million euros' worth of debt instruments from level 1 to level 2, and approximately 120 million euros' worth of bonds from level 2 to level 1. Most of these reclassifications were attributable to a change in the valuation method, driven by the implementation in the third quarter of 2017 of an automated process that uses BVAL to price debt instruments. Provided by Bloomberg, BVAL is a fully transparent service that sets prices on the basis of various sources. Its use impacts fair value hierarchy levelling.

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

- The first time application of IFRS 9 resulted in a 35-million-euro increase in level-3 financial assets and liabilities measured at fair value. The main changes were as follows:
  - 98 million euros' worth of debt instruments was transferred out of the 'available for sale' category and into the 'at amortised cost' category, with the remainder being classified as 'at fair value through OCI';
  - 118 million euros' worth of debt instruments and loans and advances was moved from 'loans and receivables' to 'mandatorily measured at fair value through profit or loss (other than held for trading)', because they failed the SPPI test.
- In 2018, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - Financial assets held for trading:
    - The fair value of derivatives declined by 859 million euros, due primarily to instruments that had reached maturity and changes in fair value, partly offset by new transactions. The fair value of debt instruments fell by 52 million euros, owing primarily to sales.
  - Financial assets at fair value through OCI (fair-value increase of 7 million euros):
    - The fair value of debt instruments measured at fair value through OCI rose by 23 million euros, primarily as a result of new purchases.
    - The fair value of equity instruments measured at fair value through OCI fell by 16 million euros.
  - Financial liabilities held for trading (fair-value decline of 673 million euros, the net impact of a fall in the fair value of derivatives and an increase in issued debt instruments):
    - The fair value of derivatives declined by 849 million euros, due primarily to instruments that had reached maturity and changes in fair value, partly offset by new positions.
    - The fair value of issued debt instruments rose by 176 million euros, due mainly to reclassifications into level 3.
  - Financial liabilities at fair value through profit or loss
    - The fair value of issued debt instruments increased by 638 million euros, primarily on account of new issues and reclassifications into level 3, largely offset by instruments that had reached maturity.
- In 2017, significant movements in financial assets and liabilities classified in level 3 of the fair value hierarchy included the following:
  - The following significant movements were observed in the 'financial assets held for trading' category:
    - The fair value of debt instruments fell by 79 million euros, owing primarily to the discontinuation of CDO transactions and sales (106 million euros), instruments that had reached maturity, changes in fair value and movements in exchange rates (21 million euros), offset in part by purchases of investment certificates (40 million euros).
    - The fair value of derivatives declined by 79 million euros, due mainly to instruments that had reached maturity (375 million euros), partially offset by new transactions (230 million euros) and positive changes in fair value (70 million euros).
  - The carrying value of debt instruments in the 'financial assets designated at fair value through profit or loss' category decreased by 177 million euros, primarily on account of the discontinuation of CDO transactions (162 million euros) and transfers out of level 3 (14 million euros) due to changes in liquidity. The rest of the decline was attributable to a combination of purchases and exchange rate movements.
  - The carrying value of securities classified as 'available-for-sale' fell by 364 million euros:
    - The carrying value of unlisted shares dropped by 56 million euros, owing in the main to sales and changes in the scope of consolidation (75 million euros), transfers out of level 3 due to changes in

- liquidity (49 million euros), partly offset by purchases (60 million euros) and positive changes in fair value (7 million euros).
  - The carrying value of bonds fell by 307 million euros, primarily on account of a net transfer out of level 3 arising from implementation of the BVAL pricing model (214 million euros), and sales (101 million euros).
- The total fair value of derivatives in the 'financial liabilities held for trading' category declined by 17 million euros, due primarily to instruments that had reached maturity and changes in fair value (301 million euros), largely offset by new transactions (288 million euros).
- The carrying value of debt instruments in the 'financial liabilities designated at fair value through profit or loss' category increased by 28 million euros, due mainly to the issue of debt instruments (264 million euros) and changes in fair value (8 million euros), offset in part by own issues of debt instruments reaching maturity and discontinued CDO transactions (243 million euros).

Note 4.8: Derivatives

Note 4.8.1 Trading derivatives

(in millions of EUR)	31-12-2018 Carrying value Assets	Carrying value Liabilities	Notional amount[1] Purchased	Notional amount[1] Sold	31-12-2017 Carrying value Assets	Carrying value Liabilities	Notional amount[1] Purchased	Notional amount[1] Sold
Total	4 988	4 680	365 187	362 453	5 844	5 867	356 524	353 742
Interest rate contracts	2 873	2 706	181 781	179 159	3 151	2 897	195 341	191 410
of which interest rate swaps and futures	*2 329*	*2 541*	*158 176*	*165 912*	*2 537*	*2 694*	*168 787*	*177 566*
of which options	*544*	*165*	*23 605*	*13 247*	*614*	*203*	*26 554*	*13 844*
Foreign exchange contracts	1 371	1 169	156 772	157 492	1 395	1 553	132 988	133 945
of which currency and interest rate swaps, FX swaps and futures	*1 312*	*1 119*	*151 784*	*151 780*	*1 308*	*1 479*	*126 983*	*127 273*
of which options	*60*	*50*	*4 988*	*5 712*	*87*	*75*	*6 005*	*6 672*
Equity contracts	724	785	26 296	25 463	1 285	1 403	27 838	28 030
of which equity swaps	*675*	*668*	*24 011*	*23 828*	*1 204*	*1 242*	*25 917*	*25 880*
of which options	*49*	*118*	*2 285*	*1 635*	*81*	*161*	*1 921*	*2 150*
Credit contracts	0	0	0	0	0	0	0	0
of which credit default swaps	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Commodity and other contracts	20	20	338	340	13	13	357	358

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

Note 4.8.2 Hedging derivatives

31-12-2018

(in millions of EUR)	Hedging instrument					Hedged item				Impact on equity	
	Notional amount[1]		Carrying value		Change in fair value of hedging instruments used as basis for recognising hedge 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	110	Debt securities held at AC	4 871	166	- 25		
Currency and interest rate swaps	0	0	0	0	0	Loans and advances at AC	642	287	- 40		
						Debt securities held at FVOCI	2 996	55	1		
						Debt securities issued at AC	14 569	202	- 59		
						Deposits at AC	1 891	6	1		
Total	23 298	23 298	19	365	110	Total	24 968	715	- 122	- 13	-
Portfolio hedge of interest rate risk											
Interest rate swaps	29 753	29 753	72	54	- 151	Debt securities held at AC	186	6	15		
Currency and interest rate options	2 417	0	0	19	- 8	Loans and advances at AC	24 621	12	137		
						Debt securities held at FVOCI	183	3	- 4		
						Debt securities issued at AC	0	0	0		
						Deposits at AC	8 760	- 72	- 4		
Total	32 170	29 753	72	74	- 158	Total	33 751	- 51	144	- 14	-
Cashflow hedge (micro hedge and portfolio hedge)											
Interest rate swaps	22 539	22 539	68	661	76						
Currency and interest rate swaps	72	68	5	3	12						
Total	22 611	22 607	72	663	88	Total			- 90	- 2	- 1 445
Hedge of net investments in foreign operations											
Other currency derivatives	4 936	4 972	20	9	55						
Deposits	-	-	-	408	0						
Total	4 936	4 972	20	417[3]	55	Total			- 55	0	4

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

31-12-2017

(in millions of EUR)	Fair value hedge				Cashflow hedge[2]				Portfolio hedge of interest rate risk			
	Carrying value		Notional amount[1]		Carrying value		Notional amount[1]		Carrying value		Notional amount[1]	
	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold	Assets	Liabilities	Purchased	Sold
Total	17	430	24 191	24 191	115	750	26 146	26 223	113	104	25 430	23 439
Interest rate contracts	17	428	24 165	24 165	103	671	21 650	21 650	113	104	25 430	23 439
of which interest rate swaps and futures	17	428	24 165	24 165	103	671	21 650	21 650	113	91	23 439	23 439
of which options	0	0	0	0	0	0	0	0	0	13	1 991	0
Foreign exchange contracts	0	2	26	26	12	79	4 495	4 573	0	0	0	0
of which currency and interest rate swaps and futures	0	2	26	26	12	79	4 495	4 573	0	0	0	0
of which options	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	0	0	0	0	0	0	0	0	0	0	0	0
of which equity swaps	0	0	0	0	0	0	0	0	0	0	0	0
of which options	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	0	0	0	0	0	0	0	0	0	0	0	0
of which credit default swaps	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	0	0	0	0	0	0	0	0	0	0	0	0

[1] In this table, both legs of the derivatives are reported in the notional amounts.
[2] Including hedges of net investments in foreign operations.

- The Treasury departments of the various entities manage the interest rate risk. To prevent rate movements from having a negative impact, the maturities of assets and liabilities are adjusted on the balance sheet using interest rate swaps and other derivatives.
- As regards the relationship between risk management and hedge accounting policy, 'economic' management takes priority and risks are hedged in accordance with the general ALM framework. Only then is a decision made on which, if any, of these techniques will be used to limit any resulting accounting mismatch.
- The balances remaining in the cashflow hedge reserve from any hedging relationships for which hedge accounting is no longer applied came to -236 million euros. The accumulated amount of fair value hedge adjustments remaining on the balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses amounted to -77 million euros. These adjustments are amortised to profit or loss.
- Also see the paragraph on hedge accounting in the Risk Management section.
- The estimated cashflows from the cashflow hedging derivatives broken down per time bucket are given in the table below.

Estimated cashflows from cashflow hedging derivatives per time bucket (in millions of EUR)	Inflow	Outflow
Not more than three months	15	- 15
More than three but not more than six months	24	- 49
More than six months but not more than one year	84	- 122
More than one but not more than two years	136	- 314
More than two but not more than five years	330	- 898
More than five years	963	- 1 869

5.0 Notes on other balance sheet items

Note 5.1: Other assets

(in millions of EUR)	31-12-2018	31-12-2017
Total	892	785
Income receivable (other than interest income from financial assets)	46	43
Other	846	742

Note 5.2: Tax assets and tax liabilities

(in millions of EUR)	31-12-2018	31-12-2017
CURRENT TAXES		
Current tax assets	52	45
Current tax liabilities	50	72
DEFERRED TAXES	1 377	1 391
Deferred tax assets by type of temporary difference	1 576	1 791
Employee benefits	126	113
Losses carried forward	596	773
Tangible and intangible fixed assets	31	41
Provisions for risks and charges	8	17
Impairment for losses on loans and advances	180	167
Financial instruments at fair value through profit or loss and fair value hedges	60	52
Fair value changes, available-for-sale assets, financial instruments at FVOCI, cashflow hedges and hedges of net investments in foreign operations	488	543
Technical provisions	0	0
Other	86	85
Deferred tax liabilities by type of temporary difference	199	400
Employee benefits	12	12
Losses carried forward	0	0
Tangible and intangible fixed assets	40	73
Provisions for risks and charges	0	0
Impairment for losses on loans and advances	3	2
Financial instruments at fair value through profit or loss and fair value hedges	63	67
Fair value changes, available-for-sale assets, financial instruments at FVOCI, cashflow hedges and hedges of net investments in foreign operations	50	190
Technical provisions	0	0
Other	30	56
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	1 422	1 530
Deferred tax liabilities	45	139
Unused tax losses and unused tax credits	173	216

- Deferred tax assets are recognised to the extent that it is probable that, on the basis of realistic financial projections, taxable profit will be available against which the deductible temporary differences can be utilised in the foreseeable future (limited to a period of eight to ten years).
- Unused tax losses and unused tax credits concern tax losses of group companies which are not capitalised due to insufficient proof of future taxable profit. Most tax losses and tax credits can be carried forward for 20 years or more.
- The net change in deferred taxes (-14 million euros in 2018) breaks down as follows:
  - a decrease in deferred tax assets: -215 million euros;
  - a decrease in deferred tax liabilities: -201 million euros.
- The change in deferred tax assets was accounted for chiefly by:
  - the decrease in deferred tax assets via the income statement: -246 million euros (due primarily to losses carried forward (-170 million euros), impairment (-22 million euros), provisions for risks and charges (-10 million euros), the decrease related to fixed assets (-9 million euros) and other items (-36 million euros));
  - the hedge of net investments in foreign operations: -11 million euros;
  - an increase in deferred tax assets resulting from the impact of the first time adoption of IFRS 9 on impairment charges: +43 million euros;
  - other items: -1 million euros.
- The change in deferred tax liabilities was accounted for chiefly by:
  - the decrease in deferred tax liabilities resulting from the impact of the first time adoption of IFRS 9 on financial instruments due to their reclassification from the 'available for sale' category to the 'at amortised cost' category (-109 million euros);
  - the decrease in deferred tax liabilities via the income statement: -62 million euros (owing primarily to the decline relating to property and equipment, and intangible fixed assets (-32 million euros), the decline in financial instruments at fair value through profit or loss (-5 million euros) and other items (-25 million euros));
  - the decrease in deferred tax liabilities on account of changes in the revaluation reserve for financial instruments measured at fair value through OCI: -22 million euros;
  - other items: -7 million euros.
- The deferred tax assets presented in the balance sheet are attributable primarily to KBC Bank.

Note 5.3: Investments in associated companies and joint ventures

(in millions of EUR)	31-12-2018	31-12-2017
Total	185	210
Overview of investments, including goodwill		
ČMSS	163	176
Other	23	34
Goodwill on associated companies and joint ventures		
Gross amount	0	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	185	210
Listed	0	0
Fair value of investments in listed associated companies and joint ventures	0	0

- Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies. Joint ventures are companies over which KBC exercises joint control.
- 'Investments in associated companies and joint ventures' is accounted for primarily by ČMSS, a joint venture of ČSOB in the Czech Republic. The following is a summary of financial data for ČMSS (based on an ownership interest of 55% at year-ends 2018 and 2017 (in brackets), in millions of euros):

Ceskomoravská stavebni sporitelna a.s. (in millions of EUR)	2018	2017
Cash and cash balances with central banks	34	482
Financial assets	3 084	2 693
Non financial assets	47	35
TOTAL ASSETS	3 164	3 209
Financial liabilities	2 959	2 991
Non financial liabilities	43	42
Total equity	163	176
TOTAL LIABILITIES AND EQUITY	3 164	3 209
Total income	55	57
Interest income	91	93
Interest expense	- 47	- 48
Opex	- 28	- 28
Impairments	- 4	- 4
Income tax	- 4	- 4
Total profit	19	21
Other comprehensive income	- 7	0
Total comprehensive income	13	21

- Goodwill paid on associated companies and joint ventures is included in the nominal value of 'Investments in associated companies and joint ventures' shown on the balance sheet. An impairment test is performed and, if required, the necessary impairment losses on goodwill recognised (see table).

Note 5.4: Property and equipment and investment property

(in millions of EUR)	31-12-2018	31-12-2017
Property, equipment	2 554	2 532
Investment property	350	314
Rental income	42	26
Direct operating expenses from investments generating rental income	9	5
Direct operating expenses from investments not generating rental income	3	2

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2018					
Opening balance	1 115	51	1 366	2 532	314
Acquisitions	111	22	493	626	30
Disposals	- 14	- 1	- 249	- 264	- 24
Depreciation	- 65	- 22	- 20	- 107	- 16
Other movements	- 8	3	- 229	- 234	46
Closing balance	1 139	54	1 361	2 554	350
of which accumulated depreciation and impairment	1 221	187	679	2 087	162
Fair value 31-12-2018					505
2017					
Opening balance	1 036	46	1 167	2 249	272
Acquisitions	205	24	525	754	14
Disposals	- 40	- 2	- 236	- 278	- 15
Depreciation	- 64	- 21	- 20	- 105	- 11
Other movements	- 22	4	- 70	- 88	54
Closing balance	1 115	51	1 366	2 532	314
of which accumulated depreciation and impairment	1 168	196	651	2 015	134
Fair value 31-12-2017					447

- 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
2018					
Opening balance	751	93	166	9	1 019
Acquisitions	7	36	59	6	109
Disposals	0	- 1	- 4	- 3	- 7
Amortisation	0	- 21	- 39	- 1	- 61
Other movements	- 8	- 1	- 5	5	- 10
Closing balance	750	106	178	16	1 050
of which accumulated amortisation and impairment	75	97	366	21	559
2017					
Opening balance	628	77	142	7	854
Acquisitions	110	43	54	7	213
Disposals	0	0	- 1	- 5	- 6
Amortisation	0	- 26	- 27	- 1	- 54
Other movements	13	0	- 1	1	13
Closing balance	751	93	166	9	1 019
of which accumulated amortisation and impairment	72	83	398	23	576

- 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 (usually 15), and the residual value of the business at the end of the specific projection period). These long-term projections are the result of an assessment of past and present performances combined with external sources of information on future performances in the respective markets and the global macroeconomic environment. The terminal growth rate is determined using a long-term average market growth rate. The present value of these future cashflows is calculated using a compound discount rate which is based on the capital asset pricing model (CAPM). A risk-free rate, a market-risk premium (multiplied by an activity beta), and a country risk premium (to reflect the impact of the economic situation of the country where KBC is active) are also used in the calculation. KBC has developed two distinct discounted cashflow models, viz. a bank model and an insurance model. Free cashflows in both cases are the dividends that can be paid out to the company’s shareholders, account taken of the minimum capital requirements.

Goodwill outstanding (in millions of EUR)	31-12-2018	31-12-2017	Discount rates throughout the specific period of 31-12-2018	31-12-2017
K&H Bank	215	222	13,6%-12,0%	14,0%-11,0%
CSOB Bank (Czech Republic)	277	279	11,4%-10,0%	10,7%-9,8%
UBB	110	109	11,1%-10,2%	
KBC Asset Management NV	114	114	10,1%-10,0%	9,7%-9,4%
Rest	33	27	-	-
Totaal	750	751	-	-

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

Changes 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 impairments
K&H Bank	2,2%	-	3,8%	15,7%	119,9%
United Bulgarian Bank	2,4%	–	4,4%	16,2%	100,5%

[1] Needless to say account should be taken of the fact that a change in these assumptions could affect other assumptions used to calculate the recoverable amount.
[2] Based on a parallel shift and absolute increase in the discount rate curve. Discount rates are in the 14.1%–15.7% bracket for K&H Bank and the 12.6%–13.4% bracket for United Bulgarian Bank.
[3] Not relevant as it would mean that the terminal growth rate will be negative.
[4] Absolute increase in the tier-1 capital ratio.

Note 5.6: Technical provisions, insurance

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

Note 5.7: Provisions for risks and charges

Note 5.7.1: Overview

(in millions of EUR)	31-12-2018	31-12-2017
Total provisions for risks and charges	211	373
Provisions for off-balance-sheet commitments and financial guarantees	129	133
Provisions for other risks and charges	82	241
Provisions for restructuring	6	8
Provisions for taxes and pending legal disputes	48	209
Other	28	24

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

(in millions of EUR)	Subject to 12-month ECL	Subject to lifetime ECL	Subject to lifetime ECL (non-performing)	Total
31-12-2018 IFRS 9				
Provisions on 01-01-2018 (IFRS 9)	14	17	108	138
Movements with an impact on results				
Transfer of financial assets				
Stage 1 (12-month ECL)	- 1	3	1	3
Stage 2 (lifetime ECL)	0	- 2	1	- 1
Stage 3 'non-performing' (lifetime ECL)	0	0	- 1	- 1
New financial assets	4	2	8	14
Changes in risk parameters during the reporting period	- 5	0	- 20	- 24
Changes in the model or methodology	0	0	0	0
Derecognised financial assets	- 2	- 2	- 3	- 7
Other	0	0	0	0
Movements without an impact on results				
Derecognised financial assets (incl. disposals, write-offs and repayments	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Transfers under IFRS 5	0	0	0	0
Other	2	- 1	5	6
Provisions on 31-12-2018	12	17	99	129
31-12-2017 IAS 39				
Provisions on 01-01-2017 (IAS 39)	-	-	-	76
Movements with an impact on results	-	-	-	
Amounts allocated	-	-	-	93
Amounts used	-	-	-	- 4
Unused amounts reversed	-	-	-	- 35
Movements without an impact on results	-	-	-	
Changes in the scope of consolidation	-	-	-	0
Transfers under IFRS 5	-	-	-	0
Other	-	-	-	2
Provisions on 31-12-2017	-	-	-	133

- Also see Note 6.1.

Note 5.7.3: Details of provisions for other risks and charges

(in millions of EUR)	Provision for restructuring	Provision for taxes and pending legal disputes	Other	Total
2018				
Opening balance	8	209	24	241
Movements with an impact on results				
Amounts allocated	4	42	17	62
Amounts used	0	- 149	- 10	- 159
Unused amounts reversed	- 2	- 55	- 3	- 59
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other	- 3	1	0	- 2
Closing balance	6	48	28	82
2017				
Opening balance	3	103	25	131
Movements with an impact on results				
Amounts allocated	6	123	7	137
Amounts used	- 2	- 14	- 4	- 20
Unused amounts reversed	0	- 2	- 2	- 4
Transfers out of/into liabilities associated with disposal groups	0	0	0	0
Changes in the scope of consolidation	0	0	0	0
Other	0	- 1	- 1	- 2
Closing balance	8	209	24	241

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- Other provisions included those set aside for miscellaneous risks.
- Information relating to the main legal disputes pending: claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. ‘probable outflow’, ‘possible outflow’ or ‘remotely probable outflow’). Provisions are set aside for ‘probable outflow’ cases (see ‘Notes on the accounting policies’). No provisions are constituted for ‘possible outflow’ cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 50 million euros). All other claims (‘remotely probable outflow’), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
- Possible outflow:
  On 6 October 2011, Irving H. Picard, trustee for the substantively consolidated SIPA (Securities Investor Protection Corporation Act) liquidation of Bernard L. Madoff Investments Securities LLC and Bernard L. Madoff, sued KBC Investments Ltd before the bankruptcy court in New York to recover approximately 110 million US dollars’ worth of transfers made to KBC entities. The basis for this claim was the subsequent transfers that KBC received from Harley International, a Madoff feeder fund established under the laws of the Cayman Islands. This claim is one of a whole set made by the trustee against several banks, hedge funds, feeder funds and investors. In addition to the issues addressed by the district court, briefings were held on the applicability of the Bankruptcy Code's ‘safe harbor’ and ‘good defenses’ rules to subsequent transferees (as is the case for KBC). KBC, together with numerous other defendants, filed motions for dismissal. District court Judge Jed Rakoff has made several intermediate rulings in this matter, the most important of which are the rulings on extraterritoriality and good faith defences. On 27 April 2014, Judge Rakoff issued an opinion and order regarding the ‘good faith’ standard and pleading burden to be applied in the Picard/SIPA proceeding based on sections 548(b) and 559(b) of the Bankruptcy Code. As such, the burden of proof that KBC should have been aware of the fraud perpetrated by Madoff in this matter is for Picard/SIPA. On 7 July 2014, Judge Rakoff ruled that Picard/SIPA’s reliance on section 550(a) does not allow for the recovery of subsequent transfers received abroad by a foreign transferee from a foreign transferor (as is the case for KBC Investments Ltd). Therefore, the trustee’s recovery claims have been dismissed to the extent that they seek to recover purely foreign transfers. In June 2015, the trustee filed a petition against KBC to overturn the ruling that the claim fails on extraterritoriality grounds. In this petition, the trustee also amended the original claim including the sum sought. The amount has now been increased to 196 million US dollars. On 21 November 2016, the bankruptcy court handed down an intermediate ruling dismissing the claims of the trustee in respect of those foreign transfers under the rules of international comity. A final ruling dismissing the above claims was issued on 3 March 2017. The trustee appealed and the case was subsequently heard at the Court of Appeals for the Second Circuit on 16 November 2018. No date has been set for the judgment. Should the bankruptcy court's ruling not be

upheld, KBC Investments Ltd can continue its defence based on various other grounds cited by Judge Rakoff in his previous rulings.

Note 5.8: Other liabilities

(in millions of EUR)	31-12-2018	31-12-2017
Total	1 766	1 895
Breakdown by type		
Retirement benefit obligations or other employee benefits	512	473
Accrued charges (other than from interest expenses on financial liabilities)	270	258
Other	984	1 163

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

Note 5.9: Retirement benefit obligations

(in millions of EUR)	31-12-2018	31-12-2017
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	2 124	2 126
Current service cost	90	89
Interest cost	29	31
Plan amendments	0	0
Actuarial gain or loss resulting from changes in demographic assumptions	1	- 3
Actuarial gain or loss resulting from changes in financial assumptions	- 30	2
Experience adjustments	10	- 24
Past-service cost	0	1
Benefits paid	- 66	- 86
Exchange differences	2	- 8
Curtailments	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	1	5
Other	- 7	- 8
Defined benefit obligations at the end of the period	2 152	2 124
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 699	1 600
Actual return on plan assets	- 41	113
Expected return on plan assets	*24*	*24*
Employer contributions	54	54
Plan participant contributions	21	21
Benefits paid	- 64	- 82
Exchange differences	1	- 5
Settlements	0	0
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	- 1
Other	1	0
Fair value of plan assets at the end of the period	1 670	1 699
of which financial instruments issued by the group	27	30
of which property occupied by KBC	5	5
Funded status		
Plan assets in excess of defined benefit obligations	- 482	- 424
Reimbursement rights	41	54
Asset ceiling limit	- 21	- 37
Unfunded accrued/prepaid pension cost	- 462	- 407
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 407	- 500
Amounts recognised in the income statement	- 74	- 76
Amounts recognised in other comprehensive income	- 35	113
Employer contributions	56	56
Exchange differences	0	3
Transfers under IFRS 5	0	0
Changes in the scope of consolidation	0	- 6
Other	- 1	2
Unfunded accrued/prepaid pension cost at the end of the period	- 462	- 407
Amounts recognised in the income statement	**74**	**76**
Current service cost	90	89
Past-service cost	0	1
Interest cost	5	6
Plan participant contributions	- 21	- 21
Curtailments	0	0
Settlements	0	0
Changes in the scope of consolidation	1	0
Changes to the amounts recognised in other comprehensive income	**35**	**- 113**
Actuarial gain or loss arising from changes in demographic assumptions	1	- 3
Actuarial gain or loss arising from changes in financial assumptions	- 30	2
Actuarial result on plan assets	64	- 91
Experience adjustments	10	- 24
Adjustments to limits of the asset ceiling	- 16	- 6
Other	5	9
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	17	14

- The pension claims of the Belgian-based staff of the various KBC group companies are covered by pension funds and group insurance schemes. Retirement benefits that are actively accrued for the current workforce of KBC Bank, KBC Insurance and most of their Belgian subsidiaries are accrued exclusively through the KBC pension funds. Up until year-end 2018, employer-funded retirement benefits had accrued primarily through a defined benefit plan, where the benefit is calculated based on the final salary of employees before they retire, the number of years they had been in the plan and a formula that applies a progressive rate scale. A defined contribution plan was introduced on 1 January 2014 for all new employees and any employees who had chosen to switch to it. In this plan, a contribution is deposited based on the current monthly salary and the amounts deposited are paid out together with the (guaranteed) return on retirement. Both types of pension plan are managed by the OFP Pensioenfonds KBC (merged with the former OFP Pensioenfonds Senior Management), which uses the services of KBC Asset Management for the investment strategy. In addition, there are a number of smaller, closed group insurance schemes from the past that will continue to be funded (some of which were transferred to the pension fund in 2018).
- KBC Bank Ireland participated in a defined benefit plan until 31 August 2012. As of that date, no additional pension rights will be accumulated under that plan for future years of service. Benefits accrued in the plan continue to be linked to future salary increases of the participants (i.e. it will be managed dynamically). The assets of the pension plan have been separated from the assets of the bank. The employees of KBC Finance Ireland and the Dublin branch of KBC Bank are also signed up to this pension plan. The retirement benefits are calculated using a mathematical formula that takes account of age, salary and the length of time the participant was signed up.

Additional information on retirement benefit obligations (in millions of EUR)	2018	2017	2016	2015	2014
Changes in main headings in the main table					
Defined benefit obligations	2 152	2 124	2 126	2 230	2 444
Fair value of plan assets	1 670	1 699	1 600	1 995	1 939
Unfunded accrued/prepaid pension cost	- 462	- 407	- 500	- 185	- 451
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	29	4	147	24	- 135

Additional information on retirement benefit obligations – DEFINED BENEFIT PLANS	KBC pension fund	KBC Bank Ireland pension plan
Composition (31-12-2018)		
Equity instruments	39%	38%
Bonds	48%	40%
Real estate	10%	3%
Cash	3%	1%
Investment funds	1%	18%
of which illiquid assets	*8%*	*25%*
Composition (31-12-2017)		
Equity instruments	39%	38%
Bonds	47%	40%
Real estate	9%	3%
Cash	5%	1%
Investment funds	0%	18%
of which illiquid assets	*9%*	*17%*
Contributions expected in 2019 (in millions of EUR)	45	3
Regulatory framework	Pension plans are registered in collective labour agreements and incorporated into a set of regulations. Annual reporting of funding levels to supervisory authorities (FSMA/NBB). Any underfunding must be reported immediately to the supervisory authorities.	Regulated by the Irish Pensions Authority. Funding level calculated every year and certified every three years. Any underfunding must be reported immediately to the Irish Pensions Authority.
Risks for KBC	Investment risk and inflation risk.	Investment risk.
ALM policy	The hedging portfolio hedges against interest rate risk and inflation risk using interest rate swaps. The return portfolio aims to generate an extra return.	Investments in leveraged LDI pooled funds.
Plan amendments	An employer-funded defined contribution plan was introduced on 1 January 2014. All employees joining the company from that date are signed up to this new plan, while all those who were already employed on 31 December 2013 remain signed up to the defined benefit plan unless they chose to switch to the new one on the unique moment of choice in 2018.	Not applicable.

Curtailments and settlements	Not applicable.	Not applicable.
Discounting method	Based on BVAL quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. The curve becomes flat for maturities of 22 years and longer.	The Mercer method starts from a proprietary basket of corporate bonds with AAA, AA and A ratings. A spread is deducted from the bonds with an A rating in order to obtain the equivalent of an AA-rated corporate bond. After conversion to the zero coupon format using extrapolation for long maturities, the equivalent discount rate is determined.
Key actuarial assumptions		
Average discount rate	1.32%	2.35%
Expected rate of salary increase	2.23%	2.75%
Expected inflation rate	1.85%	1.75%
Expected rate of increase in pensions	-	1.75%
Weighted average duration of the obligations	12.69 years	27 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations		
Increase in the retirement benefit obligations on 31-12-2018 consequent on:		
a decrease of 1% in the discount rate	13.72%	30,25%
an increase of 1% in the expected inflation rate	11.82%	29,14%
an increase that is 1% higher than the expected real incre	15.40%	5,43%
the age of retirement being 65 for all active employees	0.90%	-
an increase of one year in life expectancy	-	3.00%
The impact of the following assumptions has not been calculated:	Decreasing mortality rates: pension benefits are paid out in capital, so longevity risk is immaterial. Staff turnover rates: the expected rate is very low.	Not applicable.

Additional information on retirement benefit obligations – DEFINED CONTRIBUTION PLANS	KBC pension fund
Contributions expected in 2019 (in millions of EUR)	18
Regulatory framework	Pursuant to the Belgian Supplementary Pensions Act, the employer must guarantee a minimum return of 1.75% on employee and employer contributions.
Risks for KBC	Investment risk.
Valuation	Retirement benefit obligations are measured on the basis of the accrued benefits on the reporting date, making a projection of these benefits (at the rate of interest guaranteed by law) until the expected age of retirement, and discounting the resulting benefits. KBC offers two types of defined contribution plan: one that is financed through employee contributions and one through employer contributions. The value of the employee-funded defined contribution plan takes account of the accrued interest (at the fund return rate), but not of future contributions since the plan is not deemed to be backloaded. The value of the employer-funded defined contribution plan takes account of future contributions in the projection, due to the fact that the plan is deemed to be backloaded.
Discounting method	Based on BVAL quotes for various time buckets of AA-rated corporate bonds. The resulting yield curve is converted into a zero coupon curve. The curve becomes flat for maturities of 22 years and longer.
Key actuarial assumptions	
Average discount rate	1,08%
Weighted average duration of the obligations	9,93 years
Impact of changes in the assumptions used in the actuarial calculation of the retirement benefit obligations	
Increase in the retirement benefit obligations on 31-12-2018 consequent on:	
a decrease of 1% in the discount rate	9%
the age of retirement being 65 for all active employees	0,30%

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

Quantities	31-12-2018	31-12-2017
Ordinary shares	**915 228 482**	**915 228 482**
of which ordinary shares that entitle the holder to a dividend payment	*915 228 482*	*915 228 482*
of which treasury shares	*0*	*0*
Additional information		
Par value per share (in EUR)	9,78	9,78
Number of shares issued but not fully paid up	0	0

- Ordinary shares: ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued.
  On 31 December 2018, 915 228 482 ordinary shares were in circulation, of which 915 228 481 shares belonged to KBC Group NV and 1 share belonged to KBC Insurance NV.
- Additional tier-1 instruments:
  - In March 2014, KBC Group issued 1.4 billion euros in CRD IV-compliant additional tier-1 securities and underwrote an additional tier-1 security for the same amount at KBC Bank. These securities qualify as additional tier-1 capital under Basel III (as adopted in the CRR) and, therefore, have had a positive impact on KBC's tier-1 capital. They are perpetual and may be called for redemption after five years or on each subsequent coupon date. They also have a loss absorption mechanism (i.e. a temporary write-down trigger should the common equity tier-1 ratio fall below 5.125%). Since they are classified as shares under IAS 32 (because they have fully discretionary non-cumulative coupons and are perpetual), the annualised coupon of 5.825% on the additional tier-1 security at KBC Bank – which is paid every quarter – is treated as a dividend. This transaction had no impact on the number of ordinary shares. KBC received the approval of the ECB to call these additional tier-1 instruments on 19 March 2019.
  - In April 2018, KBC Group issued 1 billion euros in CRD IV-compliant additional tier-1 securities and underwrote an additional tier-1 security for the same amount at KBC Bank.. This seven-year, non-call perpetual instrument has a temporary write-down trigger when the common equity ratio reaches 5.125% and an initial coupon of 4.45% per annum on the additional tier-1 security at KBC Bank, which is payable every six months. These securities are classified as equity instruments under IAS 32 and the coupon is treated as a dividend.
  - New additional tier-1 securities issued in February 2019: see note 6.8.

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

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

6.0 Other notes

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

(in millions of EUR)	31-12-2018 (IFRS 9) Nominal amount	Provision	Net exposure	31-12-2017 (IAS 39) Nominal amount	Provision	Net exposure
Undrawn portion of credit lines granted						
Stage 1	35 003	9	34 994	-	-	-
Stage 2	1 400	8	1 392	-	-	-
Stage 3 – non-performing	146	18	128	-	-	-
Total	36 549	35	36 514	36 397	113	36 284
of which irrevocable credit lines	23 527	31	23 496	23 628		
Financial guarantees given						
Stage 1	8 501	3	8 498	-	-	-
Stage 2	1 413	9	1 404	-	-	-
Stage 3 – non-performing	230	81	149	-	-	-
Total	10 144	93	10 051	9 977	19	9 958
Other commitments given						
Total	402	0	401	237	1	237
Total						
Off-balance-sheet commitments and financial guarantees	47 095	129	46 966	46 612	133	46 479

- Fair value of financial guarantees: based on the available market value.
- The carrying value of financial assets pledged by KBC as collateral came to 31 641 million euros for liabilities and 1 862 million euros for contingent liabilities (35 365 million euros and 2 007 million euros, respectively, in 2017).
- KBC Group NV irrevocably and unconditionally guarantees all commitments entered into by the following Irish companies in respect of the financial year ending on 31 December 2018, allowing these companies to be eligible for exemption from certain disclosure requirements, pursuant to Section 357 of the Irish Companies Act 2014: KBC Fund Management Limited. Since this company is included in the scope of consolidation, this is an intragroup transaction and the guarantee is not included in the above table.
- There is an obligation to return collateral received (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will organise the foreclosure itself or take possession of the collateral. Collateral received that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table). More details are provided in Note 4.3.

Collateral received (which may be sold or repledged in the absence of default by the owner) (in millions of EUR)	Fair value of collateral received		Fair value of collateral sold or repledged	
	31-12-2018	31-12-2017	31-12-2018	31-12-2017
Financial assets	24 019	22 664	7 505	8 651
Equity instruments	12	7	0	2
Debt securities	23 753	22 396	7 505	8 649
Loans and advances	254	261	0	0
Cash	0	0	0	0
Other	0	0	0	0
Property, plant and equipment	0	0	0	0
Investment property	0	0	0	0
Other	0	0	0	0

- Collateral acquired through foreclosure came to 0.1 billion euros in 2018 (0.1 billion euros in 2017).

Note 6.2: Leasing

(in millions of EUR)	31-12-2018	31-12-2017
Finance lease receivables		
Gross investment in finance leases, receivable	6 130	5 855
At not more than one year	1 418	1 360
At more than one but not more than five years	3 183	3 171
At more than five years	1 530	1 324
Unearned future finance income on finance leases	479	497
Net investment in finance leases	5 618	5 308
At not more than one year	1 307	1 258
At more than one but not more than five years	2 912	2 894
At more than five years	1 399	1 156
of which unguaranteed residual values accruing to the benefit of the lessor	39	33
Accumulated impairment for uncollectable lease payments receivable	78	88
Contingent rents recognised in the income statement	93	93
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable operating leases	488	496
Contingent rents recognised in the income statement	1	1

- There are no significant cases in which KBC is the lessee in operating or finance leases.
- Pursuant to IFRIC 4, no operating or finance leases contained in other contracts were identified.
- Finance leases: KBC offers finance lease products ranging from equipment and vehicle leasing to real estate leasing. In Belgium, finance leases are typically sold through KBC group's branch network, and that channel is becoming increasingly important in Central Europe, too.
- Operating leases: involve primarily full service car leases, which are sold through the KBC Bank and CBC Banque branch network and through an internal sales team. Full service car leasing activities are being further developed in Central Europe, too.

Note 6.3: Related-party transactions

Transactions with related parties, excluding key management (in millions of EUR)	Parent enitities with joint control	Subsidiaries and other entities of KBC group	Associated companies	Joint Ventures	Other	Total	Parent enitities with joint control	Subsidiaries and other entities of KBC group	Associated companies	Joint Ventures	Other	Total
Assets	21	1 287	121	223	97	1 749	15	1 846	137	221	47	2 267
Loans and advances	0	1 076	41	2	80	1 199	0	1 586	44	2	45	1 676
Equity instruments (incl. investm. In ass. And joint vent.)	3	83	79	198	12	375	5	109	92	219	0	425
Other	18	128	1	23	5	175	10	151	2	0	3	166
Liabilities	5 865	969	98	168	303	7 403	5 317	1 044	101	151	318	6 932
Deposits	121	925	13	167	300	1 526	49	998	11	151	312	1 521
Other financial liabilities	5 731	15	0	0	0	5 747	5 229	17	0	0	0	5 246
Other	12	29	85	1	4	130	39	29	90	0	6	165
Income statement	- 748	- 82	1	- 8	5	- 833	- 718	- 15	- 7	- 4	4	- 741
Net interest income	- 69	- 145	- 1	- 8	0	- 222	- 65	- 75	- 1	- 4	0	- 145
Interest income	1	1	1	0	0	4	0	0	1	0	0	2
Interest expense	- 69	- 146	- 1	- 9	0	- 226	- 65	- 75	- 1	- 5	0	- 147
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0
Technical insurance charges (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0
Dividend income	0	2	5	0	3	10	0	2	0	0	7	9
Net fee and commission income	0	82	- 1	0	2	84	0	100	- 1	0	3	102
Fee and commission income	0	167	0	0	2	170	0	179	1	0	3	182
Fee and commission expense	0	- 85	- 2	0	0	- 86	0	- 78	- 1	0	0	- 80
Other net income	- 1	- 20	0	0	3	- 17	- 1	- 16	- 2	0	0	- 20
General administrative expenses	- 678	- 2	- 3	0	- 3	- 687	- 652	- 26	- 4	0	- 5	- 687
Undrawn portion of loan commitments, financial guarantees and other commitments												
Given by the group	0	0	5	0	154	159	0	39	7	0	137	183
Received by the group	0	0	0	0	0	0	0	0	0	0	0	0

Transactions with key management (members of the Board of Directors and Executive Committee of KBC Bank NV) (in millions of EUR)*	2018	2017
Total*	2	2
Breakdown by type of remuneration		
Short-term employee benefits	2	2
Post-employment benefits	0	0
Defined benefit plans	0	
Defined contribution plans	0	0
Other long-term employee benefits	0	0
Termination benefits	0	0
Share-based payments	0	0
Stock options (units)		
At the beginning of the period	0	0
Granted	0	0
Exercised	0	0
Composition-related changes	0	0
At the end of the period	0	0
Advances and loans granted to key management and partners	1	2

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

- The 'Subsidiaries and entities of the KBC group' heading in the first table includes transactions with unconsolidated subsidiaries (transactions with consolidated subsidiaries have already been eliminated from the consolidated financial statements) and transactions with other KBC group entities (primarily KBC Insurance).
- The 'Other' heading in the first table includes KBC Ancora, Cera and MRBB.
- All related-party transactions occur at arm's length.
- Key management comprises the members of the Board of Directors and Executive Committee of KBC Bank NV. More detailed information on remuneration paid to key management staff is provided in the 'Corporate governance statement' section.
- There were no significant impairment charges vis-à-vis related parties.

Note 6.4: Statutory auditor's remuneration

Statutory auditor's remuneration (in EUR)	2018	2017
KBC Bank NV and its subsidiaries		
Standard audit services	6 170 432	6 387 050
Other services		
Other certifications	814 134	1 347 584
Other non-audit assignments	21 379	27 443
Tax advice	5 000	266 389
KBC Bank NV (alone)		
Standard audit services	2 301 542	2 212 765
Other services	120 326	544 883

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

Company	Registered office	Entity code	Consolidation percentage	Business Unit (**)	Activity
KBC Bank: subsidiaries that are fully consolidated					
KBC Bank NV	Brussels - BE	0462.920.226	100	BEL/GRP	credit institution
Almafin Real Estate NV	Brussels - BE	0403.355.494	100	BEL	real estate
Almafin Real Estate Services NV	Brussels - BE	0416.030.525	100	BEL	real estate
Immo Arenberg NV	Brussels - BE	0471.901.337	100	BEL	real estate
Apitri NV	Brussels - BE	0469.889.873	100	BEL	real estate
Bel Rom Sapte-S.R.L.	Bucharest - RO	--	100	BEL	leasing
CBC BANQUE SA	Namur - BE	0403.211.380	100	BEL	credit institution
Československá Obchodná Banka a.s.	Bratislava - SK	--	100	IMA	credit institution
ČSOB Leasing a.s.	Bratislava - SK	--	100	IMA	leasing
ČSOB Leasing Poist'ovaci Maklér s.r.o.	Bratislava - SK	--	100	IMA	leasing support
ČSOB Real, s.r.o.	Bratislava - SK	--	100	IMA	facilities management and support services
ČSOB Stavebná Sporitel'na a.s.	Bratislava - SK	--	100	IMA	building savings and loans
Československá Obchodní Banka a.s.	Prague - CZ	--	100	CZR	credit institution
Bankovní Informační Technologie s.r.o.	Prague - CZ	--	100	CZR	automatic data processing
ČSOB Advisory a.s.	Prague - CZ	--	100	CZR	investment administration
ČSOB Factoring a.s.	Prague - CZ	--	100	CZR	factoring
ČSOB Leasing a.s.	Prague - CZ	--	100	CZR	leasing
ČSOB Leasing Pojist'ovaci Maklér s.r.o.	Prague - CZ	--	100	CZR	leasing support
ČSOB Penzijní společnost a.s.	Prague - CZ	--	100	CZR	pension insurance fund
Hypoteční Banka a.s.	Prague - CZ	--	100	CZR	mortgage credit institution
Patria Finance a.s.	Prague - CZ	--	100	CZR	online securities trading
Patria Finance CF a.s.	Prague - CZ	--	100	CZR	agent and consulting services
Radlice Rozvojová a.s.	Prague - CZ	--	100	CZR	real estate
Ušetřeno.cz s.r.o.	Prague - CZ	--	100	CZR	portal for price comparison
Hello Shopping Park S.R.L.	Bucharest - RO	--	100	BEL	leasing
KBC Asset Management NV	Brussels - BE	0469.444.267	51,86	BEL	asset management
KBC Asset Management SA	Luxembourg - LU	--	46,30	BEL	asset management
KBC Fund Management Limited	Dublin - IE	--	51,86	BEL	asset management
KBC Asset Management Participations	Luxembourg - LU	--	51,86	BEL	asset management
ČSOB Asset Management, a.s., Investiční Společnost	Prague - CZ	--	71,15	CZR	asset management
KBC Autolease NV	Leuven - BE	0422.562.385	100	BEL	leasing
KBC Lease (Luxembourg) SA	Capellen - LU	--	100	BEL	leasing
KBC Bail Immobilier France sas	Paris - FR	--	100	BEL	leasing
KBC Bank Ireland Plc.	Dublin - IE	--	100	IMA	credit institution
Danube Holdings Limited	Dublin - IE	--	100	IMA	real estate
Glare Nominee Limited	Dublin - IE	--	100	IMA	non-active
IIB Finance DAC	Dublin - IE	--	100	IMA	commercial and financial services
IIB Homeloans and Finance Limited	Dublin - IE	--	100	IMA	holding company
KBC Homeloans and Finance Limited	Dublin - IE	--	100	IMA	holding company
Premier Homeloans Limited	London - GB	--	100	IMA	home loans
KBC ACS Limited	Dublin - IE	--	100	IMA	non-active
KBC Mortgage Finance	Dublin - IE	--	100	IMA	mortgage finance
KBC Nominees Limited	Dublin - IE	--	100	IMA	non-active
Fermion Limited	Dublin - IE	--	100	IMA	mortgages management
Intercontinental Finance	Dublin - IE	--	100	IMA	leasing
Linkway Developments Limited	Dublin - IE	--	100	IMA	non-active
Merrion Commercial Leasing Limited	London - GB	--	100	IMA	leasing
Merrion Equipment Finance Limited	London - GB	--	100	IMA	non-active
Merrion Leasing Assets Limited	London - GB	--	100	IMA	non-active
Merrion Leasing Finance Limited	London - GB	--	100	IMA	non-active
Merrion Leasing Industrial Limited	London - GB	--	100	IMA	non-active
Merrion Leasing Limited	London - GB	--	100	IMA	non-active
Merrion Leasing Services Limited	London - GB	--	100	IMA	leasing
Monastersky Limited	Dublin - IE	--	100	IMA	holding company
Needwood Properties Limited	Dublin - IE	--	100	IMA	real estate
Phoenix Funding 2 DAC (***)	Dublin - IE	--	100	IMA	securitisation
Phoenix Funding 3 DAC (***)	Dublin - IE	--	100	IMA	securitisation
Phoenix Funding 4 DAC (***)	Dublin - IE	--	100	IMA	securitisation
Phoenix Funding 5 DAC (***)	Dublin - IE	--	100	IMA	securitisation
Phoenix Funding 6 DAC (***)	Dublin - IE	--	100	IMA	securitisation
Rolata Limited	Douglas - IM	--	100	IMA	investments
KBC Commercial Finance NV	Brussels - BE	0403.278.488	100	BEL	factoring
KBC Credit Investments NV	Brussels - BE	0887.849.512	100	BEL/GRP	investment firm
KBC Ifima SA	Luxembourg - LU	--	100	GRP	financing
KBC Immolease NV	Leuven - BE	0444.058.872	100	BEL	leasing
KBC Investments Limited	London - GB	--	100	GRP	stockbroker
KBC Lease Belgium NV	Leuven - BE	0426.403.684	100	BEL	leasing
KBC Real Estate Luxembourg SA	Luxembourg - LU	--	100	BEL	real estate
KBC Vastgoedinvesteringen NV	Brussels - BE	0455.916.925	100	BEL	real estate
KBC Vastgoedportefeuille België NV	Brussels - BE	0438.007.854	100	BEL	real estate
Apicinq NV	Brussels - BE	0469.891.457	100	BEL	real estate
KBC Securities NV	Brussels - BE	0437.060.521	100	BEL	stockbroker
KBC Securities USA LLC	New York - US	--	100	GRP	stockbroker
K&H Bank Zrt.	Budapest - HU	--	100	IMA	credit institution
K&H Autópark Bérleti és Szolgáltató Kft	Budapest - HU	--	100	IMA	fleet management
K&H Befektetési Alapkezelő Zrt.	Budapest - HU	--	100	IMA	securities broking and fund management
K&H Csoportszolgáltató Központ Kft.	Budapest - HU	--	100	IMA	accounting and tax collection
K&H Equities Tanácsadó Zrt.	Budapest - HU	--	100	IMA	business and management advice
K&H Faktor Pénzügyi Szolgáltató Zrt.	Budapest - HU	--	100	IMA	factoring
K&H Ingatlanlizing Zrt	Budapest - HU	--	100	IMA	leasing
K&H Jelzálogbank Zrt.	Budapest - HU	--	100	IMA	lending
Loan Invest NV "Institutionele VBS naar Belgisch recht"	Brussels - BE	0889.054.884	100	BEL	securisation
Poelaert Invest NV	Brussels - BE	0478.381.531	100	BEL	real estate
UBB Interlease EAD	Sofia - BG	--	100	IMA	leasing
United Bulgarian Bank AD	Sofia - BG	--	99,91	IMA	credit institution
East Golf Properties EAD	Sofia - BG	--	100	IMA	real estate
UBB Center Management EOOD	Sofia - BG	--	100	IMA	real estate
UBB Asset Management AD	Sofia - BG	--	99,92	IMA	asset management
UBB Insurance Broker AD	Sofia - BG	--	99,91	IMA	insurance agents and brokers
UBB Factoring EOOD	Sofia - BG	--	99,91	IMA	factoring

Company	Registered office	Entity code	Consolidation percentage	Business Unit (**)	Activity
KBC Bank: subsidiaries that are not fully consolidated					
2 B Delighted NV (1)	Roeselare - BE	0891.731.886	99,58	GRP	lighting
Asia Pacific Trading & Investment Company Limited (1)	Hong Kong - HK	--	99,58	GRP	lighting
2 B Delighted Italia Srl (1)	Torino - IT	--	99,58	GRP	lighting
Wever & Ducré NV (1)	Roeselare - BE	0412.881.191	99,58	GRP	lighting
Almaloisir & Immobilier sas (1)	Nice - FR	--	100	BEL	real estate
Brussels North Distribution NV (1)	Brussels - BE	0476.212.887	100	BEL	real estate
C Plus SAS (1)	Voisins-Le-Bretonneux - FR		83,33	BEL	real estate
ČSOB Advisory, s.r.o. (1)	Bratislava - SK	--	100	IMA	strategic advice for companies
ČSOB Nadácia (1)	Bratislava - SK	--	100	IMA	real estate
Eurincasso s.r.o. (1)	Prague - CZ	--	100	CZR	debt collection
Francilia Immobilier SARL (1)	Voisins-Le-Bretonneux - FR		83,33	BEL	real estate
Immo-Antares NV (2)	Brussels - BE	0456.398.361	100	BEL	issuance of real estate certificates
Immo-Basilix NV (2)	Brussels - BE	0453.348.801	100	BEL	issuance of real estate certificates
Immo-Beaulieu NV (2)	Brussels - BE	0450.193.133	50	BEL	issuance of real estate certificates
Immobilière Distri-Land NV (2)	Brussels - BE	0436.440.909	87,52	BEL	issuance of real estate certificates
Immo Genk-Zuid NV (2)	Brussels - BE	0464.358.497	100	BEL	issuance of real estate certificates
Immolease-Trust NV (1)	Brussels - BE	0406.403.076	100	BEL	real estate
Immo Lux-Airport SA (2)	Luxembourg - LU	--	100	BEL	issuance of real estate certificates
Immo Mechelen City Center NV (2)	Brussels - BE	0635.828.862	100	BEL	issuance of real estate certificates
Immo NamOtt NV (2)	Brussels - BE	0840.412.849	100	BEL	issuance of real estate certificates
Immo NamOtt Tréfonds NV (2)	Brussels - BE	0840.620.014	100	BEL	issuance of real estate certificates
Immo-Quinto NV (2)	Brussels - BE	0466.000.470	100	BEL	real estate
Immo-Zénobe Gramme NV (2)	Brussels - BE	0456.572.664	100	BEL	issuance of real estate certificates
Julienne Holdings S.à.r.l. (1)	Luxembourg - LU	--	93	BEL	holding company
Julie LH BVBA (1)	Brussels - BE	0890.935.201	93	BEL	real estate
Juliette FH BVBA (1)	Zaventem - BE	0890.935.397	93	BEL	real estate
KB-Consult NV (1)	Brussels - BE	0437.623.220	99,95	BEL	non-active
KBC Finance Ireland (1)	Dublin - IE	--	100	GRP	non-active
KBC Financial Products (Cayman Islands) Limited "Cayman I" (1)	George Town - KY	--	100	GRP	stockbroker
KBC Financial Services (Ireland) Limited (1)	Dublin - IE	--	100	GRP	holding company
KBC Net Lease Investments LLC (1)	New York - US	--	100	GRP	leasing
KBC Start it Fund NV (1)	Brussels - BE	0647.812.124	100	BEL	investment firm
Luxembourg North Distribution SA (2)	Luxembourg - LU	--	100	BEL	issuance of real estate certificates
Midas Life Settlements LLC (1)	New York - US	--	100	GRP	life settlement service provider
Motokov a.s. (1)	Prague - CZ	--	70,09	CZR	non-active
Patria investiční společnost, a.s. (1)	Prague - CZ	--	100	CZR	asset management
Posselton Limited (1)	Dublin - IE	--	100	GRP	energy
Reverse Mortgage Loan Trust 2008-1 (1)	New York - US	--	100	GRP	reverse mortgages
RHVG DK NV (2)	Brussels - BE	0539.765.408	100	BEL	issuance of real estate certificates
RHVG QT NV (2)	Brussels - BE	0539.764.121	100	BEL	issuance of real estate certificates
RHVG RB NV (2)	Brussels - BE	0539.765.012	100	BEL	issuance of real estate certificates
RHVG SB NV (2)	Brussels - BE	0539.764.814	100	BEL	issuance of real estate certificates
RHVG TB NV (2)	Brussels - BE	0539.764.517	100	BEL	issuance of real estate certificates
Soluz.io NV (1)	Mechelen - BE	0711.710.576	51	BEL	software company
SPINC SASU (1)	Voisins-Le-Bretonneu:	--	83,33	BEL	real estate
TBI SAS (1)	Voisins-Le-Bretonneu:	--	83,33	BEL	real estate
Top-Pojištění.cz s.r.o. (1)	Prague - CZ	--	100	CZR	insurance arranging
Ušetřeno.cz Finanční služby, a.s. (1)	Prague - CZ	--	100	CZR	portal for price comparison
Weyveld Vastgoedmaatschappij NV (2)	Brussels - BE	0425.517.818	100	BEL	issuance of real estate certificates
World Alliance Financial LLC (1)	New York - US	--	100	GRP	reverse mortgages
KBC Bank: joint ventures accounted for using the equity method					
Bancontact Payconiq Company NV	Brussels - BE	0675 984 882	22,50	BEL	payment services
Cash Service Company AD	Sofia - BG	--	19,98	IMA	cash cycle servicing
Českomoravská Stavební Spořitelna (CMSS)	Prague - CZ	--	55	CZR	building society savings
Joyn International NV	Hasselt - BE	0578.946.577	43,00	BEL	digital loyalty card
Payconiq International S.A.	Luxembourg - LU	--	46,50	BEL	payment services
Payconiq Services B.V.	Amsterdam - NL	--	46,50	BEL	payment services
Real Estate Participation NV	Zaventem - BE	0473.018.817	50	BEL	real estate
KBC Bank: joint ventures not accounted for using the equity method (1)					
Covent Garden Development NV	Brussels - BE	0892.236.187	25	BEL	real estate
Covent Garden Real Estate NV	Zaventem - BE	0872.941.897	50	BEL	real estate
Joyn Belgium NV	Brussels - BE	0846.759.718	43,00	BEL	digital loyalty card
Citie NV	Brussels - BE	0665.683.284	43,00	BEL	digital loyalty card
Joyn Urban Services BVBA	Brussels - BE	0810.040.070	43,00	BEL	digital loyalty card
Xiongwei Lighting (Guangzhou) Co., Ltd.	Guangzhou - CY	--	49,79	GRP	lighting
KBC Bank: companies accounted for using the equity method					
ČSOB Pojišťovna a.s.	Pardubice - CZ	--	0,24	CZR	insurance company
Isabel NV	Brussels - BE	0455.530.509	25,33	BEL	ICT
KBC Bank: companies not accounted for using the equity method (1)					
Banking Funding Company NV	Brussels - BE	0884.525.182	20,25	BEL	payment transactions
Bedrijvencentrum Regio Roeselare NV	Roeselare - BE	0428.378.724	22,22	BEL	business center
Big Bang Ventures Comm VA	Lochristi - BE	0471.766.725	20,00	GRP	wireless telecommunications activities
Brussels I3 Fund NV	Brussels - BE	0477.925.433	36,37	BEL	venture capital funds
Czech Banking Credit Bureau a.s.	Prague - CZ	--	20	CZR	ICT
ENGIE REN s.r.o.	Prague - CZ	--	42,82	CZR	rental services
Gasco Group NV	Willebroek - BE	0887.290.177	28	GRP	wholesale of industrial chemical products
Gemma Frisius-Fonds K.U. Leuven	Leuven - BE	0477.960.372	40	BEL	venture capital
Justinvest NV	Antwerp - BE	0476.658.097	33,33	BEL	real estate
První Certifikační Autorita a.s.	Prague - CZ	--	23,25	CZR	certification services
Rabot Invest NV	Antwerp - BE	0479.758.733	25	BEL	real estate
Rendex NV	Antwerp - BE	0461.785.227	26	GRP	non-active
Sympl NV	Groot-Bijgaarden - BE	0644.814.329	20	BEL	online talent recruiter
Thanksys NV	Antwerp - BE	0553.877.423	39,03	BEL	IT and consultancy

* Not active.

** BEL = Belgium Business Unit, CZR = Czech Republic Business Unit, IMA = International Markets Business Unit, GRP = Group Centre.

*** Special purpose vehicles in which KBC does not have a shareholding.

Reason for exclusion: 1 Immaterial.

2 Issuers of real estate certificates and companies whereby the group is not exposed to a variable return.

- Companies eligible for consolidation are effectively included in the consolidated accounts if two of the following criteria are met:
  (1) the group share in equity exceeds 2.5 million euros;
  (2) the group share in the results exceeds 1 million euros; and
  (3) the balance sheet total exceeds 100 million euros. The combined balance sheet total of the companies excluded from consolidation may not amount to more than 1% of the consolidated balance sheet total.
- All (material) entities (including structured entities (SPVs)) over which the consolidating entity exercises, directly or indirectly, exclusive control are consolidated according the method of full consolidation. To assess whether or not structured entities have to be consolidated, KBC uses the principles set out in IFRS 10, as well as thresholds for inclusion in consolidation (see previous bullet point).
- Disclosures of interests in other entities (IFRS 12)
  - Significant judgements and assumptions
    - In general, funds managed by KBC are not included in the scope of consolidation, as they do not meet the three criteria of control (power, exposure to a variable return and ability to use such power to affect those returns).
    - Joint subsidiaries in which KBC does not hold 50% of the share capital are classified as joint subsidiaries, since it has joint control over these entities based on shareholder agreements.
  - Interests in subsidiaries
    - For the vast majority of the entities, the voting rights are materially equal to the ownership rights.
    - Pursuant to the joint capital decision, specific pillar-II levels have been set to ensure that certain minimum capital ratios are respected, which impose certain restrictions on the repatriation of capital and distribution of dividends.
    - With regard to Loan Invest NV, KBC is exposed to loan losses on the mortgage portfolio and, therefore, recognises impairment losses on them where necessary.
  - Interests in joint ventures and associated companies
    - For a summary of the financial information on ČMSS, see Note 5.3.
    - No summarised financial information is provided for immaterial entities on an aggregate basis, because, even on that basis, the amount is immaterial.
  - Interests in unconsolidated structured entities
    - KBC Bank NV is arranger and dealer of a number of 40-billion-euro medium term notes programmes issued by *19* unconsolidated structured entities established for that purpose. Between 2006 and 2016, these entities were established as Irish public limited companies or Irish private limited companies under the Irish Companies Act 1963 to 2012. Their primary business is to raise money by issuing notes in order to buy financial assets (such as securities, bonds and deposits) and to enter into related derivative and other contracts (like equity-linked swaps, interest-linked swaps, total return swaps and repo transactions). They provide investment opportunities for clients by providing economies of scale, a diversification of credit risk and a high level of granularity. Each structured entity has a prospectus that was approved by the Central Bank of Ireland (available at www.kbc.be/prospectus/spv). However, the structured entities are not consolidated because they fail to meet the three criteria for consolidation (power, exposure to a variable return and ability to use such power to affect those returns). At year-end 2018, the assets under management at these entities amounted to 13.2 billion euros.
    - Sponsored unconsolidated structured entities are defined as structured entities where KBC Bank or one of its subsidiaries acts as arranger of the issuance programme, but where the decision-making power of the entities does not reside with KBC Bank or one of its subsidiaries. As a result, these entities are not consolidated.
    - At year-end 2018, KBC Bank had received income from unconsolidated structured entities in the form of management fees (31 million euros), custody fees (1 million euros), administrative agent fees (1 million euros) and accounting fees (1 million euros).
    - Any potential decrease in the value of the notes is passed on to the end-client, which means it will have no impact on KBC.
- One subsidiary is active in the extractive industry, but has not been included in the scope of consolidation for reasons of materiality. Furthermore, this subsidiary did not make any payments to governments that reached the threshold of 100 000 euros. As a result, no consolidated report on such payments has been prepared (see Article 119/1 of the Companies Code). Furthermore, the company was liquidated in August 2018.

The following is a summary of financial information for the KBC Asset Management group (in which KBC Bank holds a 51.86% stake). The figures are basis on the share of capital held at group level (i.e. 100%):

KBC Asset Management Group (in millions of EUR)	2018	2017
Financial assets inluding Cash and cash balances with central banks	413	512
Non financial assets	21	20
TOTAL ASSETS	451	532
Financial liabilities	0	0
Non financial liabilities	114	169
Total equity	338	363
TOTAL LIABILITIES AND EQUITY	451	532
Total income	532	566
Interest income	0	0
Interest expense	-2	-2
Opex	-93	-91
Impairments	0	0
Income tax	-97	-117
Total profit	343	339
Other comprehensive income	0	1
Total comprehensive income	343	340

Note 6.6: Main changes in the scope of consolidation

Company	Consolidation method	Ownership percentage at group level 31-12-2018	31-12-2017	Remarks
Additions				
United Bulgarian Bank AD	Full	99,91%	99,91%	Acquired in 2Q 2017
UBB Interlease EAD (previously Interlease EAD)	Full	100,00%	100,00%	Acquired in 2Q 2017 (name change in 1Q 2018)
Exclusions				
KBC Towarzystwo Funduszy Inwestycyjnych a.s. (KBC TFI)	Full	-	100,00%	Sold in 4Q 2017
KBC Finance Ireland	Full	-	100,00%	Deconsolidated in 1Q 2018
UBB Zhivotozastrahovane EAD (previously UBB-MetLife Zhivotozastraho	Equity Method	-	59,95%	Sold to DZI in 1Q 2018
Changes in ownership percentage and internal mergers				
CIBANK EAD	Full	-	100,00%	Merged with UBB in 1Q 2018

- United Bulgarian Bank (UBB) and Interlease: on 13 June 2017, we concluded the deal to acquire 99.91% of the shares of United Bulgarian Bank AD and 100% of the shares of Interlease EAD in Bulgaria for a total consideration of 609 million euros, without any contingent consideration. The consolidated figures in this report incorporate the impact of the acquisition of UBB and Interlease as from 30 June 2017. The table below provides the fair value of the main assets and liabilities involved in the acquisition of UBB/Interlease, as well as the impact of both these entities on the group's income statement (for the period July through December 2017). UBB and CIBANK merged in the first quarter of 2018.
- KBC TFI: on 12 December 2017, PKO Bank Polski Group completed the acquisition of all the shares of KBC TFI in Poland. However, the impact of the deal on KBC's results was negligible.

Impact of the acquisition of United Bulgarian Bank and Interlease (in millions of EUR)	2017
General information	
Percentage of shares bought or sold in the relevant year	99.91% (UBB) and 100% (Interlease)
For business unit/segment	International Markets Business Unit
Deal date (month and year)	June 2017
Results of the relevant company/business recognised in the group result as from:	July 2017
Purchase price or sale price	609
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	185
Amounts recognised for the purchased assets and liabilities	
Cash and cash balances with central banks	693
Financial assets	2 810
Held for trading	502
Available for sale	335
Loans and receivables	1 973
Tax assets	12
Investments in associated companies and joint ventures	17
Investment property	15
Property and equipment	20
Goodwill and other intangible assets	4
Other assets	20
Cash and cash equivalents (included in the above assets)	*801*
Financial liabilities	3 063
Measured at amortised cost	3 062
Other liabilities	20
Cash and cash equivalents (included in the above liabilities)	*7*
Contribution to the consolidated income statement (July through December 2017)	
Net interest income	55
Dividend income	0
Net result from financial instruments at fair value through profit or loss	10
Net realised result from available-for-sale assets	0
Net fee and commission income	23
Other net income	-5
TOTAL INCOME	83
Operating expenses	-40
Impairment	-13
on loans and receivables	-12
on available-for-sale assets	-1
on goodwill	0
other	0
Share in results of associated companies and joint ventures	0
RESULT BEFORE TAX	30
Income tax expense	-3
RESULT AFTER TAX	27
attributable to minority interests	0
attributable to equity holders of the parent	27

Note 6.7: Risk management and capital adequacy

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

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

ICAAP (Internal Capital Adequacy Assessment Process) consists of numerous business and risk processes that together contribute to the aim of being adequately capitalised at all times in view of our risk profile and the quality of our risk management and control environment.

We report the solvency of the bank based on IFRS data and according to the rules imposed by the regulator.

This implies that we calculate our solvency ratios based on CRR/CRD IV. KBC Bank is subject to minimum solvency ratios. The main measure is the fully loaded common equity ratio, with the minimum regulatory requirement being 10.8%. This includes the pillar 1 minimum requirement (4.5%), the pillar 2 requirement (1.75% set by the ECB following its supervisory review and evaluation process) and the buffer requirements (4.45% set by the local competent authorities in KBC's core markets). At year-end 2018, the fully loaded common equity ratio came to 14.8%, which represented a capital buffer of 3 382 million euros relative to the minimum requirement of 10.8%.

Key solvency figures for KBC Bank*

(in millions of EUR)	KBC Bank (consolidated) CRR/CRD IV 31/12/2018 *Fully loaded*	31/12/2017 *Fully loaded*
Total regulatory capital (after profit appropriation)	15 749	15 756
Tier-1 capital	13 625	13 484
Common equity	12 618	12 077
Parent shareholders' equity	14 150	14 083
Solvency adjustment	-1 532	-2 006
Additional going concern capitalal	1 007	1 407
Tier-2 capital	2 124	2 273
Total weighted risk volume (2)	85 474	83 117
Common equity ratio	14,8%	14,5%

* More detailed figures can be found in the 'Capital adequacy' section.
** Supervision of the RWA internal models' compliance with the approval criteria as provided for in the regulatory standards does not come under the responsibility of the statutory auditor.

The information required in relation to risks (in accordance with IFRS 4 and IFRS 7) and capital (pursuant to IAS 1) is provided in those parts of the 'Risk management' and 'Capital adequacy' sections that have been audited by the statutory auditor.

Note 6.8: Post-balance-sheet events

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

- On 21 January 2019, it was announced that – on 19 March 2019 – KBC Group would call the additional tier-1 instrument it issued in 2014. The European Central Bank (ECB) granted KBC Group permission to call this instrument, which has a nominal value of 1.4 billion euros, and at the same time to call the subordinated inter-company loan of the same amount that KBC Group NV granted to KBC Bank NV.
- On 26 February 2019, KBC Group NV issued 500 million euros in non-dilutive, additional tier-1 (AT1) securities and underwrote an additional tier-1 security for the same amount at KBC Bank. This five-year, non-call, perpetual AT1 instrument of KBC Bank has a temporary write-down trigger when the common equity tier-1 ratio reaches 5.125% and an initial coupon of 4.95% per annum, which is payable every six months.

Note 6.9: General information on the company

Name:	KBC Bank NV
Incorporated:	17 March 1998
Country of incorporation	Belgium.
Registered office:	Havenlaan 2, 1080 Brussels, Belgium.
VAT:	BE 462.920.226.
RLP:	Brussels.
Legal form:	*naamloze vennootschap* (company with limited liability) under Belgian law, which solicits or has solicited savings from the public; the company is a credit institution that is subject to the prudential supervision of the National Bank of Belgium and the European Central Bank.
Life:	undefined.
Object:	In Belgium or abroad, for its own account or for account of third parties, the company has as object the execution of all banking operations in the widest sense, as well as the exercise of all other activities which banks are or shall be permitted to pursue (Article 2 of the Articles of Association).

Documents open to public inspection:

The Articles of Association of the company are open to public inspection at the Registry of the Dutch-speaking division of the Brussels Commercial Court. The financial statements are filed with the National Bank of Belgium. Extracts of minutes concerning decisions on the appointment, resignation and the termination of the offices of members of the Executive Committee and the Board of Directors are published in the appendices to the *Belgian Official Gazette*. Financial reports about the company and convening notices of general meetings of shareholders are also published in the financial press and/or on www.kbc.com. Copies of the company's annual reports are available at its registered office and/or can be downloaded from www.kbc.com. They are sent annually to the holders of registered shares and to those who have requested a copy.

General Meeting of Shareholders:

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

Each share gives entitlement to one vote.

Holders of bonds, warrants or certificates issued in co-operation with the company are entitled to attend the General Meeting, but they have only advisory voting capacity.

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

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

Holders of bearer bonds, warrants or certificates issued in co-operation with the company must, within the same timeframe, deposit their securities at the registered office or at another location if specified in the convening notice. They will receive a certificate attesting to the fact that their bonds, warrants or certificates were deposited on time. They will be admitted to the General Meeting upon presentation of proof of their identity and this certificate.

Statutory auditor's report

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

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

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

Report on the consolidated accounts

Unqualified opinion

We have performed the statutory audit of the Group's consolidated accounts, which comprise the consolidated balance sheet as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cashflow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information, and which is characterised by a consolidated balance sheet total of EUR 248.940 million and a profit for the year (share of the Group) of EUR 2.010 million.

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

Basis for unqualified opinion

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

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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.

Key audit matters

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

<u>Estimation uncertainty with respect to financial instruments measured at fair value</u>

Description of the Key Audit Matter

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

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

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

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Our audit approach regarding the Key Audit Matter

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

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

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

Estimation uncertainty with respect to impairment allowances for loans and advances

Description of the Key Audit Matter

The appropriateness of the impairment allowances for loans and advances at amortised cost requires significant judgment of management. Measuring impairment allowances for loans and advances under IFRS 9 requires an assessment of 12-month or lifetime expected credit losses and the assessment of significant increases in credit risk or whether loans and advances at amortised cost are in default. At year-end 31 December 2018 information regarding impairment allowances for loans and advances is included in Note 4.2 to the consolidated accounts, in application of the policies as described in Note 1.2. of the Summary of significant accounting policies on IFRS 9. At year-end 31 December 2018 the gross loans and advances at amortised cost amount to EUR 175.419 million, the total impairment at that date amounts to EUR 3.522 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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Our audit approach regarding the Key Audit Matter

Our audit procedures included an assessment of the overall governance of the credit and impairment process of the Group, including the 12-month and lifetime expected loss modelling processes. We have assessed and tested the design and operating effectiveness of the controls within the loan origination process, risk management process and the estimation process for determining impairment allowances. For loan impairment allowances determined on an individual basis we have performed, for a sample of corporate credit files, a detailed review of loans granted by the Group. We challenged the default triggers and the quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. We found no material exceptions in these tests.

For the loan 12-month and lifetime expected credit loss impairment allowances, we challenged the significant increases in credit risk triggers and the macroeconomic scenarios and tested the underlying models including the Group's model approval and validation process. Finally, we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the International Financial Reporting Standards as adopted by the European Union.

In our view, the impairments estimated by management are within a reasonable range of outcomes in view of the overall loans and advances and the related uncertainties as disclosed in the consolidated accounts.

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

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

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

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.

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.

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.

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

Other legal and regulatory requirements

Responsibilities of the board of directors

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

Statutory auditor's responsibilities

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

Aspects related to the directors' report on the consolidated accounts

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

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

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

Statement related to independence

- Our registered audit firm and our network did not provide services which are incompatible with the statutory audit of the consolidated accounts, and our registered audit firm remained independent of the Group in the course of our mandate.

- The fees for additional services which are compatible with the statutory audit of the consolidated accounts referred to in article 134 of the Companies' Code are correctly disclosed and itemized in the notes to the consolidated accounts.

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Other statements

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

Sint-Stevens-Woluwe, 19 March 2019

The statutory auditor
PwC Bedrijfsrevisoren cvba
represented by

Roland Jeanquart
Accredited auditor

Gregory Joos
Accredited auditor

Company annual accounts

10				9	EUR	
NAT.	Date Filed	N°	P.	E.	D.	**C-inst 1.1**

ANNUAL ACCOUNTS IN EUR (2 decimals)

NAME: KBC BANK

Legal Form: NV
Address: Havenlaan N°.: 2 Box:
Postal Code: 1080 Municipality: BRUSSELS
Country: België
Register of Legal Persons (RLP) - Chamber of Commerce: Brussels
Internet address*: http://www.kbc.be

Company Number 0462.920.226

Date 09/05/2018 of the deposition of the partnership deed OR of the most recent document mentioning the date of publication of the partnership deed and the act changing the articles of association.

ANNUAL ACCOUNT approved by the General Meeting of 24/04/2019

concerning the financial year covering the period from 01/01/2018 till 31/12/2018

Previous period from 01/01/2017 till 31/12/2017
The amounts of the previous financial year are / ~~are not~~ ** identical to those which have been previously published.

COMPLETE LIST WITH name, first name, profession, residence-address (address, number, postal code, municipality) and position with the enterprise, OF DIRECTORS, MANAGERS and AUDITORS

	Period on the Board in 2018	End of current term of office
CHAIRMAN OF THE BOARD OF DIRECTORS:		
Mr. Thomas LEYSEN, Rosier 21, 2000 Antwerpen	entire year	2019
CHAIRMAN OF THE EXECUTIVE COMMITTEE		
Mr. Johan THIJS, Moorsemsestraat 260, 3130 Betekom	entire year	2021

Members: see next page

Enclosed to these annual accounts:
- the report of the statutory auditor
- the annual report of the Board of Directors to the ordinary General Meeting of shareholders

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Total number of pages deposited:
Number of the pages of the standard form not deposited for not being of service: -

Signature (name and position)	Signature (name and position)
J. THIJS	T. LEYSEN
Chairman of the Executive Committee	Chairman of the Board of Directors

* Optional Statement
** Delete where appropriate

LIST OF DIRECTORS, MANAGERS AND AUDITORS (continuation from previous page)

Members:

Dhr. Nabil ARISS, Havenlaan 2, 1080 Brussel	entire year	2022
Mevr. Katelijn CALLEWAERT, Beekboshoek 102, 2550 Waarloos	entire year	2021
Mevr. Sonja DE BECKER, Meerbeekstraat 20, 3071 Erps-Kwerps	entire year	2020
Dhr. Franky DEPICKERE, Izegemstraat 203, 8770 Ingelmunster	entire year	2019
Dhr. Daniel FALQUE, Bovenbosstraat 78, 3053 Haasrode	entire year	2020
Dhr. John HOLLOWS, Havenlaan 2, 1080 Brussel	entire year	2021
Mevr. Julia KIRALY, Havenlaan 2, 1080 Brussel	in since 21/12/2018 (cooptation)	2022
Dhr. Erik LUTS, Kruisstraat 84, 3290 Diest	entire year	2021
Dhr. Bo MAGNUSSON, Taptogatan 6, Stockholm 115 26, Sweden	entire year	2020
Dhr. Walter NONNEMAN, Molenstraat 245, 9150 Kruibeke	resignation as at 21/12/2018	
Mevr. Vladimira PAPIRNIK, Havenlaan 2, 1080 Brussel	in since 21/12/2018 (cooptation)	2022
Dhr. Luc POPELIER, Voosdonk 21, 2801 Heffen	entire year	2021
Dhr. Hendrik SCHEERLINCK, Gemslaan 44, 3090 Overijse	entire year	2021
Mevr. Christine VAN RIJSSEGHEM, Avenue du Manoir 59, 1410 Waterloo	entire year	2022
Dhr. Matthieu VANHOVE, Lindelaan 7, 3001 Heverlee	resignation as at 21/12/2018	
Dhr. Marc WITTEMANS, Beatrijslaan 91, 3110 Rotselaar	entire year	2022

AUDITOR:

PwC Auditors BCVBA 0429.501.944
Woluwedal 18, 1932 Sint-Stevens-Woluwe, Belgium
Function: Commissioner, Member Number: B00009
Mandate : appointed 27/04/2016

Represented by: 2019

Jeanquart Roland (Membership IBR A01313)
Auditor
Woluwedal 18 , 1932 Sint-Stevens-Woluwe, België

Gregory Joos (Membership IBR A02025)
Auditor
Woluwedal 18 , 1932 Sint-Stevens-Woluwe, België

DECLARATION ABOUT SUPPLEMENTARY AUDITING OR ADJUSTMENT MISSION

The managing board declares that the assignment neither regarding auditing nor adjusting has been given to a person who was not authorised by law pursuant to art. 34 and 37 of the Law of 22nd April 1999 concerning the auditing and tax professions.

The annual accounts ~~have~~ / have not* been audited or adjusted by an external accountant or auditor who is not a statutory auditor.

If YES, mention here after: name, first names, profession, residence-address of each external accountant or auditor, the number of membership with the professional Institute ad hoc and the nature of this engagement:

A. Bookkeeping of the undertaking**,
B. Preparing the annual accounts**,
C. Auditing the annual accounts and/or
D. Adjusting the annual accounts.

If the assignment mentioned either under A or B is performed by authorised accountants or authorised accountants-tax consultants, information will be given on: name, first names, profession and residence-address of each authorised accountant or accountant-tax consultant, his number of membership with the Professional Institute of Accountants and Tax consultants and the nature of this engagement.

Name, first name, profession, residence-address	Number of membership	Nature of the engagement (A, B, C and/or D)

* Delete where appropriate.

** Optional disclosure.

BALANCE SHEET AFTER APPROPRIATION

ASSETS	Notes	Code	Current period	Previous period
I. Cash in hand, balances with central banks and post office banks		10100	14.038.398.984,54	25.248.374.702,11
II. Treasury bills eligible for refinancing at central banks		10200	201.648.024,86	504.034.304,78
III. Loans and advances to credit institutions	5.1	10300	14.266.043.749,10	14.197.186.488,79
A. Repayable on demand		10310	1.245.079.460,11	359.532.389,49
B. Other loans and adv. (with agreed maturity dates)		10320	13.020.964.288,99	13.837.654.099,30
IV. Loans and advances to customers	5.2	10400	95.214.115.409,86	90.680.555.250,01
V. Debt securities and other fixed-income securities	5.3	10500	31.683.477.586,25	33.348.028.703,78
A. Issued by public bodies		10510	11.990.146.321,93	12.928.036.826,87
B. Issued by other borrowers		10520	19.693.331.264,32	20.419.991.876,91
VI. Shares and other variable-yield securities	5.4	10600	754.206.948,81	502.201.498,02
VII. Financial fixed assets	5.5/ 5.6.1	10700	13.876.009.920,58	14.252.049.963,32
A. Participating interests in affiliated enterprises		10710	13.094.524.427,78	13.111.616.353,91
B. Participating interests in other enterprises linked by participating interests		10720	112.529.507,45	92.861.791,33
C. Other shares held as financial fixed assets		10730	8.899.191,59	8.141.138,01
D. Subordinated loans to affiliated enterprises and to other enterprises linked by participating interests		10740	660.056.793,76	1.039.430.680,07
VIII. Formation expenses and intangible fixed assets	5.7	10800	87.189.003,82	58.645.101,65
IX. Tangible fixed assets	5.8	10900	1.392.476.612,31	1.286.098.423,34
X. Own shares		11000	0,00	0,00
XI. Other assets	5.9	11100	1.104.009.288,14	1.046.281.933,61
XII. Accrued income	5.10	11200	6.179.226.296,72	6.790.616.351,34
TOTAL ASSETS		19900	178.796.801.824,99	187.914.072.720,75

	Notes	Code	Current Period	Previous Period
LIABILITIES				
THIRDPARTY FUNDS		201/208	166.500.868.008,19	176.392.293.860,85
I. Amounts owed to credit institutions	5.11	20100	23.738.667.259,08	31.941.472.722,61
A. Repayable on demand		20110	5.783.335.111,61	9.220.906.230,02
B. Amounts owed as a result of the rediscounting of trade bills		20120	0,00	0,00
C. Other debts with agreed maturity dates or periods of notice		20130	17.955.332.147,47	22.720.566.492,59
II. Amounts owed to customers	5.12	20200	103.652.189.636,79	99.132.697.174,42
A. Savings deposits		20210	38.427.680.022,03	35.253.896.997,52
B. Other debts		20220	65.224.509.614,76	63.878.800.176,90
1. repayable on demand		20221	49.109.420.235,67	43.765.392.630,87
2. with agreed maturity dates or periods of notice		20222	16.115.089.379,09	20.113.407.546,03
3. as a result of the rediscounting of trade bills		20223	0,00	0,00
III. Debts evidenced by certificates	5.13	20300	24.177.943.137,89	29.939.792.547,00
A. Debt securities and other fixed-income securities in circulation		20310	9.242.288.457,23	8.093.690.479,54
B. Other		20320	14.935.654.680,66	21.846.102.067,46
IV. Other liabilities	5.14	20400	1.651.267.931,82	1.953.008.623,94
V. Accrued charges and deferred income	5.15	20500	4.527.652.981,86	5.314.985.669,31
VI. Provisions and deferred taxes		20600	176.292.942,65	257.589.074,24
A. Provisions for liabilities and charges		20610	176.292.942,65	257.589.074,24
1. Pensions and similar obligations		20611	26.508.795,87	32.100.874,03
2. Taxation		20612	0,00	0,00
3. Other liabilities and charges	5.16	20613	149.784.146,78	225.488.200,21
B. Deferred taxes		20620	0,00	0,00
VII. Fund for general banking risks		20700	95.791.203,75	0,00
VIII. Subordinated liabilities	5.17	20800	8.481.062.914,35	7.852.748.049,33
OWN FUNDS		209/213	12.295.933.816,80	11.521.778.859,90
IX. CAPITAL	5.18	20900	8.948.439.652,39	8.948.439.652,39
A. Subscribed capital		20910	8.948.439.652,39	8.948.439.652,39
B. Uncalled capital (-)		20920	0,00	0,00
X. Share premium account		21000	895.449.646,51	895.449.646,51
XI. Revaluation surpluses		21100	0,00	0,00
XII. Reserves		21200	506.571.149,66	421.651.398,45
A. Legal reserve		21210	493.597.901,43	408.678.150,22
B. Reserves not available for distribution		21220	0,00	0,00
1. In respect of own shares held		21221	0,00	0,00
2. Other		21222	0,00	0,00
C. Untaxed reserves		21230	12.973.248,23	12.973.248,23
D. Reserves available for distribution		21240	0,00	0,00
XIII. Profits (losses (-)) brought forward (+)/(-)		21300	1.945.473.368,24	1.256.238.162,55
TOTAL LIABILITIES		29900	178.796.801.824,99	187.914.072.720,75

OFF BALANCE SHEET CAPTIONS	Notes	Code	Current period	Previous period
I. Contingent liabilities	5.22	30100	11.262.207.231,91	14.048.412.532,10
A. Non-negotiated acceptances		30110	31.808.196,46	77.939.599,96
B. Guarantees serving as direct credit substitutes		30120	2.827.464.552,46	3.038.934.941,58
C. Other guarantees		30130	7.352.369.126,47	9.338.260.887,98
D. Documentary credits		30140	1.576.653.283,52	1.593.277.102,58
E. Assets charged as collateral security on behalf of third parties		30150	0,00	0,00
II. Commitments which could give rise to a risk	5.22	30200	29.461.500.422,53	30.340.641.730,83
A. Firm credit commitments		30210	4.247.452.100,94	3.780.867.465,82
B. Commitments as a result of spot purchases of transferable or other securities		30220	678.419.347,57	65.523.750,25
C. Undrawn margin on confirmed credit lines		30230	24.535.628.974,02	26.494.250.514,76
D. Underwriting and placing commitments		30240	0,00	0,00
E. Commitments as a result of open-ended sale and repurchase agreements		30250	0,00	0,00
III. Assets lodged with the credit institution		30300	222.513.008.669,12	224.987.782.972,72
A. Assets held by the credit institution for fiduciary purposes		30310	4.535.108.318,77	4.997.563.464,24
B. Safe custody and equivalent items		30320	217.977.900.350,35	219.990.219.508,48
IV. Uncalled amounts of share capital		30400	21.971.567,73	16.201.567,73

INCOME STATEMENT (presentation in vertical form)

		Notes	Code	Current Period	Previous period
I. Interest receivable and similar income		5.23	40100	2.908.638.186,36	2.859.481.847,16
A. Of which: from fixed-income securities			40110	635.854.129,71	661.716.754,59
II. Interest payable and similar charges			40200	1.685.253.165,93	1.642.719.484,93
III. Income from variable-yield securities		5.23	40300	1.086.768.710,97	1.113.647.548,76
A. From shares and other variable-yield securities			40310	17.481.173,22	4.924.659,22
B. From participating interests in affiliated enterprises			40320	1.063.319.547,60	1.100.174.610,25
C. From participating interests in other enterprises linked by participating interests			40330	5.532.678,35	7.211.324,42
D. From other shares held as financial fixed assets			40340	435.311,80	1.336.954,87
IV. Commissions receivable		5.23	40400	1.409.933.593,80	1.306.455.363,15
A. Brokerage and related commissions			40410	594.610.651,73	666.167.945,43
B. Management, consultancy and conservation commissions			40420	28.972.968,52	36.152.761,85
C. Other commissions received			40430	786.349.973,55	604.134.655,87
V. Commissions payable			40500	596.262.348,64	378.740.308,67
VI. Profit (loss) on financial transactions	(+)/(-)	5.23	40600	384.801.202,77	256.707.718,54
A. On trading of securities and other financial instruments			40610	375.936.455,46	236.915.524,86
B. On disposal of investment securities			40620	8.864.747,31	19.792.193,68
VII. General administrative expenses			40700	1.902.992.788,88	1.873.379.945,82
A. Remuneration, social security costs and pensions			40710	804.286.020,58	820.921.094,57
B. Other administrative expenses			40720	1.098.706.768,30	1.052.458.851,25
VIII. Depreciation/amortization of and other write-downs on formation expenses, intangible and tangible fixed assets			40800	122.684.912,58	75.967.421,28
IX. Decrease in write downs on receivables and in provisions for off balance sheet captions 'I. Contingent liabilities' and 'II. Commitments which could give rise to a risk'	(+)/(-)		40900	-61.555.262,30	110.475.105,07
X. Decrease in write-downs on the investment portfolio of debt securities, shares and other fixed-income or variable-yield securities	(+)/(-)		41000	1.479.639,97	-2.209.265,44
XI. Utilization and write-backs of provisions for liabilities and charges other than those included in the off balance sheet captions	(+)/(-)		41100	-80.215.858,14	-39.322.390,15
XII. Provisions for liabilities and charges other than those included in the off balance sheet captions			41200	20.520.702,66	28.174.725,46
XIII. Transfer from (Transfer to) the fund for general banking risks	(+)/(-)		41300	-95.791.203,75	0,00
XIV. Other operating income		5.23	41400	302.472.305,16	247.614.840,77
XV. Other operating charges		5.23	41500	38.424.708,95	40.669.451,34
XVI. Profits (losses) on ordinary activities before taxes	(+)/(-)		41600	1.770.975.648,14	1.675.312.531,40

		Notes	Code	Current period	Previous period
XVII. Extraordinary income			41700	17.380.791,62	1.552.744.755,19
A. Adjustments to depreciation/amortization of and to other write-downs on intangible and and tangible fixed assets			41710	0,00	0,00
B. Adjustments to write-downs on financial fixed assets			41720	16.082.139,27	1.442.189.253,28
C. Adjustments to provisions for extraordinary liabilities and charges			41730	515.022,00	0,00
D. Gain on disposal of fixed assets			41740	60.466,60	110.022.550,87
E. Other extraordinary income		5.25	41750	723.163,75	532.951,04
XVIII. Extraordinary charges			41800	16.323.678,36	365.041.282,75
A. Extraordinary depreciation/amortization of and extraordinary write-downs on formation expenses and intangible and tangible fixed assets			41810	41.975,53	16.520.916,79
B. Write-downs on financial fixed assets			41820	5.344.416,01	4.626.978,39
C. Provisions for extraordinary liabilities and charges	(+/-)		41830	90.000,00	1.462.942,64
D. Loss on disposal of fixed assets			41840	10.835.899,88	342.424.827,17
E. Other extraordinary charges		5.25	41850	11.386,94	5.617,76
XIX. Profits (Losses) for the period before taxes	(+/-)		41910	1.772.032.761,40	2.863.016.003,84
XIXbis. A. Transfer to deferred taxes			41921	116.378,43	256.884.512,61
B. Transfer from deferred taxes			41922	1.295.418,59	26.822.590,08
XX. Income taxes	(+/-)	5.26	42000	74.816.777,44	27.480.115,73
A. Income taxes			42010	75.920.664,73	29.138.227,74
B. Adjustement of income taxes and write-back of tax provisions			42020	1.103.887,29	1.658.112,01
XXI. Profits (Losses) for the period	(+/-)		42100	1.698.395.024,12	2.605.473.965,58
XXII. Transfer to untaxed reserves	(+/-)		42200	0,00	0,00
XXIII. Profit (Losses) for the period available for appropriation	(+/-)		42300	1.698.395.024,12	2.605.473.965,58

APPROPRIATION ACCOUNT

		Code	Current period	Previous period
A. Profit (loss) to be appropriated	(+)/(-)	49100	2.954.633.186,67	2.605.802.195,59
1. Profit (loss) for the period available for appropriation	(+)/(-)	(42300)	1.698.395.024,12	2.605.473.965,58
2. Profit (loss) to be carried forward	(+)/(-)	(21300P)	1.256.238.162,55	328.230,01
B. Transfers from capital and reserves		49200	0,00	0,00
1. From capital and share premium account		49210	0,00	0,00
2. From reserves		49220	0,00	0,00
C. Transfers to capital and reserves		49300	84.919.751,21	130.273.698,28
1. To capital and share premium account		49310	0,00	0,00
2. To the legal reserve		49320	84.919.751,21	130.273.698,28
3. To other reserves		49330	0,00	0,00
D. Profit (loss) to be carried forward	(+)/(-)	49400	1.945.473.368,24	1.256.238.162,55
E. Shareholders' contribution in respect of losses		49500	0,00	0,00
F. Profit to be distributed		49600	924.240.067,22	1.219.290.334,76
1. Dividends		49610	906.076.197,18	1.198.949.311,42
2. Director's or manager's entitlements		49620	0,00	0,00
3. Other allocations		49630	18.163.870,04	20.341.023,34

NOTES

I. STATEMENT OF LOANS AND ADVANCES TO CREDIT INSTITUTIONS (Assets caption III)

	Code	Current period	Previous period
A. FOR THE CAPTION AS A WHOLE	(10300)	14.266.043.749,10	14.197.186.488,79
1. Loans and advances to affiliated enterprises	50101	8.549.047.861,24	8.755.591.126,20
2. Loans and advances to other enterprises linked by participating interests	50102	0,00	0,00
3. Subordinated loans and advances	50103	0,00	0,00
B. OTHER LOANS AND ADVANCES TO CREDIT INSTITUTIONS (with agreed maturity dates or periods of notice)	(10320)	13.020.964.288,99	13.837.654.099,30
1. Trade bills eligible for refinancing with the central bank of the country(ies) of establishment of the credit	50104	0,00	
2. Breakdown according to the remaining maturity			
a. Up to 3 months	50105	6.496.719.997,62	
b. Over 3 months up to 1 year	50106	1.623.051.126,98	
c. Over 1 year up to 5 years	50107	4.376.184.202,62	
d. Over 5 years	50108	381.138.289,04	
e. Undated	50109	143.870.672,72	

II. STATEMENT OF LOANS AND ADVANCES TO CUSTOMERS (Assets caption IV)

	Code	Current Period	Previous Period
1. Loans to affiliated enterprises	50201	16.899.370.033,80	19.267.119.659,38
2. Loans to other enterprises linked by participating interests	50202	41.620.081,36	44.440.709,88
3. Subordinated loans	50203	1.314.283.319,79	1.582.066.624,86
4. Trade bills eligible for refinancing with the central bank of the country or countries where the credit institution is established	50204	0,00	0,00
5. Breakdown according to the remaining maturity :			
a. Up to 3 months	50205	26.366.155.043,98	
b. Over 3 months up to 1 year	50206	4.383.402.458,73	
c. Over 1 year up to 5 years	50207	15.006.793.725,95	
d. Over 5 years	50208	49.134.719.279,03	
e. Undated	50209	323.044.902,17	
6. Breakdown of customer loans based on the type of debtor			
a. Claims on government	50210	4.762.806.030,25	4.122.604.457,55
b. Retail exposures	50211	32.820.102.301,96	30.666.430.531,71
c. Claims on enterprises	50212	57.631.207.077,65	55.891.520.260,75
7. Breakdown by type :			
a. Trade bills (including own acceptance)	50213	62.575.373,61	
b. Loans and advances as a result of leasing and similar agreements	50214	1.937.296.544,87	
c. Fixed-rate loans	50215	1.468.313.312,48	
d. Mortgage loans	50216	27.554.932.819,32	
e. Other term loans with a maturity over 1 year	50217	35.874.852.915,13	
f. Other loans and advances	50218	28.316.144.444,45	
8. Geographical breakdown			
a. Belgian origin	50219	84.322.373.650,20	
b. Foreign	50220	10.891.741.759,66	
9. Details of mortgage loans with reconstitution of capital or linked to life insurance and capitalization contracts			
a. Principal sums initially lent	50221	0,00	
b. Reconstitution fund and mathematical reserves relating to these loans	50222	0,00	
c. Net amount outstanding (a-b)	50223	0,00	

III. STATEMENT OF DEBT SECURITIES AND OTHER FIXED-INCOME SECURITIES (Assets caption V)

	Code	Current period	Previous period
A. GENERAL	(10500)	31.683.477.586,25	33.348.028.703,78
1. Securities issued by affiliated enterprises	50301	18.849.633.042,41	19.259.050.809,02
2. Securities issued by enterprises linked by participating interests	50302	0,00	0,00
3. Securities representing subordinated loans	50303	65.518.134,10	70.142.936,33
4. Country analysis of the securities issued			
a. By public bodies	50304	7.962.454.415,73	
b. By other borrowers	50305	4.027.691.906,20	
c. Belgian issuers other than public bodies	50306	4.643.250.088,51	
d. Foreign issuers other than public bodies	50307	15.050.081.175,81	
5. Listing			
a. Book value of listed securities	50308	18.130.017.134,54	
b. Market value of listed securities	50309	19.254.161.334,18	
c. Book value of unlisted securities	50310	13.553.460.451,71	
6. Maturities			
a. Remaining maturity of up to one year	50311	14.986.060.168,83	
b. Remaining maturity of over one year	50312	16.697.417.417,42	
7. Analysis by portfolio			
a. Trading portfolio	50313	303.284.776,96	
b. Investment portfolio	50314	31.380.192.809,29	
8. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50315	1.150.532,00	
b. Difference between market value (if higher) and carrying value (for securities valued in accordance with Art. 35ter §2 para. 2)	50316	0,00	
9. Investment portfolio			
a. Difference between redemption value (if higher) and carrying value	50317	33.807.536,31	
b. Difference between redemption value (if lower) and carrying value	50318	577.110.155,41	

		Codes	Current period	Previous period
B. ANALYSIS OF THE CARRYING VALUE OF INVESTMENT SECURITIES				
1. As at end of the preceding period		50323P	xxxxxxxxxxxxxxx	33.141.119.077,48
2. Movements during the the period		50319	-1.748.958.181,88	
a . Acquisitions		50320	140.566.096.287,02	
b . Sales		50321	-142.239.772.703,44	
c . Adjustments by application of Article 35ter §4 and 5	(+/-)	50322	-75.281.765,46	
3. Acquisition cost as at end of the period		50323	31.392.160.895,59	
4. Transfers between portfolios				
a . Transfers from the investment portfolio to the trading portfolio		50324		
b . Transfers from the trading portfolio to the investment portfolio		50325		
c . Impact on result		50326		
5. Write-Downs as at end of the period		50332P	xxxxxxxxxxxxxxx	10.021.935,09
6. Movements during the the period		50327	1.946.151,21	
a . Recorded		50328	1.504.983,57	
b . Excess written back		50329	-68.483,10	
c . Cancellations		50330	0,00	
d . Transfers from one caption to another	(+/-)	50331	509.650,74	
7. Write-downs as at end of the period		50332	11.968.086,30	
8. Carrying value as at end of the period		(50314)	31.380.192.809,29	

	Codes	Boekjaar	Vorig boekjaar
IIIBIS THEMATIC CITIZENS LENDING			
1. Total amount drawn	50340	356.667.737	357.934.637
a. Bonds	50341	356.667.737	357.934.637
b. Allowed interbank loans	50342	0	0
2. Use of assets	50350	1.362.371.368	1.515.022.958
a. Citizens Lending	50351	1.362.371.368	1.515.022.958
b. Investment pursuant to art. 11	50352	0	0
c. Interbank loans drawn	50353	0	0
3. Income from realized investments pursuant to art. 11	50360	0	0

IV. STATEMENT OF SHARES AND OTHER VARIABLE-YIELD SECURITIES (Assets caption VI)

	Code	Current Period	Previous Period
A. GENERAL REPORT	(10600)	754.206.948,81	502.201.498,02
1. Country analysis of the issuers of securities			
a. Belgian issuers	50401	230.967.062,05	225.053.165,10
b. Foreign issuers	50402	523.239.886,76	277.148.332,92
2. Listing			
a. Carrying value	50403	751.365.022,45	
b. Market value	50404	754.381.485,04	
c. Carrying value of unlisted securities	50405	2.841.926,36	
3. Analysis by portfolio			
a. Trading portfolio	50406	745.427.716,69	
b. Investment portfolio	50407	8.779.232,12	
4. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50408	7.979.373,12	
b. Difference between market value (if higher) and carrying value (for securities valued in accordance with Article 35ter §2 paragraph 2)	50409	0,00	

B. ANALYSIS OF THE CARRYING VALUE OF INVESTMENT SECURITIES		Code	Current period	Previous period
1. Acquisition cost as at the end of the period		50414P	xxxxxxxxxxxxxxx	29.491.300,96
2. Movements during the the period		50410	-10.140.466,74	
a. Acquisitions		50411	403,23	
b. Sales		50412	-5.383.244,32	
c. Other adjustments	(+/-)	50413	-4.757.625,65	
3. Acquisition cost as at end of the period		50414	19.350.834,22	
4. Transfers between portfolios				
a. Transfers from the investment portfolio to the trading portfolio		50415		
b. Transfers from the trading portfolio to the investment portfolio		50416	0,00	
c. Impact on result		50417		
5. Write-downs as per end of the period		50423P	xxxxxxxxxxxxxxx	12.976.302,02
6. Movements during the period		50418	-2.404.699,92	
a. Recorded		50419	43.139,50	
b. Excess written back		50420	0,00	
c. Cancellations		50421	-91.561,00	
d. Transfers from one caption to another	(+)/(-)	50422	-2.356.278,42	
7. Write-downs as at end of the period		50423	10.571.602,10	
8. Carrying value as at end of the period		(50407)	8.779.232,12	

V. STATEMENT OF FINANCIAL FIXED ASSETS (Assets caption VII)

A. GENERAL

	Codes	Current period	Previous period
1. Breakdown of financial fixed assets by economic sector			
a. Participating interests in enterprises that are credit institutions	50501	7.573.511.587,18	7.593.083.928,10
b. Participating interests in enterprises that are not credit institutions	50502	5.521.012.840,60	5.518.532.425,82
c. Participating interests in enterprises linked by participating interests that are credit institutions	50503	6.508.558,37	6.508.558,37
d. Participating interests in enterprises linked by participating interests that are not credit institutions	50504	106.020.949,08	86.353.232,96
e. Other shares held as financial fixed assets in enterprises that are credit institutions	50505	0,00	0,00
f. Other shares held as financial fixed assets in enterprises that are not credit institutions	50506	8.899.191,59	8.141.138,01
g. Subordinated loans in linked enterprises that are credit institutions	50507	214.500.000,00	214.500.000,00
h. Subordinated loans in linked enterprises that are not credit institutions	50508	415.756.793,76	792.430.680,07
i. Subordinated loans in enterprises with participation interests that are credit institutions	50509	0,00	0,00
j. Subordinated loans in enterprises with participation interests that are not credit institutions	50510	29.800.000,00	32.500.000,00
2. Listings			
a. Participating interests in affiliated listed enterprises	50511	0,00	
b. Participating interests in affiliated not listed enterprises	50512	13.094.524.427,77	
c. Participating interests in other enterprises linked by participating interests that are listed	50513	0,00	
d. Participating interests in other enterprises linked by participating interests that are not listed	50514	112.529.507,45	
e. Other shares held as financial fixed assets in enterprises that are listed	50515	2.353.411,54	
f. Other shares held as financial fixed assets in enterprises that are not listed	50516	6.545.780,05	
g. Amount of subordinated loans represented by listed securities	50517	0,00	

	Codes	Current period	Previous period
B. ANALYSIS OF THE CARRYING VALUE OF FINANCIAL FIXED ASSETS IN AFFILIATED ENTERPRISES			
1. Acquisition cost at the end of the period	50522P	xxxxxxxxxxxxxxx	14.976.346.864,58
2. Movements during the period	50518	-9.745.155,67	
a. Acquisitions	50519	7.531.365,00	
b. Sales and disposals	50520	-38.712.938,67	
c. Transfers from one caption to another (+/-)	50521	21.436.418,00	
3. Acquisition cost as at the end of the period	50522	14.966.601.708,91	
4. Revaluation surpluses	50528P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	50523	0,00	
a. Recorded	50524	0,00	
b. Acquisitions from third parties	50525	0,00	
c. Cancellations	50526	0,00	
d. Transfers from one caption to another (+/-)	50527	0,00	
6. Revaluation surpluses as at the end of the period	50528	0,00	
7. Write-downs as at the end of the period	50535P	xxxxxxxxxxxxxxx	1.864.730.510,67
8. Movements during the period	50529	7.346.770,46	
a. Recorded	50530	614.931,47	
b. Excess written back	50531	-5.798.554,34	
c. Acquisitions from third parties	50532	0,00	
d. Cancellations	50533	-8.906.023,67	
e. Transfers from one caption to another (+/-)	50534	21.436.417,00	
9. Write-downs as at end of the period	50535	1.872.077.281,13	
10. Net carrying value as at the end of the period	10710	13.094.524.427,78	

C. ANALYSIS OF THE CARRYING VALUE OF FIXED FINANCIAL ASSETS IN ENTERPRISES LINKED BY PARTICIPATING INTERESTS

		Codes	Current period	Previous period
1. Acquisition cost as at end of the period		50540P	xxxxxxxxxxxxxxx	116.005.924,29
2. Movements during the period		50536	2.359.644,60	
a. Acquisitions		50537	25.664.209,11	
b. Sales and disposals		50538	-1.868.146,04	
c. Transfers from one caption to another	(+/-)	50539	-21.436.418,47	
3. Acquisition cost as at end of the period		50540	118.365.568,89	
4. Revaluation surpluses at the end of the period		50546P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period		50541	0,00	
a. Recorded		50542	0,00	
b. Acquisitions from third parties		50543	0,00	
c. Cancellations		50544	0,00	
d. Transfers from one caption to another	(+/-)	50545	0,00	
6. Revaluation surpluses at the end of the period		50546	0,00	
7. Write-downs as at the end of the period		50553P	xxxxxxxxxxxxxxx	23.144.132,96
8. Movements during the period		50547	-17.308.071,52	
a. Recorded		50548	5.267.125,82	
b. Excess written back		50549	0,00	
c. Acquisitions from third parties		50550	0,00	
d. Cancellations		50551	-1.138.779,00	
e. Transfers from one caption to another	(+/-)	50552	-21.436.418,34	
9. Write-downs as at the end of the period		50553	5.836.061,44	
10. Net carrying value as at end of the period		10720	112.529.507,45	

		Codes	Current period	Previous period
D. ANALYSIS OF THE CARRYING VALUE OF OTHER SHARES HELD AS FINANCIAL FIXED ASSETS				
1. Acquisition cost as at the end of the period		50558P	xxxxxxxxxxxxxxx	9.188.223,35
2. Movements during the period		50554	2.336.049,21	
a. Acquisitions		50555	4.469.264,90	
b. Sales and disposals		50556	-2.133.215,69	
c. Transfers from one caption to another	(+/-)	50557	0,00	
3. Acquisition cost as at the end of the period		50558	11.524.272,56	
4. Revaluation surpluses at the end of the period		50564P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period		50559	0,00	
a. Recorded		50560	0,00	
b. Acquisitions from third parties		50561	0,00	
c. Cancellations		50562	0,00	
d. Transfers from one caption to another	(+/-)	50563	0,00	
6. Revaluation surpluses as at end of the period		50564	0,00	
7. Write-downs as at the end of the period		50571P	xxxxxxxxxxxxxxx	1.045.226,58
8. Movements during the period		50565	1.579.854,39	
a. Recorded		50566	1.579.854,39	
b. Excess written back		50567	0,00	
c. Acquisitions from third parties		50568	0,00	
d. Cancellations		50569	0,00	
e. Transfers from one caption to another	(+/-)	50570	0,00	
9. Write-downs as at the end of the period		50571	2.625.080,97	
10. Net carrying value as at the end of the period		10730	8.899.191,59	

E. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS TO AFFILIATED ENTERPRISES		Codes	Current period	Previous period
1. Net carrying value as at end of the period		50579P	xxxxxxxxxxxxxxx	1.006.930.680,07
2. Movements during the period		50572	-376.673.886,31	
a. Additions		50573	6.113,69	
b. Reimbursements		50574	-376.680.000,00	
c. Write-downs		50575	0,00	
d. Amounts written back		50576	0,00	
e. Realized exchange gains/losses	(+)/(-)	50577	0,00	
f. Other	(+)/(-)	50578	0,00	
3. Net carrying value as at the end of the period		50579	630.256.793,76	
4. Accumulated write-downs as at the end of the period		50580	0,00	

		Codes	Current period	Previous period
F. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS TO ENTERPRISES LINKED BY PARTICIPATING INTERESTS				
1. Net carrying value as at the end of the period		50588P	xxxxxxxxxxxxxxx	32.500.000,00
2. Movements during the period		50581	-2.700.000,00	
a. Additions		50582	0,00	
b. Reimbursements		50583	-2.700.000,00	
c. Write-downs		50584	0,00	
d. Amounts written back		50585	0,00	
e. Realized exchange gains/losses	(+)/(-)	50586	0,00	
f. Other	(+)/(-)	50587	0,00	
3. Net carrying value as at the end of the period		50588	29.800.000,00	
4. Accumulated write-downs as at the end of the period		50589	0,00	

VI LIST OF ENTERPRISES IN WHICH THE INSTITUTION HOLDS A PARTICIPATING INTEREST

A. SHARE IN THE CAPITAL AND OTHER RIGHTS IN OTHER COMPANIES

List enterprises in which the enterprise holds a participating interest within the meaning of the Royal Decree of September 23 rd 1992 and other enterprises in which the institution holds rights in the amount of at least 10% of the capital issued.

NAME, full address of the REGISTERED OFFICE and for the enterprise governed by Belgian law, the COMPANY NUMBER				Shares held				Information from the most recent period for which annual accounts are available			
				directly			by subsidiaries	Annual accounts dated	Currency	Own funds	Net result
				Type	Number	%	%			(+) or (-) (in thousands units)	
1. Affiliated enterprises											
Hello Shopping Park S.R.L. Bucharest RO RO18574766	Bucharest	RO	RO18574766	Ordinary	10.000.000	100,00	0,00		RON	123.375	3.602
CBC BANQUE SA Brussels BE 0403.211.380	Brussels	BE	0403.211.380	Ordinary	2.989.624	99,99	0,01	31/12/2017	EUR	592.046	59.767
Ceskoslovenska Obchodná Banka a.s. Bratislava SK	Bratislava	SK		Ordinary	8.886	100,00	0,00	31/12/2017	EUR	763.296	51.484
Ceskoslovenska Obchodni Banka a.s. Prague CZ	Prague	CZ		Ordinary	292.750.002	100,00	0,00	31/12/2017	CZK	83.780.000	15.356.000
K & H Bank Zrt. Budapest HU	Budapest	HU		Ordinary	140.978.164.412	100,00	0,00	31/12/2017	HUF	3.041.317.000	41.669.000
KB Consult NV Brussels BE 0437.623.220	Brussels	BE	0437.623.220	Ordinary	364.543	99,95	0,05	31/12/2017	EUR	816	-20
KBC Asset Management NV Brussels BE 0469.444.267	Brussels	BE	0469.444.267	Ordinary	2.730.644	47,35	52,65	31/12/2017	EUR	124.575	397.885
KBC Autolease NV Leuven BE 0422.562.385	Leuven	BE	0422.562.385	Ordinary	184.987	99,99	0,01	31/12/2017	EUR	7.875	21.481
KBC Bail Immobilier France sas Lille FR	Lille	FR		Ordinary	750.000	100,00	0,00	31/12/2017	EUR	6.742	177
KBC Lease Belgium NV Leuven BE 0426.403.684	Leuven	BE	0426.403.684	Ordinary	267.179	99,99	0,01	31/12/2017	EUR	11.003	33.284
KBC Immolease NV Leuven BE 0444.058.872	Leuven	BE	0444.058.872	Ordinary	1.000.328	99,99	0,01	31/12/2017	EUR	26.231	2.787
KBC Bank Ireland Plc Dublin IE IE8F86824G	Dublin	IE	IE8F86824G	Ordinary	827.892.018	99,99	0,01	31/12/2017	EUR	1.322.790	182.519
KBC Commercial Finance NV Brussels BE 0403.278.488	Brussels	BE	0403.278.488	Ordinary	119.999	99,99	0,01	31/12/2017	EUR	9.459	4.424
KBC Credit Investments NV Brussels BE 0887.849.512	Brussels	BE	0887.849.512	Ordinary	4.999.999	99,99	0,01	31/12/2017	EUR	5.434.217	161.113
KBC Ifima SA Luxemburg LU	Luxemburg	LU		Ordinary	22.679	100,00	0,00	31/12/2017	EUR	12.620	1.355
KBC Investments Limited London UK	London	UK		Ordinary	105.000.100	100,00	0,00	31/12/2017	USD	464.429	14.065
KBC Finance Ireland Dublin IE IE8F86824G	Dublin	IE	IE8F86824G	Ordinary	2.730.644	47,35	0,00	31/12/2017	EUR	25.979	964
KBC Real Estate Luxembourg SA Luxemburg LU	Luxemburg	LU		Ordinary	3.098	99,93	0,06	31/12/2017	EUR	12.347	2.302
KBC Securities NV Brussels BE 0437.060.521	Brussels	BE	0437.060.521	Ordinary	1.898.517	99,94	0,05	31/12/2017	EUR	102.645	15.109
Almafin Real Estate NV Brussels BE 0403 355 494	Brussels	BE	0403 355 494	Ordinary	61.999	99,99	0,00	31/12/2017	EUR	20.289	176
Almafin Real Estate Services Nv Brussels BE 0416 030 525	Brussels	BE	0403 355 494	Ordinary	1	0,01	99,99	31/12/2017	EUR	923	66
Julienne Holdings SARL Luxemburg LU	Luxemburg	LU		Ordinary	4.500	90,00	0,00	31/12/2017	EUR	-29.046	-1.130
C PLUS SAS France FR	France	FR		Ordinary	50.000	83,33	0,00	31/12/2015	EUR	-15.992	-16.057
KBC Vastgoedinvesteringen NV Brussels BE 0455 916 925	Brussels	BE	0455 916 925	Ordinary	57.909	99,89	0,10	31/12/2017	EUR	-3.978	59
KBC Vastgoedportefeuille België Brussels BE 0438 007 854	Brussels	BE	0438 007 854	Ordinary	57.763	99,99	0,01	31/12/2017	EUR	19.034	-281
Poelaert Invest NV Brussels BE 0478 381 531	Brussels	BE	0478 381 531	Ordinary	9.950	99,50	0,50	31/12/2017	EUR	12.256	968
Almaloisir & Immobilier SAS Nice FR 3542 862 0439	Nice	FR	3542 862 0439	Ordinary	328	100,00	0,00	31/12/2017	EUR	71	-19
Apitri NV Brussels BE 0469 889 873	Brussels	BE	0469 889 873	Ordinary	98	98,00	2,00	31/12/2017	EUR	5.531	22
Immo Antares NV Brussels BE 0456398361	Brussels	BE	0456398361	Ordinary	2.375	95,00	5,00	10/11/2017	EUR	-2.273	-311
Immo Basilix NV BrusselsBE 0453348801	Brussels	BE	0453348801	Ordinary	2.375	95,00	5,00	12/09/2017	EUR	59	-24
Immo Lux - Airport SA Luxemburg LU	Luxemburg	LU		Ordinary	1.456	99,93	0,07	31/12/2017	EUR	136	-910
Immo Namott NV Brussels BE 0840.412.849	Brussels	BE	0840.412.849	Ordinary	99	99,00	1,00	31/12/2017	EUR	62	0
Immo Namott Tréfonds N.V.				Ordinary	1	1,00	99,00	31/12/2017	EUR	1.072	6
Immo Zenobe Gramme Brussels BE 0456572664	Brussels	BE	0456572664	Ordinary	99	99,00	1,00	31/12/2017	EUR	77	0
Immobilière Distri-Land NV Brussels BE 0436440909	Brussels	BE	0436440909	Ordinary	1.093	87,44	0,08	31/12/2017	EUR	364	8
Luxembourg North Distribution SA Luxemburg LU 1945 3469	Luxemburg	LU	1945 3469	Ordinary	11	11,00	89,00	31/12/2017	EUR	99	65
Brussels North Distribution NV Brussels BE 0476212887	Brussels	BE	0476212887	Ordinary	5	5,00	95,00	31/12/2017	EUR	69	24

Immo Quinto NV Brussels BE 0466000470	Brussels	BE	0466000470	Ordinary	141.935	99,30	0,70	31/12/2017	EUR	5.245	-12
Thanksys NV Hasselt BE 0553877423	Hasselt	BE	0553877423	Cat 'B'	1.148.315	39,03	0,00	31/12/2017	EUR	1.776	-1.050
MIDAS Life Settlements Delaware US	Delaware	US		Ordinary	100	100,00	0,00		USD	90	-12
KBC Securities USA Inc New York US	New York	US		Ordinary	100	0,06	0,00		USD	8.961	5.867
World Alliance Financial LLC New York US	New York	US		Ordinary	1	100,00	0,00		USD	-518	-513
KBC Net Lease Investments LLC New York US	New York	US		Ordinary	1	100,00	0,00		USD	1.699	2.114
BEL ROM SAPTE S.R.L. Romania RO RO18908106	Romania	RO	RO18908106	Ordinary	16.428.357	99,99	0,01		RON	139.672	9.905
Immo Mechelen City Center NV Brussels BE 635828862	Brussels	BE	635828862	Ordinary	99	99,00	1,00	31/03/2017	EUR	53	-8
KBC START IT FUND NV Leuven BE 0403552563	Leuven	BE	0403552563	Ordinary	99.999	99,99	0,01	31/12/2017	EUR	2.440	-60
United Bulgarian Bank AD Sofia BG	Sofia	BG		Ordinary	75.893.450	99,90	0,00	31/12/2017	BGN	976.063	51.029
Interlease EAD Sofia BG	Sofia	BG		Ordinary	3.474.648	100,00	0,00		BGN	53.104	-9.013
UBB Asset Management AD Sofia BG	Sofia	BG		Ordinary	64	9,14	90,86	31/12/2017	BGN	4.478	1.352
KBC VERZEKERINGEN NV Leuven BE 0403552563	Leuven	BE	0403552563	Ordinary	1	0,01	99,99	31/12/2017	EUR	1.368.757	247.332
Omnia NV Leuven, BE 0413 646 305				Ordinary	1	0,01	99,99	31/12/2017	EUR	3.983	570
Soluz.io NV Mechelen BE 0711710576	Mechelen	BE	0711710576	Ordinary	5.100	51,00	0,00		EUR	0	0

2. Enterprises linked by participating interests
>=20% en <= 50%

Bedrijvencentrum Regio Roeselare NV Roeselare BE 0428.378.724	Roeselare	BE	0428.378.724	Ordinary	500	22,22	0,00	31/12/2017	EUR	596	27
Isabel NV BrusselsBE 0455.530.509	Brussels	BE	0455.530.509	Ordinary	253.322	25,33	0,00	31/12/2017	EUR	22.582	4.614
Immo Beaulieu NV Brussels BE 0450193133	Brussels	BE	0450193133	Ordinary	1.000	50,00	0,00	16/06/2017	EUR	68	123
Justinvest Antwerpen NV Wilrijk BE 0476658097	Wilrijk	BE	0476658097	Ordinary	50	33,33	0,00	31/12/2017	EUR	550	47
Rabot Invest NV Wilrijk BE 0479758733	Wilrijk	BE	0479758733	Ordinary	60	25,00	0,00	31/12/2017	EUR	659	7
Brussels I3 Fund NV Brussels BE 0477925433	Brussels	BE	0477925433	Cat "D"	2.182	36,36	0,00	31/12/2017	EUR	12.459	7.213
Real Estate Participation NV Zaventem BE 0473.018.817	Zaventem	BE	0473.018.817	Ordinary	500	50,00	0,00	31/12/2017	EUR	8.908	-41
Covent Garden Real Estate NV Zaventem BE 0872.941.897	Zaventem	BE	0872.941.897	Ordinary	750	50,00	0,00	31/12/2017	EUR	1.468	-2
Gemma Frisius-Fonds K.U. Leuven NV Leuven BE 0477.960.372	Leuven	BE	0477.960.372	Cat "B"	4.000	40,00	0,00	31/12/2017	EUR	15.330	-336
Banking Funding Company NV Brussels BE 0884.525.182	Brussels	BE	0884.525.182	Ordinary	12.437	20,25	0,00	31/12/2017	EUR	725	109
Rendex NV Antwerp BE 0461.785.227	Antwerp	BE	0461.785.227	Ordinary	33.114	26,05	0,00	31/03/2017	EUR	408	1.101
Big Bang Ventures Comm VA Lochristi BE 0471766725	Lochristi	BE	0471766725	Ordinary	200.000	20,00	0,00	31/12/2017	EUR	3	-3
Gasco Group NV Willebroek BE 887290177	Willebroek	BE	887.290.177	Ordinary	2.531.250	28,12	0,00	31/12/2017	EUR	-20.234	-692
Storesquare NV Roeselare BE 554814066	Roeselare	BE	554.814.066	Ordinary	951.576	16,95	0,00	31/12/2017	EUR	1.641	-4.299
Payconiq België NV Hasselt BE 675984882	Hasselt	BE	675.984.882	Cat. B en D	12.414.111	22,49	0,00		EUR	0	0
Payconiq International SA Luxembourg LU 131239768	Luxembourg	LU	131239768	Ordinary	484.608	46,49	0,00	31/12/2017	EUR	23.244	-12.565
Joyn International NV Hasselt BE 578946577	Hasselt	BE	578.946.577	Cat. B	9.292.583	43,00	0,00	31/12/2017	EUR	18.170	-3.472

3. Enterprises linked by participating interests
>=10% en <= 20%

QBIC Feeder Fund Brussels BE 846493561	Brussels	BE	846.493.561	Ordinary	4.000	14,71	0,00	31/12/2017	EUR	11.405	-704
Antwerps Innovatiecentrum NV Antwerpen BE 472386634	Antwerpen	BE	472.386.634	Ordinary	3.575	16,25	0,00				
OEM EQUITY PARTICIPATIONS B.V. Utrecht NL	Utrecht	NL		Ordinary	720.200	12,24	0,00	31/12/2017	EUR	229	0
BRS MICROFINANCE COOP CVBA Leuven BE 0508.996.711	Leuven	BE	0508.996.711	Cat. C	2.160	15,66	0,00	31/12/2017	EUR	15.462	243
Bedrijvencentrum Zaventem NV Zaventem BE 0426.496.726	Zaventem	BE	0426.496.726	Ordinary	350	11,26	8,04	31/12/2017	EUR	562	-3
Designcenter De Winkelhaak Antwerp BE 0470.201.857	Antwerp	BE	0470.201.857	Cat. A/B	124	19,46	0,00	31/12/2017	EUR	836	8

Europay Belgium SCRL Brussels BE 0434.197.536	Brussels	BE	0434.197.536	Ordinary	4.932	14,48	0,95	31/12/2017	EUR	1.120	48
Impulse Microfinancieringsfonds Wilrijk BE 0870.792.160	Wilrijk	BE	0870.792.160	Ordinary	2.000	17,56	0,00	31/12/2017	EUR	3.104	-596
Visa-Belgium CVBA Brussels BE 0435.551.972	Brussels	BE	0435.551.972	Ordinary	23	12,92	0,56	30/09/2017	EUR	40.422	182
Baekeland II NV Gent BE 0876.424.296	Gent	BE	0876.424.296	Ordinary	2.000.000	18,01	0,00	31/12/2017	EUR	787	-899
Vives NV Louvain-La-Neuve BE 0862.398.591	Louvain-La-Neuve	BE	0862.398.591	Ordinary	2.500	14,69	0,00	31/12/2017	EUR	1.319	-115
Bedrijvencentra Limburg NV Hasselt BE 0425.902.353	Hasselt	BE	0425.902.353	Ordinary	1.800	12,50	0,00	31/12/2017	EUR	3.979	-25
Business Brewery NV Heverlee BE 0428.014.676	Heverlee	BE	0428.014.676	Ordinary	40	9,52	4,76	31/12/2017	EUR	1.943	-35
Bedrijvencentrum Vilvoorde Vilvoorde BE 0434.222.577	Vilvoorde	BE	0434.222.577	Ordinary	338	9,30	8,26	31/12/2017	EUR	1.211	-54
BEM NV Brussel BE 0461612904				Ordinary	1.500	6,47	12,94	31/12/2017	EUR	2.969	-41
RURAL IMPULSE Luxemburg				Ordinary	15.000	16,66	0,00	31/12/2015	USD	8.886	-482
Belgian Mobile ID NV BE 0541659084				Ordinary	25.248	14,05	0,00	31/12/2017	EUR	7.223	-6.072
We.trade Innovation DAC				Ordinary	405.962	11,11	0,00		EUR	0	0

B. ENTERPRISES FOR WHICH THE CREDIT INSTITUTION HAS UNLIMITED LIABILITY IN ITS CAPACITY OF FULLY LIABLE PARTNER OR MEMBER

The annual accounts of any enterprise to which the enterprise is unlimited liable will be added to the present accounts and published jointly.
Departure from that requirement will be mentioned in the second column referring to the appropiate code (A or B), explained hereafter.

The annual accounts of the enterprise:

A. are published by filing with the National Bank of Belgium;

B. are effectively published in another Member State of the EEC as laid down in Article 3 of the Directive 2009/101/EEC;

C. are fully consolidated or proportionally consolidated in the reporting institution's accounts which have been prepared audited and published in accordance with the Royal Decree of September 23 rd 1992 on the consolidated accounts of institutions.

Name and full address of registered office and, for enterprises governed by Belgian law, VAT number or national identification number	Code, if any

VII. STATEMENT OF FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

		Codes	Current period	Previous period
A. Formation expenses				
1. Net carrying value as at the end of the period		50705P	xxxxxxxxxxxxxxx	0,00
2. Movements during the period		50701	0,00	
a. New expenses incurred		50702	0,00	
b. Amortization		50703	0,00	
c. Other	(+)/(-)	50704	0,00	
3. Net carrying value as at the end of the period		50705	0,00	
4. Of which				
a. Expenses of formation or capital increase, loan issue expenses and other formation expenses		50706	0,00	
b. Reorganization costs		50707	0,00	

		Codes	Current period	Previous period
B. GOODWILL				
1. Acquisition cost as at the end of the period		50712P	xxxxxxxxxxxxxxx	1.250.874,68
2. Movements during the period		50708	47.938.703,00	
a. Acquisitions, including own construction		50709	47.938.703,00	
b. Sales and disposals		50710	0,00	
c. Transfers from one caption to another	(+)/(-)	50711	0,00	
3. Acquisition cost as at the end of the period		50712	49.189.577,68	
4. Amortizations and write-downs as at the end of the period		50719P	xxxxxxxxxxxxxxx	1.250.874,68
5. Movements during the period		50713	4.793.870,48	
a. Recorded		50714	4.793.870,48	
b. Excess written back		50715	0,00	
c. Acquisitions from third parties		50716	0,00	
d. Cancellations		50717	0,00	
e. Transfers from one caption to another	(+/-)	50718	0,00	
6. Amortizations and write-downs as at the end of the period		50719	6.044.745,16	
7. Net carrying value as at the end of the period		50720	43.144.832,52	

		Codes	Current period	Previous period
C. COMMISSIONS FOR ATTRACTING NEW BUSINESS WITH CUSTOMERS				
1. Acquisition cost as at the end of the period		50725P	xxxxxxxxxxxxxxx	0,00
2. Movements during the period		50721	0,00	
a. Acquisitions, including own construction		50722	0,00	
b. Sales and disposals		50723	0,00	
c. Transfers from one caption to another	(+)/(-)	50724	0,00	
3. Acquisition cost as at the end of the period		50725	0,00	
4. Amortizations and write-downs as at the end of the period		50732P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period		50726	0,00	
a. Recorded		50727	0,00	
b. Excess written back		50728	0,00	
c. Acquisitions from third parties		50729	0,00	
d. Cancellations		50730	0,00	
e. Transfers from one caption to another	(+)/(-)	50731	0,00	
6. Amortizations and write-downs as at the end of the period		50732	0,00	
7. Net carrying value as at end of the period		50733	0,00	

		Codes	Current period	Previous period
D. OTHER INTANGIBLE FIXED ASSETS				
1. Acquisition cost as at end of the period		50738P	xxxxxxxxxxxxxxx	74.166.350,77
2. Movements during the period		50734	56.217,21	
a. Acquisitions, including own construction		50735	56.217,21	
b. Sales and disposals		50736	0,00	
c. Transfers from one caption to another	(+)/(-)	50737	0,00	
3. Acquisition cost as at end of the period		50738	74.222.567,98	
4. Amortizations and write-downs as at end of the period		50745P	xxxxxxxxxxxxxxx	15.521.249,13
5. Movements during the period		50739	14.657.147,54	
a. Recorded		50740	14.707.262,64	
b. Excess written back		50741	0,00	
c. Acquisitions from third parties		50742	0,00	
d. Cancellations		50743	-50.115,10	
e. Transfers from one caption to another	(+)/(-)	50744	0,00	
6. Amortizations and write-downs as at the end of the period		50745	30.178.396,67	
7. Net carrying value as at the end of the period		50746	44.044.171,31	

VIII. TANGIBLE FIXED ASSETS (Assets caption IX)

		Codes	Current period	Previous period
A. LAND AND BUILDINGS				
1. Acquisition cost as at the end of the period		50805P	xxxxxxxxxxxxxxx	1.283.920.226,89
2. Movements during the period	(+)/(-)	50801	13.145.579,75	
a. Acquisition, including own construction		50802	23.092.672,84	
b. Sales and disposals		50803	-9.947.093,09	
c. Transfers from one caption to another	(+)/(-)	50804	0,00	
3. Acquisition cost as at the end of the period		50805	1.297.065.806,64	
4. Revaluation surpluses as at the end of the period		50811P	xxxxxxxxxxxxxxx	58.717.639,24
5. Movements during the period	(+)/(-)	50806	-312.922,94	
a. Recorded		50807	0,00	
b. Acquisitions from third parties		50808	0,00	
c. Cancellations		50809	-312.922,94	
d. Transfers from one caption to another	(+)/(-)	50810	0,00	
6. Revaluation surpluses as at the end of the period		50811	58.404.716,30	
7. Amortizations and write-downs as at the end of the period		50818P	xxxxxxxxxxxxxxx	805.059.579,42
8. Movements during the period	(+)/(-)	50812	22.812.145,94	
a. Recorded		50813	29.984.681,98	
b. Excess written back		50814	-13.879,00	
c. Acquisitions from third parties		50815	0,00	
d. Cancellations		50816	-7.158.657,04	
e. Transfers from one caption to another	(+)/(-)	50817	0,00	
9. Amortizations and write-downs as at the end of the period		50818	827.871.725,36	
10. Net carrying value as at the end of the period		50819	527.598.797,58	

		Codes	Current period	Previous period
B. PLANT, MACHINERY AND EQUIPMENT				
1. Acquisition cost as at the end of the period		50824P	xxxxxxxxxxxxxxx	9.300.982,24
2. Movements during the period	**(+)/(-)**	50820	565.907,99	
a. Acquisition, including own construction		50821	0,00	
b. Sales and disposals		50822	565.907,99	
c. Transfers from one caption to another	(+)/(-)	50823	0,00	
3. Acquisition cost as at the end of the period		50824	9.866.890,23	
4. Revaluation surpluses as at the end of the period		50830P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	**(+)/(-)**	50825	0,00	
a. Recorded		50826	0,00	
b. Acquisitions from third parties		50827	0,00	
c. Cancellations		50828	0,00	
d. Transfers from one caption to another	(+)/(-)	50829	0,00	
6. Revaluation surpluses as at the end of the period		50830	0,00	
7. Amortization and write-downs as at the end of the period		50837P	xxxxxxxxxxxxxxx	8.932.888,45
8. Movements during the period	**(+)/(-)**	50831	565.530,20	
a. Recorded		50832	271.698,37	
b. Excess written back		50833	0,00	
c. Acquisitions from third parties		50834	0,00	
d. Cancellations		50835	293.831,83	
e. Transfers from one caption to another	(+)/(-)	50836	0,00	
9. Amortizations and write-downs as at the end of the period		50837	9.498.418,65	
10. Net carrying value as at the end of the period		50838	368.471,58	

		Codes	Current period	Previous period
C. FURNITURE AND VEHICLES				
1. Acquisition cost as at the end of the period		50843P	xxxxxxxxxxxxxxx	32.846.365,60
2. Movements during the period	**(+)/(-)**	50839	265.016,72	
a. Acquisition, including own construction		50840	484.197,49	
b. Sales and disposals		50841	-219.180,77	
c. Transfers from one caption to another	(+)/(-)	50842	0,00	
3. Acquisition cost as at the end of the period		50843	33.111.382,32	
4. Revaluation surpluses as at the end of the period		50849P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	**(+)/(-)**	50844	0,00	
a. Recorded		50845	0,00	
b. Acquisitions from third parties		50846	0,00	
c. Cancellations		50847	0,00	
d. Transfers from one caption to another	(+)/(-)	50848	0,00	
6. Revaluation surpluses as at the end of the period		50849	0,00	
7. Amortizations and write-downs as at the end of the period		50856P	xxxxxxxxxxxxxxx	17.045.421,71
8. Movements during the period	**(+)/(-)**	50850	-267.180,96	
a. Recorded		50851	260.051,32	
b. Excess written back		50852	0,00	
c. Acquisitions from third parties		50853	0,00	
d. Cancellations		50854	-527.232,28	
e. Transfers from one caption to another	(+)/(-)	50855	0,00	
9. Amortizations and write-downs as at the end of the period		50856	16.778.240,75	
10. Net carrying value as at the end of the period		50857	16.333.141,57	

		Codes	Current period	Previous period
D. LEASING AND OTHER SIMILAR RIGHTS				
1. Acquisition cost as at the end of the period		50862P	xxxxxxxxxxxxxxx	125.663.560,42
2. Movements during the period	(+)/(-)	50858	5.307.589,70	
a. Acquisition, including own construction		50859	5.307.589,70	
b. Sales and disposals		50860	0,00	
c. Transfers from one caption to another	(+)/(-)	50861	0,00	
3. Acquisition cost as at the end of the period		50862	130.971.150,12	
4. Revaluation surpluses as at the end of the period		50868P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+)/(-)	50863	0,00	
a. Recorded		50864	0,00	
b. Acquisitions from third parties		50865	0,00	
c. Cancellations		50866	0,00	
d. Transfers from one caption to another	(+)/(-)	50867	0,00	
6. Revaluation surpluses as at the end of the period		50868	0,00	
7. Amortizations and write-downs as at the end of the period		50875P	xxxxxxxxxxxxxxx	26.570.304,28
8. Movements during the period	(+)/(-)	50869	5.460.017,68	
a. Recorded		50870	5.790.049,68	
b. Excess written back		50871	0,00	
c. Acquisitions from third parties		50872	0,00	
d. Cancellations		50873	330.032,00	
e. Transfers from one caption to another	(+)/(-)	50874	0,00	
9. Amortizations and write-downs as at the end of the period		50875	32.030.321,96	
10. Net carrying value as at the end of the period		50876	98.940.828,16	
11. Of which				
a. Land and buildings		50877	98.940.828,16	
b. Plant, machinery and equipment		50878	0,00	
c. Furniture and vehicles		50879	0,00	

		Codes	Current period	Previous period
E. OTHER TANGIBLE FIXED ASSETS				
1. Acquisition cost as at the end of the period		50884P	xxxxxxxxxxxxxxx	769.197.356,96
2. Movements during the period	(+)/(-)	50880	192.992.554,12	
a. Acquisition, including own construction		50881	345.652.226,91	
b. Sales and disposals		50882	-152.659.672,79	
c. Transfers from one caption to another	(+)/(-)	50883	0,00	
3. Acquisition cost as at the end of the period		50884	962.189.911,08	
4. Revaluation surpluses as at the end of the period		50890P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+)/(-)	50885	0,00	
a. Recorded		50886	0,00	
b. Acquisitions from third parties		50887	0,00	
c. Cancellations		50888	0,00	
d. Transfers from one caption to another	(+)/(-)	50889	0,00	
6. Revaluation surpluses as at the end of the period		50890	0,00	
7. Amortizations and write-downs as at the end of the period		50897P	xxxxxxxxxxxxxxx	135.939.514,14
8. Movements during the period	(+)/(-)	50891	77.015.023,47	
a. Recorded		50892	66.919.273,42	
b. Excess written back		50893	0,00	
c. Acquisitions from third parties		50894	0,00	
d. Cancellations		50895	10.095.750,05	
e. Transfers from one caption to another	(+)/(-)	50896	0,00	
9. Amortizations and write-downs as at the end of the period		50897	212.954.537,61	
10. Net carrying value as at the end of the period		50898	749.235.373,47	

		Codes	Current period	Previous period
F. ASSETS UNDER CONSTRUCTION AND ADVANCE PAYMENTS				
1. Acquisition cost as at the end of the period		50903P	xxxxxxxxxxxxxxx	0,00
2. Movements during the period	(+)/(-)	50899	0,00	
a. Acquisition, including own construction		50900	0,00	
b. Sales and disposals		50901	0,00	
c. Transfers from one caption to another	(+)/(-)	50902	0,00	
3. Acquisition cost as at the end of the period		50903	0,00	
4. Revaluation surpluses as at the end of the period		50909P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+)/(-)	50904	0,00	
a. Recorded		50905	0,00	
b. Acquisitions from third parties		50906	0,00	
c. Cancellations		50907	0,00	
d. Transfers from one caption to another	(+)/(-)	50908	0,00	
6. Revaluation surpluses as at the end of the period		50909	0,00	
7. Amortization and write-downs as at the end of the period		50916P	xxxxxxxxxxxxxxx	0,00
8. Movements during the period	(+)/(-)	50910	0,00	
a. Recorded		50911	0,00	
b. Excess written back		50912	0,00	
c. Acquisitions from third parties		50913	0,00	
d. Cancellations		50914	0,00	
e. Transfers from one caption to another	(+)/(-)	50915	0,00	
9. Amortizations and write-downs as at the end of the period		50916	0,00	
10. Net carrying value as at the end of the period		50917	0,00	

IX. OTHER ASSETS (Assets caption XI)

	Current period
Breakdown (if the amount in this caption is significant)	
Options	655.037.612,79
Other	448.971.675,35

X. DEFERRED CHARGES AND ACCRUED INCOME (Assets caption XII)

	Code	Current period
1. Deferred charges	51001	32.992.513,25
2. Accrued income	51002	6.146.233.783,47

X.bis REINVESTMENT OF SEGREGATED CUSTOMER FUNDS

	Code	Current period
Total	51003	0,00

XI. STATEMENT OF AMOUNTS OWED TO CREDIT INSTITUTIONS (Liabilities caption I)

	Code	Current period	Previous period
1. Amounts due to affiliated enterprises	51101	2.627.545.209,34	4.045.891.728,83
2. Amounts due to other enterprises linked by participating interests	51102	0,00	0,00
3. Breakdown of debts other than on sight according to their remaining maturity			
a. Up to 3 months	51103	7.287.754.814,99	
b. Over 3 months up to 1 year	51104	971.577.244,38	
c. Over 1 year up to 5 years	51105	6.888.749.970,18	
d. Over 5 years	51106	0,00	
e. Undated	51107	2.807.250.117,92	

XII. STATEMENT OF AMOUNTS OWED TO CUSTOMERS (Liabilities caption II)

	Code	Current period	Previous period
1. Affiliated enterprises	51201	3.047.590.581,42	5.435.640.687,96
2. Other enterprises linked by participating interests	51202	97.050.754,26	100.728.206,25
3. Breakdown according to the remaining maturity			
a. Repayable on demand	51203	49.799.148.792,26	
b. Up to 3 months	51204	6.173.218.761,37	
c. Over 3 months up to 1 year	51205	2.264.106.209,89	
d. Over 1 year up to 5 years	51206	5.983.676.150,53	
e. Over 5 years	51207	897.878.424,68	
f. Undated	51208	38.534.161.298,06	
4. Breakdown of debt owed to customers depending on the nature of the debtors			
a. Debt owed to government	51209	1.926.897.831,65	1.971.771.382,75
b. Debt owed to private persons	51210	58.043.395.543,58	50.933.844.063,12
c. Debt owed to enterprises	51211	43.681.896.261,56	46.227.081.728,55
5. Geographical breakdown of debt owed to customers			
a. Of Belgian origin	51212	87.680.738.207,40	
b. Of foreign origin	51213	15.971.451.429,39	

XIII. STATEMENT OF DEBTS EVIDENCED BY CERTIFICATES (liabilities caption III)

	Codes	Current period	Previous period
1. Debts represented by a certificate that, to the knowledge of the institution, are debts owed to affiliated companies.	51301	164.666.182,80	173.407.268,15
2. Debts represented by a certificate that, to the knowledge of the institution, are debts owed to companies linked by participating interests.	51302	0,00	0,00
3. Breakdown of debt represented by certificates in accordance to their remaining maturity.			
a. Up to 3 months	51303	14.692.757.383,33	
b. Over 3 months up to 1 year	51304	1.132.591.483,92	
c. Over 1 year up to 5 years	51305	6.679.087.116,61	
d. Over 5 years	51306	1.673.507.154,03	
e. Undated	51307	0,00	

XIV. OTHER LIABILITIES (liabilities caption IV)

	Codes	Current period
1. Taxes, remuneration and social security charges due to the tax authorities	51401	0,00
a. Overdue debts	51402	0,00
b. Unmatured debts	51403	0,00
2. Taxes, remuneration and social security charges due to the National Social Security Office	51404	0,00
a. Overdue debts	51405	0,00
b. Unmatured debts	51406	0,00
3. Taxes		
a. Taxes payable	51407	35.541.381,86
b. Estimated tax liabilities	51408	5.609.021,93
4. Other liabilities		
Breakdown if the amount in this caption is significant		
Other amounts payable relating to remuneration and social security		146.711.687,43
Option contracts		414.558.468,04
Dividends still to be paid		906.076.197,18
Other		142.771.175,38

XV. ACCRUED CHARGES AND DEFERRED INCOME (liabilities caption V)

	Codes	Current period
1. Accrued charges	51501	4.386.506.808,90
2. Deferred income	51502	141.146.172,96

XVI. PROVISIONS FOR OTHER LIABILITIES AND CHARGES (liabilities VI.A.3)

	Current period
Breakdown of liabilities (VI.A.3) if the amounts in this caption are significant	
Credit commitments	117.029.364,46
Litigation and operational disputes	9.885.515,53
Provision for other risks and future expenses	11.500.000,00
Provision for disability payments	3.216.032,66
Other	8.153.234,16

XVII. STATEMENT OF SUBORDINATED LIABILITIES (liabilities caption VIII)

	Codes	Current period	Previous period
1. Subordinated debts due to affiliated enterprises	51701	8.350.000.283,66	6.856.206.121,09
2. Subordinated debts due to other enterprises linked by participating interests	51702	0,00	0,00

	Codes	Current period
3. Charges as a result of subordinated liabilities	51703	201.891.797,95

4. For each subordinated loan, the following information: reference number, the ISO code of the currency, the amount of the loan in the currency of the loan, the remuneration arrangements, the due date and, if no due date is determined, the terms of duration, where appropriate the circumstances in which the institution is required to repay in advance, the conditions for the subordination and if appropriate, the conditions for the conversion into capital or into some other form of liability.

Detail of each subordinated loan :

Reference nummer	Currency	Amount	Maturity date or conditions governing the maturity	a) Circumstances in which the entreprise is required to repay this loan. b) Conditions for the suborditaion c) Conditions for conversion into capital
1	EUR	1.400.000.000	19/03/2014 - 19/03/2019 Deposits originated by KBC Group - AT1	a) Unconditional
2	EUR	1.000.000.000	24/04/2018 - 24/04/2025 Deposits originated by KBC Group - AT1	a) Unconditional
3	EUR	749.821.611	25/11/2014 - 25/11/2024 Deposits originated by KBC Group - T2	a) Unconditional
4	EUR	9.885.761	06/03/2015 - 06/03/2025 Deposits originated by KBC Group - T2	a) Unconditional
5	EUR	748.206.782	11/03/2015 - 11/03/2027 Deposits originated by KBC Group - T2	a) Unconditional
6	EUR	174.498.218	24/07/2014 - 24/07/2029 Deposits originated by KBC Group - T2	a) Unconditional
7	EUR	749.611.363	26/04/2016 - 26/04/2021 Deposits originated by KBC Group - T3	a) Unconditional
8	EUR	747.871.926	18/10/2016 - 18/10/2023 Deposits originated by KBC Group - T3	a) Unconditional
9	EUR	1.249.880.549	01/03/2017 - 01/02/2022 Deposits originated by KBC Group - T3	a) Unconditional
10	EUR	750.000.000	24/05/2017 - 24/11/2022 Deposits originated by KBC Group - T3	a) Unconditional
11	EUR	24.975.701	04/10/2017 - 04/10/2027 Deposits originated by KBC Group - T3	a) Unconditional
12	EUR	497.684.714	27/06/2018 - 27/06/2023 Deposits originated by KBC Group - T3	a) Unconditional
12	EUR	63.960.961	Subordinated certificates Issued by KBC Bank	a) Unconditional
13	EUR	17.733.015	Subordinated Time Deposits Issued by KBC Bank	a) Unconditional
14	GBP	44.161.742	19/12/2003 - perpetual Issued by KBC Bank	a) Fiscal requalification Repayment possible from 19/12/2019 c) Mandat. conv. Into KBC Bank in case of Superv. Event
15	USD	154.806.970	Deposits originated by KBC IFIMA	a) Fiscal requalification
16	EUR	112.361.065	Deposits originated by KBC IFIMA	a) Fiscal requalification

XVIII. STATEMENT OF CAPITAL

	Codes	Current period	Previous period
A. CAPITAL			
1. Subscribed capital			
a. Subscribed capital as at the end of the preceding period	20910P	xxxxxxxxxxxxxx	8.948.439.652,39
b. Subscribed capital as at the end of the period	(20910)	8.948.439.652,39	

	Codes	Amounts	Number of shares
c. Changes during the period			
d. Structure of the capital			
e. Categories of shares			
Ordinary shares entitled to dividend		8.948.439.652,39	915.228.482
f. Registered shares	51801	xxxxxxxxxxxxxx	915.228.482
g. Bearer and or dematerialized shares	51802	xxxxxxxxxxxxxx	0

	Codes	Uncalled capital	Called but unpaid capital
2. CAPITAL NOT PAID UP			
a. Uncalled capital	(20920)	0,00	xxxxxxxxxxxxxx
b. Called but unpaid capital	51803	xxxxxxxxxxxxxx	0,00
c. Shareholders still owing capital payment			

	Codes	Current period
3. OWN SHARES		
a. Held by the reporting institution itself		
* Amount of capital held	51804	0,00
* Corresponding number of shares	51805	0,00
b. Held by its subsidiaries		
* Amount of capital held	51806	0,00
* Corresponding number of shares	51807	0,00
4. SHARE ISSUANCE COMMITMENTS		
a. Following the exercise of conversion rights		
* Amount of convertible loans outstanding	51808	0,00
* Amount of capital to be subscribed	51809	0,00
* Maximum corresponding number of shares to be issued	51810	0,00
b. Following the exercise of subscription rights		
* Number of subscription rights outstanding	51811	0,00
* Amount of capital to be subscribed	51812	0,00
* Maximum corresponding number of shares to be issued	51813	0,00
5. AUTHORIZED CAPITAL NOT ISSUED	51814	4.000.000.000,00

	Codes	Current period
6. SHARES NOT REPRESENTING CAPITAL		
a. Repartition		
* Number of parts	51815	0,00
* Number of votes	51816	0,00
b. Breakdown by shareholder		
* Number of parts held by the reporting institution itself	51817	0,00
* Number of parts held by its subsidiaries	51818	0,00

B. SHAREHOLDER STRUCTURE OF THE INSTITUTION AT YEAR END, ACCORDING TO THE NOTIFICATIONS RECEIVED BY THE INSTITUTION

KBC Groep NV	Number of shares:	915.228.481
KBC Verzekeringen NV	Number of shares:	1

XIX. BREAKDOWN OF BALANCE SHEET, IF MORE THAN 15 MILLION EUROS, IN EUROS AND IN FOREIGN CURRENCY

	Codes	Current period
1. Total Assets		
a. In Euro	51901	154.118.308.952,90
b. In foreign currency (equivalent in EUR)	51902	24.678.492.872,09
2. Total liabilities		
a. In Euro	51903	147.324.584.570,49
b. In foreign currency (equivalent in EUR)	51904	31.472.217.254,50

XX. FIDUCIARY TRANSACTIONS ACCORDING TO ARTICLE 27TER §1 PARAGRAPH 3

	Current period
Concerned assets and liabilities items	

XXI. STATEMENT OF GUARANTEED DEBTS AND OBLIGATIONS

	Current period
A. MORTGAGES (amount of enrollment or carrying amount of the collateralized buildings, if this is less)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	

	Current period
B. PLEDGE OF THE TRADING FUND (total enrollment)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of third parties	

	Period
C. PLEDGE OF OTHER ASSETS (book value of pledged assets)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
Discounting, repurchase agreements and secured advances	11.331.297.419,20
Asset Pledge requirement KBC New York	91.155.240,17
Asset Pledge National Bank of Belgium	7.657.366.429,73
Covered bonds	11.055.601.229,18
Cash & Bond Collateral	2.117.058.768,80
b. Off-balance sheet	
Securities Lending	171.422.710,85
Clearing Margin Derivatives	1.457.240.346,27
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	

	Current period
D. COLLATERAL ON FUTURE ASSETS (total assets in question)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off-balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of third parties	

XXII. STATEMENT OF CONTINGENT LIABILITIES AND COMMITMENTS WITH POTENTIAL CREDIT RISK (off balance sheet I and II)

	Codes	Current period	Previous period
1. Total contingent liabilities on behalf of affiliated companies	52201	4.386.431.719,39	6.692.918.951,74
2. Total contingent liabilities on behalf of companies linked by participating interests	52202	5.658.172,63	5.658.172,63
3. Total commitments with a potential credit risk to affiliated companies	52203	0,00	0,00
4. Total commitments with a potential risk with regard to companies linked by participating interests	52204	0,00	0,00

XXIII. OPERATING RESULTS (items I to XV of the income statement)

	Codes	Period	Previous period
1. Breakdown of operating income according to origin			
a. Interest and similar income	(40100)	2.908.638.186,36	2.859.481.847,16
* Belgian sites	52301	2.492.787.945,17	2.492.259.700,03
* Foreign offices	52302	415.850.241,19	367.222.147,14
b. Income from fixed-income securities: shares and other variable-yield securities	(40310)	17.481.173,22	4.924.659,22
* Belgian sites	52303	522.416,19	1.590.455,32
* Foreign offices	52304	16.958.757,03	3.334.203,90
c. Income from fixed-income securities: investments in affiliated companies	(40320)	1.063.319.547,60	1.100.174.610,25
* Belgian sites	52305	1.063.319.547,60	1.100.174.610,25
* Foreign offices	52306	0,00	0,00
d. Income from fixed-income securities: shares in companies linked by participating interests	(40330)	5.532.678,35	7.211.324,42
* Belgian sites	52307	5.532.678,35	7.211.324,42
* Foreign offices	52308	0,00	0,00
e. Income from fixed-income securities: other shares held as fixed financial assets	(40340)	435.311,80	1.336.954,87
* Belgian sites	52309	435.311,80	1.336.954,87
* Foreign offices	52310	0,00	0,00
f. Commissions received	(40400)	1.409.933.593,80	1.306.455.363,15
* Belgian sites	52311	1.381.244.589,26	1.277.028.045,35
* Foreign offices	52312	28.689.004,54	29.427.317,81
g. Profit on financial transactions	(40600)	384.801.202,77	256.707.718,54
* Belgian sites	52313	378.099.095,22	185.072.588,29
* Foreign offices	52314	6.702.107,55	71.635.130,25
h. Other operating income	(41400)	302.472.305,16	247.614.840,77
* Belgian sites	52315	288.845.548,83	236.737.453,61
* Foreign offices	52316	13.626.756,34	10.877.387,17
2. Employees on the personnel register			
a. Total number at the closing date	52317	9.804	9.859
b. Average number of employees in full-time equivalents	52318	8.904	8.995
* Management Personnel	52319	89	87
* Employees	52320	8.815	8.908
* Workers	52321	0	0
* Other	52322	0	0
c. Number of actual worked hours	52323	12.577.042	12.667.058
3. Personnel			
a. Remuneration and direct social benefits	52324	574.209.369,24	585.140.446,59
b. Employers' social security	52325	147.678.849,28	150.696.500,65
c. Employers' premiums for extra statutory insurance	52326	49.204.745,94	50.257.937,12
d. Other personnel	52327	28.663.700,71	30.218.162,13
e. Retirement and survivors' pensions	52328	4.529.355,41	4.608.048,08
4. Provisions for pensions and similar obligations			
a. Increase (+)	52329	6.212.068,70	21.960.833,84
b. Decrease (-)	52330	11.756.771,00	28.587.356,62

	Codes	Period	Previous period
5. Breakdown of other operating income if this represents a significant amount			
a. Leasing activities		105.830.121,46	53.263.763,65
b. Recalculations to / recuperations of group companies		129.730.375,22	117.422.382,83
c. Other		66.911.808,48	76.928.694,29
6. Other operating expenses			
a. Corporate taxes	52331	34.314.093,44	36.429.487,29
b. Other	52332	4.110.615,51	4.239.964,05
c. Analysis of other operating expenses if this represents a significant amount			
7. Operating revenue from affiliated companies	52333	3.067.177.341,50	2.384.139.079,52
8. Operating costs relating to affiliated companies	52334	2.326.024.770,59	1.569.438.329,81

XXIV. STATEMENT OF OFF BALANCE SHEET OPERATIONS ON SECURITIES, CURRENCIES AND OTHER FINANCIAL INSTRUMENTS WHICH BRING NO OBLIGATION WITH A POTENTIAL CREDIT RISK ACCORDING TO HEADING II OF THE OFF BALANCE SHEET ITEMS

	Codes	Current period
A. TYPES OF OPERATIONS (amounts on the closing date of the accounts)		
1. Securities transactions		
a. Forward purchases and sales of securities and marketable securities	52401	0,00
* of which: not intended for hedging purposes	52402	0,00
2. Exchange transactions (amounts to be provided)		
a. Forward exchange contracts	52403	131.588.435.404,85
* of which: not intended for hedging purposes	52404	130.813.571.155,27
b. Currency and interest rate swaps	52405	32.034.719.873,28
* of which: not intended for hedging purposes	52406	27.662.474.052,86
c. Currency futures	52407	0,00
* of which: not intended for hedging purposes	52408	0,00
d. Options on currencies	52409	8.870.266.763,82
* of which: not intended for hedging purposes	52410	8.870.266.763,82
e. Forward exchange contracts	52411	0,00
* of which: not intended for hedging purposes	52412	0,00
3. Transactions in other financial instruments		
Forward transactions in interest rate (nominal / notional reference)		
a. Interest rate swap agreements	52413	296.031.421.306,39
* of which: not intended for hedging purposes	52414	239.677.347.805,39
b. Interest futures transactions	52415	9.893.772.529,61
* of which: not intended for hedging purposes	52416	9.893.772.529,61
c. Future Interest rate Agreements	52417	1.177.489.956,20
* of which: not intended for hedging purposes	52418	1.177.489.956,20
d. Interest rate options	52419	39.655.071.160,58
* of which: not intended for hedging purposes	52420	37.237.929.068,58
Other purchase and sales (sale / purchase price agreed between parties)		
e. Other option transactions	52421	3.896.051.818,45
* of which: not intended for hedging purposes	52422	3.896.051.818,45
f. Other futures transactions	52423	828.543.177,90
* of which: not intended for hedging purposes	52424	828.543.177,90
g. Other forward purchases and sales	52425	14.000.000,00
* of which: not intended for hedging purposes	52426	14.000.000,00

		Codes	Current period
B. QUANTIFICATION OF THE IMPACT ON THE RESULTS OF THE DEROGATION OF VALUATION RULE UNDER article 36bis, § 2 RELATING TO THE FORWARD TRANSACTIONS IN INTEREST RATE			
1. Forward transactions in interest rate regarding treasury management			
a. Nominal / notional reference amount on the closing date of accounts		52427	0,00
b. Difference between market value and book value	(+)/(-)	52428	0,00
2. Forward transactions in interest rate regarding ALM (*)			
a. Nominal / notional reference amount on the closing date of accounts		52429	40.353.110.758,55
b. Difference between market value and book value	(+)/(-)	52430	-1.163.472.929,67
3. Forward transactions in interest rate without the effect of risk reduction (LOCOM)			
a. Nominal / notional reference amount on the closing date of accounts		52431	80.113.725,48
b. Difference between market value and book value	(+)/(-)	52432	-659.847,35

(*) Including forward transactions regarding securitizations of loans (nominal value 4.730.497.994 EUR). The MtM Value of the deals amount to (284.200.902 EUR).

XXV. EXTRAORDINARY RESULTS

	Codes	Current period
1. Realised gains on transfer of fixed assets to affiliated companies	52501	0,00
2. Incurred losses on transfer of fixed assets to affiliated companies	52502	0,00
3. Breakdown of the other exceptional income if it comprises significant amounts		0,00
4. Breakdown of the other extraordinary costs if they comprise significant amounts		0,00

XXVI. INCOME TAXES

	Codes	Current period
1. Income taxes for the year	52601	-74.990.951,10
a. Taxes and withholding taxes due or paid	52602	-56.128.710,03
b. Excess of income tax prepayments and of withholding taxes	52603	1.312.305,03
c. Estimated additional charges for income taxes	52604	-20.174.546,10
2. Income taxes for previous years	52605	-929.713,63
a. Additional income taxes due or paid	52606	-929.713,63
b. Additional charges for income taxes, estimated (included in liabilities)	52607	0,00
3. Main sources of differences between the profit before tax, as stated in the financial statements, and the estimated taxable income		
Movements in taxable reserves and provisions		-124.121.562,25
The specific tax system applicable to gains and losses on shares		-8.924.921,50
The application of the foreign tax credit scheme on dividends received		-1.068.766.153,22
Disallowed expenses (other than write-downs, losses on shares, revenue participation and corporation tax)		34.577.923,32

4. Impact of extraordinary results on the amount of income taxes for the year

Realised gains and incurred losses on shares under financial fixed assets (gains not taxable and losses not deductible)		-1.775.037,36
Write-downs (not deductible) and write-backs (not taxable) on shares under financial fixed assets		10.737.723,26

	Codes	Current period
5. Sources of deferred taxes		
a. Deferred tax assets	52608	2.136.856.253,11
* Accumulated tax losses deductible from future taxable profits	52609	1.811.915.653,78
* Other deferred tax assets		324.940.599,33
Taxable impairments		207.779.915,64
Taxable supplies		105.092.694,12
Other taxable reserves		12.067.989,57
b. Passive deferrals	52610	0,00
* Breakdown of the passive deferrals		

XXVII. VALUE ADDED TAX AND TAXES BORNE BY THIRD PARTIES

	Codes	Current period	Previous period
1. Charged value added tax			
a. To the reporting institution (deductible)	52701	205.838.528,94	151.871.835,84
b. By the reporting institution	52702	206.822.586,35	132.449.779,03
2. Amounts withheld on behalf of third parties as			
a. Payroll tax	52703	158.015.697,50	160.841.576,06
b. Withholding tax	52704	96.462.388,31	97.494.327,50

XXVIII. OFF-BALANCE SHEET RIGHTS AND COMMITMENTS AND TRANSACTIONS WITH RELATED PARTIES

A. OFF BALANCE SHEET RIGHTS AND COMMITMENTS

	Codes	Current period
1. Substantial commitments to acquire fixed assets		
2. Substantial commitments to dispose of fixed assets		

3. Significant litigation and other significant commitments

Significant disputes pending:

Information relating to the 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 of Substantively Consolidated SIPA (Securities Investor Protection Corporation) Liquidation of Bernard L. Madoff Investments Securities LLC and Bernard L. Madoff, sued KBC Investments before the New York Bankruptcy Court for recovery of approximately USD 110 million following transfers in favour of KBC entities. The claim is based on successive transactions KBC received from Harley International, a Madoff feeder fund set up under Cayman Islands legislation. This requirement is part of a whole series of claims brought by Picard (SIPA) against various banks, hedge funds, feeder funds and investors. In addition to the handling of other legal issues, briefings took place before the district court on the applicability of Bankruptcy Code's safe harbors and good defenses for successive beneficiaries, as is the case for KBC. KBC had tabled motions for rejection together with numerous other defendants. Judge Rakoff of the district court has passed several interlocutory sentences in that regard. The most important judgments concern the defence on the grounds of extraterritoriality and good faith. On 27 April 2014, Judge Rakoff rendered such a judgment concerning the applicable standard for good faith and the burden of proof based on sections 548(b) and 559(b) of the Bankruptcy Act. The burden of proof that KBC would have been aware of Madoff's deception is placed on Picard/SIPA. On 7 July 2014, Judge Rakoff ruled that the invocation by Picard/SIPA of section 550(a) does not allow the recovery of successive transfers from a foreign transferor to a recipient abroad, as is the case for KBC Investments Ltd. Therefore, the trustee's recoveries have been rejected as they concern only foreign transfers. In June 2015, Irving Picard, the trustee, filed a petition to reform the decision to reject the application on the grounds of extraterritoriality. In that application, the Trustee also modified the original claims including the amount he seeks to recover. That amount was increased to 196 million dollars. On 21 November 2016 the bankruptcy court rendered an interim judgment in which it announced its decision that the claims of the trustee Irving Picard with regard to such foreign transactions must be rejected on the basis of rules of international courtesy. On 3 March 2017, a negative verdict followed, against which the trustee appealed. The case was brought before the Court of Appeals for Second Circuit on 16 November 2018. The timing of the pronunciation is undetermined. If the decision of the bankruptcy court is not confirmed, KBC Investments can continue to defend itself on various other grounds that were already the subject of earlier judgements by Rakoff.

Other significant liabilities.

The bank irrevocably guarantees all the sums, indebtedness, obligations and liabilities outstanding on 31 December 2018 of the following companies, which are consequently exempt from publication on a consolidated basis.

KBC Asset Management NV
KBC Securities NV

4. Where appropriate, a brief description of the system of supplementary retirement or survivor benefit of the personnel or the executives, stating the measures taken to cover the resulting charges

A system of additional pension provisions, a supplementary death capital, orphan's interest and invalidity allowances is provided for all staff members. For all staff who have been employed since 2014, this is organised via the KBC Pension Fund in a "fixed contribution" plan. This means that the amount of these provisions depends on the employee's remuneration over the course of his career. For staff who were already in service before 2014, these provisions are organised within the framework of a "defined benefit" plan, which means that the amount of these provisions depends on the final remuneration, the number of years of service and the age at the time of retirement. Since 2015, the target plan to be achieved is therefore a closed plan (no more new accessions).

These pension provisions are fully financed by the employer by means of annual allowances that are charged to the result. These allowances in the defined benefit plan are calculated on an actuarial basis using the aggregate cost method. The allowances in the "defined contribution" plan are calculated as a percentage of the individual, actual remuneration; for contribution plans, a statutory minimum return guarantee is applicable, which currently amounts to 1.75%. The allowances are paid to the KBC Pension Fund, which is responsible for the management of the reserves thus formed, their payment and the administration.

In addition, a supplementary pension plan (fixed contribution plan) is provided, based exclusively on the personal contributions of the employees through deductions from salary payments. The legal return guarantee currently amounts to 1.75%. This plan was discontinued on 1 January 2019. In other words, no new accessions will take place and it only exists for those staff who were already members of this plan before 1/1/2019 and who have opted to continue the plan beyond 1/1/2019. Here too, the management, payment and administration of this plan has been entrusted to the KBC pension fund.

	Code	Current period
5. Pensions that are borne by the institution itself: the estimated amount of obligations arising from past services	52801	
Bases and methods of estimation		

6. Nature and business purpose of off balance sheet arrangements

**Provided that the risks or benefits of such arrangements are material and to the extent that disclosure of the risks or benefits is necessary for assessing the financial situation of the institution;
where appropriate, the financial consequences of these operations for the facility must also be mentioned:**

KBC Bank NV is a member of a VAT grouping.

KBC Bank has set up a company for investments in debt securities, called Loan Invest NV, which has acquired loans of KBC Bank, using funds received from the issuance of securities.

KBC Bank carries an important part of these securities on its balance sheet. The interest risk carried by Loan Invest NV is covered by interest rate swaps concluded between Home Loan Invest and KBC Bank, so that this operation has a limited effect on the ALM management of the bank and on the income statement. The balance sheet shows a decrease of loans for an amount of 6.157 million euros and an increase of investment securities for an amount of 4.493 million euros. KBC Bank NV has a subordinated claim on Loan Invest NV, worth 1.624 million euros.

The main reason for setting up this operation is to make part of the loans of KBC Bank more liquid, as the securities issued by Loan Invest NV and held by KBC Bank are eligible for refinancing with the ECB. As a consequence the main purpose of this operation is improving the liquidity risk of the bank.

Note that Loan Invest NV is listed as a “Special Purpose Entity”, included in the consolidated reporting of KBC Bank.

The annual accounts of Loan Invest NV are available at the Central Balance Sheet Office.

7. Other off balance sheet rights and commitments

	Period

B. TRANSACTIONS WITH RELATED PARTIES OUTSIDE NORMAL MARKET CONDITIONS

Indication of such transactions if they are significant, including the amount of these transactions, the nature of the relationship with the related party and any other information on transactions that would be required to obtain a better understanding of the financial situation of the institution:

Transactions with affiliated companies were all concluded in line with the prevailing market conditions.

C. Nature and financial impact of the significant events after the balance sheet date which are not taken into account in the income statement or the balance sheet

KBC Group and CBC Banque intend to transfer the shares they hold in KBC Asset Management (48.14% and 4.51% of the outstanding shares of KBC Asset Management respectively) to KBC Bank on 25 April 2019, which will therefore become the sole shareholder of KBC Asset Management (with the exception of one share still held by KBC Insurance). The transfer is part of a simplification and optimisation of the shareholder structure of KBC Asset Management. This will take the form of a share sale after which KBC Group will carry out a capital increase at KBC Bank. As a result, KBC Bank will retain its strong solvency position even after the purchase. The recast is still subject to approval by the FSMA as supervisor.

XXIX. FINANCIAL RELATIONS WITH

	Codes	Current period
A. DIRECTORS AND MANAGERS, INDIVIDUALS OR CORPORATE BODIES WHO CONTROL THE INSTITUTION DIRECTLY OR INDIRECTLY WITHOUT BEING RELATED TO IT OR OTHER COMPANIES CONTROLLED DIRECTLY OR INDIRECTLY BY THESE PEOPLE		
1. Amounts receivable from these persons	52901	694.399.023,17
a. Conditions on amounts receivable		
b. Possibly refunded amount or amount which is waived		
All related party transactions occur at arm's length.		
2. Guarantees granted on their behalf	52902	0,00
a. Principal terms of the guarantees granted		
3. Other significant commitments undertaken in their favour	52903	0,00
a. Main conditions of these obligations		
4. Direct and indirect remuneration and pensions, included in P&L, provided that such disclosure does not concern exclusively or mainly the situation of a single identifiable person		
a. To directors and managers	52904	502.500,00
b. To former directors and former managers	52905	0,00

	Codes	Current period
B. THE AUDITOR(S) AND THE PEOPLE HE (SHE) IS (ARE) RELATED TO		
1. Remuneration of the auditor(s)	52906	2.301.542,00
2. Fees for exceptional services or special services provided to the company by the auditor(s)		
a. Other audit services	52907	59.300,00
b. Tax advisory services	52908	0,00
c. Other non-audit services	52909	0,00
3. Fees for exceptional services or special services provided to the company by persons with whom the auditor(s) is(are) related		
a. Other audit services	52910	61.026,00
b. Tax advisory services	52911	0,00
c. Other non-audit services	52912	0,00

4. Statements in accordance with Article 133, § 6 of the Company Code

XXX. POSITIONS IN FINANCIAL INSTRUMENTS

	Codes	Current period
1. Financial instruments to be received by the institution on behalf of clients	53001	6.777.022.304,03
2. Financial instruments to be delivered by the institution to clients	53002	6.087.766.152,40
3. Financial instruments of clients held in custody by the institution	53003	218.134.551.176,46
4. Financial Instruments from clients given in custody by the institution	53004	143.753.782.956,20
5. Financial Instruments from clients held as collateral by the institution	53005	1.863.884.910,30
6. Financial Instruments from clients given as collateral by the institution	53006	0,00

XXXI. COUNTRY BY COUNTRY INFORMATION

Information to be provided by the institutions referred to in Article 4(1)(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No 648/2012 with the exception of those undertakings which draw up and publish consolidated accounts in accordance with the Royal Decree of 23 September 1992 on the consolidated accounts of credit institutions, investment firms and collective investment undertakings.

DENOMINATION of the branch, subsidiary or joint subsidiary Nature of activities LAND	Financial year				
	Number of employees *in full-time equivalents*	Turnover (= Interest income and similar income + income from variable-income securities + commissions received + gain on financial transactions)	Profit (Loss) before taxes	Tax on the results	Government grants received

XXXII. DERIVATIVES NOT ESTIMATED AT FAIR VALUE

FOR EACH CATEGORY OF DERIVATIVE FINANCIAL INSTRUMENTS NOT BE VALUED ON THE BASIS OF FAIR VALUE

				Period		Previous Period	
Category of financial derivatives	Hedge risk	Speculation/ hedging	Volume	Book value	Fair value	Book Value	Fair value
Interest rate swaps	Interest rate risk	Hedging	56.175.942.319	-109.528.966	-1.365.360.750	-132.354.219	-1.875.718.400
Cross currency interest rate swaps	Interest- and currency risk	Hedging	403.467.878	575.258	10.140.524	3.792.171	-21.435.428
Credit Default Swap	Credit Risk	Hedging	-	-	-	-	-

FINANCIAL FIXED ASSETS CARRIED AT AN AMOUNT IN EXCESS OF FAIR VALUE	Book value	Fair value
Amount of individual assets or appropriate groupings of those assets		
Reasons for not reducing the book value		
Informations that suggest than the book value will be recovered		

XXXII. DECLARATION ON CONSOLIDATED ACCOUNTS

A. TO BE COMPLETED BY ALL CREDIT INSTITUTIONS

The institution has drawn up and has published consolidated annual accounts and a consolidated annual report*

~~**The institution does not draw up consolidated annual accounts nor a consolidated annual report because she is exempted due to following reason(s)***~~

The institution does not, solely nor jointly, control one or more subsidiaries governed by Belgian or foreign law*

The institution is a subsidiary of a parent company that draws up and publishes consolidated accounts, in which the annual accounts are included through consolidation*

Justification of compliance with the conditions set out in Article 4 of the Royal Decree of September 23rd 1992:

Name and full address of the registered office and, for institutions governed by Belgian law, the company number of the parent company publishing the consolidated accounts by virtue of which the exemption is granted

B. TO BE COMPLETED BY INSTITUTIONS WHICH ARE SOLELY OR JOINTLY-HELD SUBSIDIARIES

Name and full address of the registered office and, for companies governed by Belgian law, the company number of the parent company or companies preparing and publishing the consolidated accounts in which the accounts of the reporting institution are consolidated **:

KBC GROEP NV
HAVENLAAN 2, 1080 BRUSSEL
0403.227.515
The parent company draws up consolidated annual accounts and publishes these consolidated annual accounts.

If the parent company or companies are governed by foreign law, state the place where the above-mentioned consolidated accounts may be obtained **:

* Delete where appropriate
** If the accounts are consolidated at several levels, give details of the largest and smallest aggregate to which the reporting institution belongs as a subsidiary and for which consolidated accounts are prepared and published

C. FINANCIAL RELATIONSHIPS OF THE GROUP LED BY THE COMPANY IN BELGIUM WITH THE AUDITOR(S) OR PEOPLE HE (THEY) IS (ARE) RELATED TO: Statement in accordance with article 133, paragraph 6 of the Company Law

	Codes	Current period
D. FINANCIAL RELATIONSHIPS OF THE GROUP LED BY THE COMPANY IN BELGIUM WITH THE AUDITOR(S) OR PEOPLE HE (THEY) IS (ARE) RELATED TO: Statement in accordance with article 134, paragraphs 4 and 5 of the Company Law		
1. Auditor's fees for carrying out an auditor's mandate on the level of the group led by the company that publishes the information	53201	6.170.432,00
2. Fees for exceptional services or special services rendered in this group by the auditor(s)		
a. Other audit services	53202	268.331,00
b. Tax consultancy services	53203	0,00
c. Other non-audit services	53204	0,00
3. Fees for the people who are related to the auditor(s) for carrying out an auditor's mandate on the level of the group led by the company that publishes the information	53205	0,00
4. Fees for exceptional services or special services rendered in this group by the people who are related to the auditor(s)		
a. Other audit services	53206	545.803,00
b. Tax consultancy services	53207	5.000,00
c. Other non-audit services	53208	21.379,00

XXXIII. Relationships with associates (*) :

	Codes	Afgesloten boekjaar
1. Amount of financial assets	**8.18.60.**	**22.548.376,46**
- Holdings	8.18.60.1	22.548.376,46
- Subordinated loans	8.18.60.2	0,00
- Other claims	8.18.60.3	0,00
2. Receivables form associated companies	**8.18.61.**	**116.373.137,62**
- On more than one year	8.18.61.1	116.373.137,62
- within one year	8.18.61.2	0,00
3. Debts to associates	**8.18.62**	**84.655.618,83**
- On more than one year	8.18.62.1	84.655.618,83
- within one year	8.18.62.2	0,00
4. Personal and real guarantees :	**8.18.63**	**184.926.432,03**
- made by the company or irrevocably promised as security for debts or liabilities of associates	8.18.63.1	179.280.276,86
- Held by associates or irrevocably promised as security for the debts or obligations of the company	8.18.63.2	5.646.155,17
5. Other significant financial commitments :	**8.18.64**	**0,00**

(*) Associates within the meaning of Article 12 of the companies code.

Valuation rules KBC Bank

1. General

The accounting principles and valuation rules are conform to Belgian accounting legislation and the provisions of the Royal Decree of 23 September 1992 on the annual accounts of credit institutions.

The annual accounts are made up as at 31 December after profit appropriation.

In conformity with Article 3 of the above-mentioned Royal Decree, the annual accounts are drawn up according to the principle of a true and fair view. A transparent, clear and consistent financial reporting is important for KBC Bank as a financial institution. As such, KBC aims to align as much as possible, within the possibilities of the Belgian accounting law and the systems, with the international accounting standards IFRS, as applied for the consolidated annual accounts.

2. Valuation rules

CURRENCY TRANSLATION

All monetary items denominated in foreign currency are translated into their equivalent in euros at the spot rate at balance sheet date. Negative and positive valuation differences, except for those relating to the financing of shares and investments in foreign currency and to dotation capital for foreign branches, are recorded in the profit and loss account.

Non-monetary items are valued on the basis of the historical rate at acquisition or, where appropriate, on the basis of the exchange rate at which the currency used to pay the price was purchased.

For transactions that entailed funding (lending), the rate of the day is used if there is no exchange rate.

Income and charges denominated in foreign currency are stated in the profit and loss account at the rate prevailing when they were recognised. Foreign-currency income and expenditure which is hedged in advance is recorded in euros on the basis of the fixed rate.

Translation of the financial statements of foreign branches outside the euro zone:

balance sheet items are translated at the closing exchange rate prevailing at year-end, profit and loss account items are translated based on average rates. For this purpose, each month’s profit or loss is translated into euros at the rate prevailing at the end of that month.

The translation difference at balance sheet date, resulting from translating the profit and loss account on the basis of average rates, is taken to the profit and loss account as profit on financial transactions.

AMOUNTS RECEIVABLE

Interest collected in advance and similar income (including such additional compensation as fees for foreign loans) for the entire loan period cannot be taken to the profit and loss account immediately, and is therefore posted to an accruals and deferrals heading. At month-end, the amount earned is written to the profit and loss account.

Origination and processing fees charged are taken to profit and loss immediately on the inception of the loans and advances concerned, credit insurance premiums are taken to the profit and loss account annually when paid.

Commissions due (payable in advance) for bank guarantees given are recorded in the profit and loss account immediately. The commissions received by KBC Bank for credit broking are charged to the profit and loss account when the credit is disbursed.

Amounts receivable arising from advances and cash deposits are recorded in the balance sheet for the amount made available. The difference between the amount made available and the nominal value (discount) is recognised on an accruals basis according to the straight- line method as interest receivable via the accruals and deferrals accounts.

Dated commercial credit, consumer credit, home loans and receivables arising from leasing contracts are recorded in the balance sheet in the outstanding principal amount, plus the interest past due and sundry costs to be paid by customers. Interest received but not yet due (interest collected in advance) is recorded in the profit and loss account on an accruals basis via the accruals and deferrals headings.

The other amounts receivable are recognised in the balance sheet at nominal value.

Loans and advances that are transferred through securitisation operations where the transfer qualifies as a sale under NBB/BNB guidelines no longer constitute bank assets and consequently may not appear on the balance sheet of KBC Bank, although the amount is required to be recorded in the contingent accounts. Until the securitisation operation comes to an end, the entry in the contingent accounts is required to be adjusted at the end of each month to reflect customers’ loan repayments. Any gains realised on the sale of securitised assets are taken to the profit and loss account immediately at the time of the sale.

If the sales price is made up entirely or in part of a variable element dependent on the buyer’s operating profit, this element will only be taken to the profit and loss account when the operating profit is known and this element is therefore fixed.

In synthetic securitisation operations, the (credit) risk in respect of the underlying (loan) portfolio is all that is transferred to a third party, and this by means of a credit default swap, for example, and not through the effective transfer/sale of the (loan) receivables. In other words, the loans remain on the balance sheet. Transactions used to hedge the company’s own loan receivables are recognised as guarantees given or received. Transactions relating to the trading portfolio are recorded as interest rate swaps. Both types of transaction are marked to market and taken to profit and loss, unless carried out on an illiquid market (in this case, positive valuation differences are posted to an accruals and deferrals heading, and negative valuation differences to the profit and loss account).

For loans with an uncertain outcome, general provisions are set aside and specific write-downs are charged. All interest and various other receivables which have remained unpaid for three months after having become payable will not be recognised in the profit and loss account.

Non-specific write-downs are calculated for domestic loans with an uncertain outcome on the basis of the principal amount whose repayment is uncertain, the percentage susceptible to reclassification (that portion of the ‘uncertain outcome’ portfolio that might become ‘doubtful’) and the loss percentage.

For loans classified as irrecoverable and doubtful, specific write-downs are posted on a case-by-case basis and charged to the assets heading in the annual accounts in which the risks appear, in order to cover the losses which are considered certain or likely to ensue on the outstanding loans. Interest due and charges are written to reserves.

Loans are classified as irrecoverable and doubtful if the loan balance is payable and if debt-recovery procedures have been initiated in or out of court.

The amount of any security is equal to the principal amount registered. Personal security is recorded in the accounts in the amount that can be obtained if execution is levied.

SECURITIES

Securities are recognised at acquisition cost at the time of purchase, excluding costs and less subscription fees. The ancillary costs attendant on acquisition are charged directly to the result.

- *Investment portfolio*

Fixed-income investment securities are recorded at acquisition cost, less or plus the matured portion of the premium or discount. The difference between the acquisition cost and the redemption value is reflected as an interest item in the profit and loss account on an accruals basis over the remaining term to maturity of the securities. It is included in the profit and loss account on a discounted basis, based on the internal rate of return at the time of purchase.

Perpetual debt is valued at the lower of acquisition cost and market value.

If redemption of a security is uncertain or doubtful, an impairment is recorded according to the principles that apply for the valuation of amounts receivable.

If securities are sold, their carrying value is determined on a case-by-case basis. Gains or losses are posted directly to the profit and loss account.

Listed shares and other variable-yield securities are valued each month at the lower of acquisition cost and market value at balance sheet date. Other securities are valued at least once a year, based on the annual accounts for the previous year. File administrators are responsible for ensuring that any significant negative developments during the course of the year are also dealt with.

No value impairments are posted for shares hedged against a decline in price by means of an option.

- *Trading portfolio*

Securities belonging to the trading portfolio are marked to market. The resulting valuation differences are recorded in the profit and loss account under heading VI: ‘Profit (Loss) on financial transactions’.

FINANCIAL FIXED ASSETS

Included in KBC Bank’s holdings or participating interests are the rights (shares) held in other companies with a view to creating specific, lasting ties with them.

If there are no lasting ties and the shares are acquired for resale, then this investment will not be considered a financial fixed asset, but rather as part of the investment portfolio, regardless of the size of the shareholding and the influence that could be exerted on the management of the company in question through this shareholding.

Participating interests and shares that are considered financial fixed assets are recognised at acquisition cost.

Write-downs are applied only in the event of a lasting impairment in or loss of value, established on the basis of the financial position, the profitability and the prospects of the company concerned.

Participating interests, shares and share certificates classified as financial fixed assets may be revalued if, in light of their usefulness to the company, they exhibit an incontestable and lasting increase in value.

Regardless of whether they are represented by securities, subordinated loans and advances to associated companies and companies linked by participating interests are valued according to the same principles as non-subordinated loans and advances.

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

All formation expenses referred to in the Royal Decree on the annual accounts of credit institutions are charged directly to the profit and loss account for the financial year as administrative expenses.

Capitalised goodwill is depreciated according to the straight-line method over a period of five years, unless the Board of Directors decides otherwise.

The following rules apply to software that has been developed in-house: all charges relating to continuity projects, as well as any research expenses for investments, are taken directly to the profit and loss account. However, development expenses (both internal and external) for investments are capitalised as an intangible fixed asset and written off over a period of five years. Investments are large-scale projects that introduce or replace an important business objective or model. Systems software is depreciated at the same rate as hardware, being written off according to the straight-line method over a period of three years.. Software other than systems software is depreciated over five years. Core systems with a longer useful life are depreciated straight line over an eight-year period. Core systems are types of standard software, including back-end data applications, for processing operations during the day and updates of the general ledger balances on the mainframe.

At KBC Bank, intangible fixed assets recorded are capitalised at acquisition cost including ancillary costs, and are written off on an accruals basis during the first year of investment.

TANGIBLE FIXED ASSETS

All tangible fixed assets are recognised at acquisition cost, less accumulated depreciation. They are recorded at acquisition cost, including ancillary, directly allocable costs (acquisition costs, non-deductible VAT, etc.).

The rates of depreciation are determined on the basis of the anticipated useful economic life of the item and are applied according to the straight-line method. All tangible fixed assets are depreciated on an accruals basis from the time they are available for use. The ancillary costs are written off over the life of the asset. A write-down is charged for ancillary costs on the acquisition of land.

When tangible fixed assets are sold, realised gains or losses are taken immediately to the profit and loss account. If these assets are destroyed, the remaining amount to be written off is charged directly to the result.

Tangible fixed assets that exhibit an incontestable and lasting appreciation in value compared to their carrying value may be revalued. This surplus is written off over the average residual useful life of the assets in question.

CREDITORS

Amounts owed as a result of advances or cash deposits received are recorded in the balance sheet in the amount made available, plus or minus any difference between this amount and the redemption price of the portion that has already accrued. The difference between the amount made available and the nominal value is reflected as interest on an accruals basis in the profit and loss account.

TANGIBLE FIXED ASSETS

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SECURITIES

Securities are recognised at acquisition cost at the time of purchase, excluding costs and less subscription fees. The ancillary costs attendant on acquisition are charged directly to the result.

- *Investment portfolio*

Fixed-income investment securities are recorded at acquisition cost, less or plus the matured portion of the premium or discount. The difference between the acquisition cost and the redemption value is reflected as an interest item in the profit and loss account on an accruals basis over the remaining term to maturity of the securities. It is included in the profit and loss account on a discounted basis, based on the internal rate of return at the time of purchase.

Perpetual debt is valued at the lower of acquisition cost and market value.

If redemption of a security is uncertain or doubtful, an impairment is recorded according to the principles that apply for the valuation of amounts receivable.

If securities are sold, their carrying value is determined on a case-by-case basis. Gains or losses are posted directly to the profit and loss account.

Listed shares and other variable-yield securities are valued each month at the lower of acquisition cost and market value at balance sheet date. Other securities are valued at least once a year, based on the annual accounts for the previous year. File administrators are responsible for ensuring that any significant negative developments during the course of the year are also dealt with.

No value impairments are posted for shares hedged against a decline in price by means of an option.

- *Trading portfolio*

Securities belonging to the trading portfolio are marked to market. The resulting valuation differences are recorded in the profit and loss account under heading VI: ‘Profit (Loss) on financial transactions’.

FINANCIAL FIXED ASSETS

Included in KBC Bank’s holdings or participating interests are the rights (shares) held in other companies with a view to creating specific, lasting ties with them.

If there are no lasting ties and the shares are acquired for resale, then this investment will not be considered a financial fixed asset, but rather as part of the investment portfolio, regardless of the size of the shareholding and the influence that could be exerted on the management of the company in question through this shareholding.

Participating interests and shares that are considered financial fixed assets are recognised at acquisition cost.

Write-downs are applied only in the event of a lasting impairment in or loss of value, established on the basis of the financial position, the profitability and the prospects of the company concerned.

Participating interests, shares and share certificates classified as financial fixed assets may be revalued if, in light of their usefulness to the company, they exhibit an incontestable and lasting increase in value.

Regardless of whether they are represented by securities, subordinated loans and advances to associated companies and companies linked by participating interests are valued according to the same principles as non-subordinated loans and advances.

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

All formation expenses referred to in the Royal Decree on the annual accounts of credit institutions are charged directly to the profit and loss account for the financial year as administrative expenses.

Capitalised goodwill is depreciated according to the straight-line method over a period of five years, unless the Board of Directors decides otherwise.

The following rules apply to software that has been developed in-house: all charges relating to continuity projects, as well as any research expenses for investments, are taken directly to the profit and loss account. However, development expenses (both internal and external) for investments are capitalised as an intangible fixed asset and written off over a period of five years. Investments are large-scale projects that introduce or replace an important business objective or model. Systems software is depreciated at the same rate as hardware, being written off according to the straight-line method over a period of three years.. Software other than systems software is depreciated over five years. Core systems with a longer useful life are depreciated straight line over an eight-year period. Core systems are types of standard software, including back-end data applications, for processing operations during the day and updates of the general ledger balances on the mainframe.

At KBC Bank, intangible fixed assets recorded are capitalised at acquisition cost including ancillary costs, and are written off on an accruals basis during the first year of investment.

TANGIBLE FIXED ASSETS

All tangible fixed assets are recognised at acquisition cost, less accumulated depreciation. They are recorded at acquisition cost, including ancillary, directly allocable costs (acquisition costs, non-deductible VAT, etc.).

The rates of depreciation are determined on the basis of the anticipated useful economic life of the item and are applied according to the straight-line method. All tangible fixed assets are depreciated on an accruals basis from the time they are available for use. The ancillary costs are written off over the life of the asset. A write-down is charged for ancillary costs on the acquisition of land.

When tangible fixed assets are sold, realised gains or losses are taken immediately to the profit and loss account. If these assets are destroyed, the remaining amount to be written off is charged directly to the result.

Tangible fixed assets that exhibit an incontestable and lasting appreciation in value compared to their carrying value may be revalued. This surplus is written off over the average residual useful life of the assets in question.

CREDITORS

Amounts owed as a result of advances or cash deposits received are recorded in the balance sheet in the amount made available, plus or minus any difference between this amount and the redemption price of the portion that has already accrued. The difference between the amount made available and the nominal value is reflected as interest on an accruals basis in the profit and loss.

PROVISIONS FOR LIABILITIES & CHARGES

Provisions for liabilities and charges are intended to cover losses or charges, the nature of which is clearly defined and which at balance sheet date are either likely or certain to be incurred, but the amount of which is uncertain.

- Pensions

Concerned here are commitments with regard to retirement and survivor's pensions, benefits paid out on early retirement and other similar pensions or allowances (related mainly to employees' leaving employment early and end-of-career schemes).

- Taxation

This provision covers the commitments that may arise from a change in the tax base or in the calculation of tax. It is set aside in anticipation of additional tax charges (not yet assessed) for past financial years, for the amount that is disputed.

- Other liabilities and charges

This is a residual heading in respect of the provisions referred to above and includes provisions for legal disputes, commitment credit and indirect taxes.

FUND FOR GENERAL BANK RISKS

A fund for general banking risks is created as a general buffer for the expected future credit losses calculated on a 1-year time horizon (one year expected credit loss) inherently present on the loan portfolio in ordinary circulation and fixed-interest securities for which there are no payment difficulties (loans with a probability or default from 1 to 9). The amount entered in the accounts is net of tax. The amount of the fund is determined, taking into account the future tax impact, when the future credit losses become deductible.

FINANCIAL INSTRUMENTS

- Valuation rules for trading and non-trading activities

Where trading activities are concerned, the unrealised profit or loss on revaluation is recognised at least at the end of every month. This revaluation takes into account any interest flows that have already been recognised on an accruals basis. In the event of a sale, liquidation or expiration, the profit/loss on the position is recognised immediately. Where illiquid currencies or securities are concerned, no profit on revaluation is recognised.

The existing strategic positions the dealing room takes for its own account via derivatives with a view to generating a profit on the long term by way of capital gains or interest spreads are valued according to the same principles used for illiquid interest rate positions.

For non-trading activities, where interest rate instruments are concerned, the gains or losses realised are only recognised on an accruals basis over the corresponding term. The valuation of non-interest-rate instruments (e.g., share option premiums) matches the valuation of the hedged position. In addition, non-trading activities carried out for the purpose of general, long-term management of interest rate products denominated in a foreign currency (macro-hedging) are also valued according to the 'lower of cost and market' principle, along with the associated on-balance-sheet products. Profit or loss on similar transactions carried out for general EUR ALM interest rate management purposes is recognised solely on an accruals basis.

Option premiums that are paid in advance are only taken to the profit and loss account on the due date or on liquidation, with the exception of option premiums for caps, floors and collars that have been concluded for hedging purposes (accruals-basis recognition). In the meantime, they are posted under the 'Other assets' or 'Other liabilities' items. Option premiums relating to trading activities are revalued at least at the end of every month.

- Valuation of derivatives

All derivatives are always recorded under specific off-balance-sheet headings on the transaction date. Amounts are released from the off-balance-sheet headings once the outcome of the transaction is definitive, even if the underlying term only starts at that time for certain interest rate products (e.g., FRAs).

Trading transactions are marked to market, and the mark-to-market (dirty price) value is recognised in the trading results. Non-trading transactions are included in interest income on an accruals basis, which is the case for interest payable and interest receivable relating to interest rate swaps and foreign currency interest rate swaps. The swap difference arising on FX swaps (and FX outrights) is also released to the results on an accruals basis. The results from interest rate futures and FRAs are included in the profit and loss account spread over the term of the underlying hedged item. Equity swaps are treated in the same way as interest rate swaps. In practice, equity swaps (just like options) are only recorded in the trading book and consequently marked to market.

KBC Bank makes use of the derogation allowed by the NBB/BNB to Article 36*bis* of the Royal Decree on the annual accounts of credit institutions.

This derogation makes it possible to take interest rate derivatives that do not meet the hedging criteria to the profit and loss account on an accruals basis (interest rate derivatives classified as ALM or treasury management instruments).

- Hedging criteria for forward interest rate transactions:

The general criteria are set out in Article 36*bis* of the Royal Decree on the annual accounts of credit institutions of 23 September 1992:

- the hedged item or the combination of comparable hedged items must expose the credit institution to a risk of interest rate fluctuation;
- the transaction must be recorded in the books as a hedge from its inception;
- there must be a close correlation between fluctuations in the value of the hedged item and fluctuations in the value of the hedge; in the case of hedging options, there must be a correlation between fluctuations in the value of the hedged item and fluctuations in the value of the underlying financial instrument.

In addition, specific company criteria apply. All these criteria must be met: if one criterion is no longer satisfied, the hedge will be considered a trading transaction and be subject to the appropriate accounting treatment.

Hedging combinations that involve derivatives and are terminated before maturity will be considered trading transactions once the underlying position to be hedged no longer exists.

Future interest rate positions can be hedged if it is reasonably certain that the position will actually materialise. Moreover, the amount, term and interest rate conditions must be sufficiently certain.

- Calculation of unrealised profit/loss on revaluation

Derivatives are always valued on a contract basis; positive and negative valuation differences are not netted in the accounting records. Only for calculating capital adequacy requirements relative to market risks is the market risk calculated on a net basis per counterparty.

For forward interest rate and similar products (namely forward foreign exchange products), valuation occurs on the basis of the net present value of future, determinable cash flows using a single yield curve per currency, which is used throughout the bank. Any adjustments for operational and liquidity risks are deducted from the initial revaluation. Options are valued according to the usual valuation models. For interest rate products, calculations are always based on the assumption of a liquid market, provided the underlying currencies are liquid.

If a credit granted to a counterparty is classified as ‘doubtful’ or ‘irrecoverable’, the receivables and commitments stemming from off-balance- sheet products involving the same counterparty will be given the same classification. For loans and advances, write-downs may be recorded; for commitments, provisions will be set aside.

3. Change in the valuation rules

As a result of the implementation of IFRS9 in 2018, the Bgaap valuation rules have also been changed because the Bgaap valuation rules were aligned with the principles of IAS39. More specifically, under IFRS9, the 'IBNR provision' no longer exists and has been replaced by the concept of 'expected credit loss'. For this reason, IBNR commissions are no longer recognized in Bgaap and at the same time a fund for general banking risks has been created to maintain a comparable level of prudence. The composition of the fund for general banking risks is based on stage 1 and stage 2 'one year expected credit loss', taking into account the future tax impact, when the future credit losses become deductible.

Fund for General Banking Risks (Moda 254.1 – dec18)	IBNR (dec17)	Difference
95.791.203,75	114.781.695	-18.990.491,25

Presentation change of vol 3

Within the 2018 annual accounts of KBC Bank NV, the presentation of lines 40900, 41000 and 41100 in vol 3 was aligned with the validation rules. The applied sign was brought into line with the descriptions “addition”, “utilisation” and “reversal”. The presentation change was applied to the columns “Book year” and “Previous book year” and does not have any impact on the result.

KBC Bank NV
Statutory Annual Report accounting year 2018

In accordance with article 119 of the Belgian Companies Code, KBC Bank NV combines the annual report on the statutory annual accounts with the annual report on the consolidated annual accounts. You can find this "combined" report in the "Report of the Board of Directors" section of the KBC Bank Annual Report.

The accounting information provided in the "Report of the Board of Directors" is based on the consolidated IFRS valuation rules. In order to give the reader of the statutory annual accounts, based on the Belgian valuation rules (BGAAP) a correct view of the company, an additional brief explanation is given. In addition, other information to be published that is not included in the "Report of the Board of Directors" is also included here.

Table of contents

Notes to the statutory annual accounts

The annual accounts have been prepared according to Belgian accounting standards (B-GAAP).

Balance sheet

KBC Bank NV (x1000 EUR)	31/12/2018	31/12/2017	Verschil
Assets	**178 796 802**	**187 914 073**	**-9 117 271**
Cash and cash balances with central banks	14 240 047	25 752 409	-11 512 362
Amounts receivable from credit institutions	14 266 044	14 197 186	68 857
Amounts receivable from clients	95 214 115	90 680 555	4 533 560
Bonds and other fixed-income securities	31 683 478	33 348 029	-1 664 551
Shares and other variable-yield securities	754 207	502 201	252 005
Financial fixed assets	13 876 010	14 252 050	-376 040
Formation expenses, tangible and intangible fixed assets	1 479 666	1 344 744	134 922
Other assets	1 104 009	1 046 282	57 727
Deferred charges and accrued income	6 179 226	6 790 616	-611 390
Liabilities	**178 796 802**	**187 914 073**	**-9 117 271**
Amounts payable to credit institutions	23 738 667	31 941 473	-8 202 805
Amounts payable to clients	103 652 190	99 132 697	4 519 492
Debts represented by securities	24 177 943	29 939 793	-5 761 849
Other amounts payable	1 651 268	1 953 009	-301 741
Accrued charges and deferred income	4 527 653	5 314 986	-787 333
Provisions for liabilities and charges and deferred taxes	176 293	257 589	-81 296
General fund for banking risk	95 791	0	95 791
Subordinated loans	8 481 063	7 852 748	628 315
Equity	12 295 934	11 521 779	774 155

Balance sheet total

Total assets went down by 9,1 billion euros to 178.8 billion euros, driven mainly by a decrease in placements with central banks. Foreign branches held 3.89% of the bank's total assets (3.91% at year-end 2017).

Netting on the balance sheet

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

Netting disclosure	Gross Amounts		Netting	Net Amounts	
	Assets	Liabilities		Assets	Liabilities
repos - reverse repos	22 465 035 184	11 335 140 447	9 597 011 100	12 868 024 083	1 738 129 347
Derivatives	8 564 155 155	7 273 212 532	3 315 739 875	5 248 415 280	3 957 472 657

Cash and cash balances with central banks

Depending on conditions on the interbank market, excess cash is deposited at central banks or placed on the interbank market. The required amount of MREL instruments depends on the balance sheet total.

Amounts receivable from clients

Amounts receivable from clients increased by 4.5 billion euros to 95.2 billion euros due to various movements, the most important drivers being an increase in business retail and corporate banking (3.4 billion euros) and the call of the Home Loan Invest 2007 Compartment (0.7 billion euros).

Bonds and other fixed-income securities

The portfolio of bonds and other fixed-income securities decreased by 1.7 billion euros, bringing it to 31.7 billion euros. The decrease is mainly due to the maturing of OLO's (1.6 billion). Securities issued by public authorities represented 37,9% of the portfolio.

Financial fixed assets

Financial fixed assets went down by 0.4 billion euros to 13.9 billion euros due to the repayment of the subordinated loan, related to the call Home Loan Invest compartment 2007.

Other asset items

'Deferred charges and accrued income' was mostly made up of accrued interest and the revaluation of derivatives (such as IRS). This item fell by 0.6 billion euros on account of the mark-to-market valuation of the derivatives and the greater impact of derivatives clearing.

Amounts payable to credit institutions

The amounts payable to credit institutions decreased with 8.2 billion euros to 23,7 billion euros, due primarily to the net impact of a reversal of repos with credit institutions (-4.3 billion euros) and a decrease in demand deposits (-3.7 billion euros).

Amounts payable to clients and debts represented by securities

Customer deposits decreased with 1.3 billion euros to 127.8 billion euros, which was primarily the net effect of:

- a decline in time deposits (-3.5 billion euros) due to a shift to savings deposits and demand deposits following a change in investor appetite for interest-bearing products
- an increase in savings deposits and demand deposits (7.4 billion euros)
- an decrease in short-term certificates of deposit (-6 billion euros)
- a newly issued covered bonds (0.9 billion euros)

Accrued charges and deferred income

'Accrued charges and deferred income' was made up primarily of interest payable and the revaluation of derivatives. The decrease was attributable in part to additional clearing of derivatives.

Subordinated loans

Subordinated loans increased by 0.6 billion euros, which was the net effect of:

- Call on contingent convertible note: -0,9 billion euros
- KBC Group NV issued perpetual NC 7,5 AT1: 1 billion euros
- KBC Group NV launched a 5Y Green Senior: 0.5 billion euros

Equity

Equity grew by 0.8 billion euros to 12.3 billion euros.

Profit and loss account

KBC Bank NV (x1000 EUR)	**31/12/2018**	**31/12/2017**	**Verschil**
Gross income from ordinary activities	3 811 098	3 762 448	48 651
Operating charges	-2 064 102	-1 990 017	-74 086
Write-downs and provisions	23 980	-97 118	121 098
Profit on ordinary activities	1 770 976	1 675 313	95 663
Extraordinary result	1 057	1 187 703	-1 186 646
Taxes	-73 638	-257 542	183 904
Result for the period to be appropriated	**1 698 395**	**2 605 474**	**-907 079**

Notes to the profit and loss account

(x1000 EUR)	**31/12/2018**	**31/12/2017**	**Verschil**
Net interest income	1 223 385	1 216 762	6 623
Income from variable-yield securities	1 086 769	1 113 648	-26 879
Net fee and commission income	813 671	927 715	-114 044
Results from financial transactions	384 801	256 708	128 093
Other operating income	302 472	247 615	54 857
Gross income from ordinary activities	**3 811 098**	**3 762 448**	**48 651**

'Gross income from ordinary activities' amounted to 3.8 billion euros, which remains close to the 2017 level.

Details of this increase are given in the table above.

- Net interest income increased slightly by 6,6 million euros due primarily to continuing pressure on interest margins and a lower transformation result caused by lower reinvestment yields.
- Income from variable-yield securities went down by 26,9 million euros, owing mainly to lower dividends paid by subsidiaries.
- Net fee and commission income decrease with 114 million euros, rising mainly because of the lower revenues from the provision of investment services and the sale of investment funds and unit-linked life insurance products.
- Results from financial transactions rose by 128,1 million euros primarily on account of the performance turned in by the dealing room.
- Other operating income grew by 54,9 million euros, an increase mainly attributable to the income generated by leasing activities (re. the portfolio of movable goods leases acquired from KBC Lease Belgium in 2017).

(x1000 EUR)	31/12/2018	31/12/2017	Verschil
General administrative charges	-1 902 993	-1 873 380	-29 613
Depreciation of and amounts written off tangible and intangible fixed assets	-122 685	-75 967	-46 717
Other operating charges	-38 425	-40 669	2 245
Operating charges	**-2 064 102**	**-1 990 017**	**-74 086**

Operating charges (including 'Depreciation of and amounts written off tangible and intangible fixed assets' and 'Other operating charges') edged up in 2018, reaching -2.1 billion euros and driven primarily by higher staff expenses and ICT costs. The increase in the depreciation of tangible fixed assets was attributable to the acquisition of the portfolio of movable goods leases from KBC Lease Belgium NV.

The bank tax (including the amount contributed to the deposit protection scheme) is slightly higher on its 2017 level.

(x1000 EUR)	31/12/2018	31/12/2017	Verschil
Write-downs on loans	61 555	-110 475	172 030
Write-downs on investment portfolio	-1 480	2 209	-3 689
Provisions	-36 096	11 148	-47 244
Write-downs and provisions	**23 980**	**-97 118**	**121 098**

Due to reversals on write-downs, an increase of 121 million euros brings the 2018 level to 24 million.

In 2017, we registered an **exceptional result,** amounting to a net profit of EUR 1.188 million and is composed of a gross exceptional profit of EUR 1.553 million and a gross exceptional loss of EUR 365 million. We refer to the annual account 2017 KBC Bank NV for the explanatory note.

Due to a change in accounting policy, **deferred taxes** have ceased to be recorded on taxable write-downs, provisions and other taxable reserves since 2017.

Income tax was limited as a result of outstanding tax losses carried forward, the specific tax system for dividends received from subsidiaries and impairment on shares.

Additional information

Foreign branches

KBC Bank has 10 branches abroad, more specifically in New York, London, Paris, Rotterdam, Singapore, Hong Kong, Shanghai, Dublin, Düsseldorf and Italy.

Public disclosures of notional amounts covered by the collateral exemption under EMIR (see Article 11(14)(d)) of EMIR(Regulation 648/212)

When counterparties apply an intragroup exemption under EMIR, they should publicly disclose information in order to ensure transparency in respect of market participants and potential creditors. This is particularly important for the potential creditors of the counterparties in terms of assessing risks. The disclosure aims at preventing misperception that OTC derivative contracts are centrally cleared or subject to risk mitigation techniques when it is not the case.

Article 20 of Delegated Regulation 149/2013 provides more details with regard to the disclosure obligation:

The information on an intragroup exemption to be disclosed publicly shall include:

(a) the legal counterparties to the transactions including their identifiers in accordance with Article 3 of Implementing Regulation (EU) No 1247/2012 (Article 3 contains counterparty data which is included in the EMIR reporting obligation):

- KBC Bank NV, LEI-code: 6B2PBRV1FCJDMR45RZ53
- CBC Banque SA, LEI-code: DVCTKZJG5QM5XGM4TR05

(b) the relationship between the counterparties: CBC Banque SA is a 100% subsidiairy of KBC Bank NV

(c) whether the exemption is a full exemption or a partial exemption: full exemption

(d) the notional aggregate amount of the OTC derivative contracts for which the intragroup exemption applies in countevalues EUR).

- Currency and interest rate swaps	272.880.043,79
- Options on currencies	50.994.858,74
- Interest rate swap agreements	5.582.299.241,28
- Interest rate options	803.969.737,66

ACCOUNTANT REPORT

10				9	EUR	
NAT.	Date Filed	N°	P.	E.	D.	C-inst 6

Social Balance Sheet

NAME: KBC BANK

Legal Form: NV
Address: Havenlaan N°.: 2 Box:
Postal Code: 1080 Municipality: BRUSSELS
Country: België
Register of Legal Persons (RLP) - Chamber of Commerce: Brussels
Internet address*: http://www.kbc.be

Company Number 0462.920.226

concerning the financial year covering the period from 01/01/2018 till 31/12/2018

Previous period from 01/01/2017 till 31/12/2017
The amounts of the previous financial year are / ~~are not~~ ** identical to those which have been previously published.

SOCIAL REPORT (in euro)

Numbers of joint industrial committees which are competent for the enterprise:	310				

STATEMENT OF THE PERSONS EMPLOYED

EMPLOYEES RECORDED IN THE STAFF REGISTER

During the current period	Codes	Total	1. Male	2. Female
Average number of employees				
Full-time	1001	5.995	3.617	2.378
Part-time	1002	3.446	766	2.680
Total of full-time equivalents (VTE)	1003	8.537	4.160	4.376
Number of hours actually worked				
Full-time	1011	8.493.952	5.212.068	3.281.884
Part-time	1012	3.403.616	711.002	2.692.614
Total	1013	11.897.568	5.923.070	5.974.498
Personnel costs				
Full-time	1021	536.334.063,65	353.927.186,04	182.406.877,61
Part-time	1022	201.208.883,53	47.865.209,88	153.343.673,65
Total	1023	737.542.947,18	401.792.395,92	335.750.551,26
Advantages in addition to wages	1033	16.217.732,02	8.820.992,92	7.396.739,10

During the previous period	Codes	P. Total	1P. Male	2P. Female
Average number of employees	1003	8.580	4.205	4.375
Number of hours actually worked	1013	11.948.885	6.032.809	5.916.076
Personnel costs	1023	753.373.659,00	416.197.628,00	337.176.031,00
Advantages in addition to wages	1033	16.199.218,00	8.936.011,00	7.263.207,00

At the closing date of the current period	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
Number of employees recorded in the personnel register	105	6.020	3.426	8.543,8
By nature of the employment contract				
Contract for an indefinite period	110	5.695	3.417	8.211,1
Contract for a definite period	111	325	9	332,7
Contract for the execution of a specifically assigned work	112	0	0	0
Replacement contract	113	0	0	0
According to the gender and by level of education				
Male	120	3.606	776	4.152,4
primary education	1200	0	0	0
secondary education	1201	313	159	420,9
higher education (non-university)	1202	2.128	494	2.480,2
university education	1203	1.165	123	1.251,3
Female	121	2.414	2.650	4.391,5
primary education	1210	0	0	0
secondary education	1211	242	408	531,3
higher education (non-university)	1212	1.414	1.713	2.691,3
university education	1213	758	529	1.168,9
By professional category				
Management staff	130	74	2	75,6
Employees	134	5.946	3.424	8.468
Workers	132	0	0	0
Other	133	0	0	0

HIRED TEMPORARY STAFF AND PERSONNEL PUT AT THE ENTERPRISE'S DISPOSAL

During the current period	Codes	1. Temporary personnel	2. Persons put at the disposal of the enterprise
Average number of employees	150	65	0
Number of hours actually worked	151	124.553	0
Charges of the enterprise	152	5.097.140,00	0

TABLE OF PERSONNEL CHANGES DURING THE CURRENT PERIOD

ENTRIES	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
Number of employees recorded on the personnel register during the financial year	205	548	80	611
By nature of the employment contract				
Contract for an indefinite period	210	368	78	430
Contract for a definite period	211	180	2	182
Contract for the execution of a specifically assigned work	212	0	0	0
Replacement contract	213	0	0	0

DEPARTURES	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
The number of employees with a in the staff register listed date of termination of the contract during the period	305	368	256	529
By nature of the employment contract				
Contract for an indefinite period	310	315	256	476
Contract for a definite period	311	53	0	53
Contract for the execution of a specifically assigned work	312	0	0	0
Replacement contract	313	0	0	0
According to the reason for termination of the employment contract				
Retirement	340	37	152	122
Unemployment with company bonus	341	0	0	0
Dismissal	342	41	12	49
Other reason	343	290	92	358
Of which: the number of persons who continue to render services to the enterprise at least half-time on a self-employed basis	350	0	0	0

INFORMATION WITH REGARD TO TRAINING RECEIVED BY EMPLOYEES DURING THE CURRENT PERIOD

	Codes	Male	Codes	Female
Total number of official advanced professional training projects at company expense				
Number of participating employees	5801	4.003	5811	4.733
Number of training hours	5802	104.748	5812	121.911
Costs for the company	5803	9.001.320,00	5813	10.642.830,00
of which gross costs directly linked to the training	58031	8.820.024,00	58131	10.428.472,00
of which paid contributions and deposits in collective funds	58032	181.296,00	58132	214.358,00
of which received subsidies (to be deducted)	58033		58133	
Total number of less official and unofficial advance professional training projects at company expense				
Number of participating employees	5821	4.036	5831	4.771
Number of training hours	5822	36.787	5832	43.862
Costs for the company	5823	2.214.720,00	5833	2.618.045,00
Total number of initial professional training projects at company expense				
Number of participating employees	5841	0	5851	0
Number of training hours	5842	0	5852	0
Costs for the company	5843	0,00	5853	0,00

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

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

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

Report on the annual accounts

Unqualified opinion

We have performed the statutory audit of the Company's annual accounts, which comprise the balance sheet as at 31 December 2018, and the profit and loss account for the year then ended, and the notes to the annual accounts, characterised by a balance sheet total of EUR 178.797 million and a profit and loss account showing a profit for the year of EUR 1.698 million.

In our opinion, the annual accounts give a true and fair view of the Company's net equity and financial position as at 31 December 2018, and of its results for the year then ended, in accordance with the financial-reporting framework applicable in Belgium.

Basis for unqualified opinion

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

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

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

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Key audit matters

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

Estimation uncertainty with respect to financial instruments measured at fair value

Description of the Key Audit Matter

Details regarding the measurement of financial instruments at year-end 31 December 2018 are included in Notes to the annual accounts III (bonds), IV (equity securities), on the face of the balance sheet for the derivatives contracts and Note IX Other assets for the option contracts. The applicable valuation rules are described in Note 7 to the annual accounts (chapters "Securities" and "Financial instruments").

For certain financial instruments a quoted price is not readily available to determine fair value. Valuation techniques and models used to determine fair value in these cases are inherently subjective and involve various assumptions regarding pricing. In addition, the number of factors influencing the determination of fair value can be extensive and can vary both by type of instrument and/or within instrument types. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. As the use of different assumptions could produce different estimates of fair value, we consider this as a key audit matter.

Our audit approach regarding the Key Audit Matter

We obtained an understanding of the internal control framework related to the valuation of financial instruments, including price testing and model validation. We assessed the appropriateness of the model validation methodology with the assistance of our valuation experts and we performed a recalculation of the fair valuation on a sample basis. This includes the assessment of market data, inputs and key assumptions as critical factors used in the fair value models, based on our experience and market practice. Based on our procedures we found that management's outcome of the models used for the fair value of certain financial instruments for which a quoted price is not readily available, in the context of the estimation uncertainty concerned, fell within a reasonable and acceptable range of outcomes.

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Estimation uncertainty with respect to impairment allowances for receivables on clients

Description of the Key Audit Matter

The appropriateness of the impairment allowances for receivables on clients requires significant judgment of management. Measuring impairment allowances requires an assessment of the risk that a counterparty will not respect all of its contractual obligations. In 2018, as indicated in Note 7 to the annual accounts and following the implementation of IFRS 9 in the consolidated accounts, the Company has amended its accounting policy with respect to impairment allowances under Belgian GAAP in the annual accounts, in order to reflect the changes in the part of the methodology which is aligned between IFRS and Belgian GAAP. At year-end 31 December 2018 information regarding impairment allowances for receivables on clients and on the fund for general banking risks are included respectively in line 40900 and line 41300 of the profit and loss accounts, in application of the valuation rules as described in Note 7 to the annual accounts (chapters "Receivables" and "Fund for general banking risks"). At year-end 31 December 2018 the receivables on clients amount to EUR 95.214 million.

The identification of impairment, the determination of the recoverable amount and the determination of the 12-month expected credit losses, which is the basis for the fund for general banking risks, are part of the estimation process at the Company and are, amongst others, based on macroeconomic scenarios, credit risk models, default triggers, the financial condition of the counterparty, the expected future cash flows or the value of collateral. The use of different modelling techniques, scenarios and assumptions could lead to different estimates of impairment charges on receivables on clients or to a different fund for general banking risks. As the receivables on clients represent the majority of the Company's balance sheet and given the related estimation uncertainty on impairment charges, we consider this as a key audit matter.

Our audit approach regarding the Key Audit Matter

Our audit procedures included an assessment of the overall governance of the Company's credit and impairment process, including the 12-month expected loss modelling process. We have assessed and tested the design and operating effectiveness of the controls within the loan origination process, risk management process and the estimation process for determining impairment allowances. For loan impairment allowances determined on an individual basis we have performed, for a sample of corporate credit files, a detailed review of loans granted by the Company. We challenged the default triggers and the quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. We found no material exceptions in these tests.

For the 12-month expected credit loss, determining the fund for general banking risks, we challenged the macroeconomic scenarios and tested the underlying models including the Company's model approval and validation process. Finally, we assessed the completeness and accuracy of the disclosure of the change in accounting policy.

In our view, the impairments and the fund for general banking risks estimated by management are within a reasonable range of outcomes in view of the overall receivables on clients and the related uncertainties.

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

The board of directors is responsible for the preparation of annual accounts that give a true and fair view in accordance with the financial-reporting framework applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our statutory auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Other legal and regulatory requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report, of the documents required to be deposited by virtue of the legal and regulatory requirements as well as for the compliance with the legal and regulatory requirements regarding bookkeeping, with the Companies' Code and with the Company's articles of association.

Statutory auditor's responsibilities

In the context of our mandate and in accordance with the Belgian standard (Revised in 2018) which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, the directors' report, certain documents required to be deposited by virtue of legal and regulatory requirements, as well as compliance with the articles of association and certain requirements of the Companies' Code and to report on these matters.

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Aspects related to the directors' report

In our opinion, after having performed specific procedures in relation to the directors' report, this report is consistent with the annual accounts for the year under audit, and it is prepared in accordance with the articles 95 and 96 of the Companies' Code.

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

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

Statement related to the social balance sheet

The social balance sheet, to be deposited in accordance with article 100, § 1, 6°/2 of the Companies' Code, includes, both in terms of form and content, the information required by virtue of the Companies' Code and does not present any material inconsistencies with the information we have at our disposition in our engagement.

Statement related to independence

- Our registered audit firm and our network did not provide services which are incompatible with the statutory audit of the annual accounts and our registered audit firm remained independent of the Company in the course of our mandate.

- The fees for additional services which are compatible with the statutory audit of the annual accounts referred to in article 134 of the Companies' Code are correctly disclosed and itemized in the notes to the annual accounts.

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Other statements

- Without prejudice to formal aspects of minor importance, the accounting records were maintained in accordance with the legal and regulatory requirements applicable in Belgium.
- The appropriation of results proposed to the general meeting complies with the legal provisions and the provisions of the articles of association.
- There are no transactions undertaken or decisions taken in breach of the Company's articles of association or the Companies' Code that we have to report to you.
- This report is consistent with the additional report to the audit committee referred to in article 11 of the Regulation (EU) N° 537/2014.

Sint-Stevens-Woluwe, 19 March 2019

The statutory auditor
PwC Bedrijfsrevisoren cvba
represented by

Roland Jeanquart
Accredited auditor

Gregory Joos
Accredited auditor

Additional information

Ratios used

We have started applying IFRS 9 with effect from 2018, with the result that some of the income statement and balance sheet figures – and the related ratios – are not fully comparable to the 2017 reference figures (which are still based on IAS 39, as KBC is making use of transition relief for comparative data).

Common equity ratio

A risk-weighted measure of the group's solvency based on common equity tier-1 capital The CRD IV rules are gradually being implemented to allow banks to build up the necessary capital buffers. The capital position of a bank, when account is taken of the transition period, is referred to as the 'phased-in' view. The capital position based on full application of all the rules – as would be the case after this transition period – is referred to as 'fully loaded'.

Calculation	2018	2017
Method of calculation provided in the 'Capital adequacy' section		
Fully loaded	14.8%	14.5%

Cost/income ratio

Gives an impression of relative cost efficiency (costs relative to income). We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	Reference	2018	2017
Operating expenses (A)	'Operating expenses' in the consolidated income statement	3 712	3 568
/			
Total income (B)	'Total income' in the consolidated income statement	6 460	6 588
= (A) / (B)		57.5%	54.2%

Coverage ratio

Indicates the proportion of impaired loans (see 'Impaired loans ratio' for definition) that are covered by impairment charges.
The numerator and denominator in the formula relate to all impaired loans, but may be limited to impaired loans that are *more than 90 days past due* (the figures for that particular calculation are also given in the 'Loan and investment portfolio' table in the 'Risk management' section). Please note that we are using a slightly modified definition of the loan portfolio as of 2018 (based on gross carrying amount), more details of which can be found in the 'Risk management' section. Under this new definition, the coverage ratio would have been 48% in 2017.

Calculation (in millions of EUR or %)	Reference	2018	2017
Specific impairment on loans (A)	'Loan and investment portfolio' table in the 'Risk management' section	3 203	4 039
/		7 151	9 186
Outstanding impaired loans (B)	'Loan and investment portfolio' table in the 'Risk management' section		
= (A) / (B)		45%	44%

Credit cost ratio

Gives an idea of loan impairment charges recognised in the income statement for a specific period, relative to the total loan portfolio (see 'Loan portfolio' for definition). In the longer term, this ratio can provide an indication of the credit quality of the portfolio. A negative figure indicates a net reversal of impairment and hence a positive impact on the results. We also use the same methodology to calculate this ratio for each business unit.

Calculation (in millions of EUR or %)	Reference	2018	2017
Net changes in impairment for credit risks (A)	'Consolidated income statement': component of 'Impairment'	-59	-87
/			
Average outstanding loan portfolio (B)	'Loan and investment portfolio' table in the 'Risk management' section	163 393	151 681
= (A) / (B)		-0.04%	-0.06%

Impaired loans ratio

Indicates the proportion of impaired loans in the loan portfolio (see 'Loan portfolio' for definition) and, therefore, gives an idea of the creditworthiness of the portfolio. Impaired loans are loans where it is unlikely that the full contractual principal and interest will be repaid/paid. These loans have a KBC default status of PD 10, PD 11 or PD 12. Where appropriate, the numerator in the formula may be limited to impaired loans that are more than 90 days past due (PD 11 + PD 12). Relevant figures for that calculation are also given in the 'Loan and investment portfolio' table in the ‘Risk management’ section. We also use the same methodology to calculate this ratio for each business unit.
Please note that we are using a slightly modified definition of the loan portfolio as of 2018 (based on gross carrying amount), more details of which can be found in the ‘Risk management’ section. Under this new definition, the impaired loans ratio would have been 6.1% in 2017.

Calculation (in millions of EUR or %)	Reference	2018	2017
Amount outstanding of impaired loans (A)	'Loan and investment portfolio’ table in the ‘Risk management’ section	7 151	9 186
/			
Total outstanding loan portfolio (B)	'Loan and investment portfolio’ table in the ‘Risk management’ section	164 824	154 160
= (A) / (B)		4.3%	6.0%

Leverage ratio

Gives an idea of the bank's solvency, based on a simple non-risk-weighted ratio.

Calculation (in millions of EUR or %)	Reference	2018	2017
Regulatory available tier-1 capital (A)	'Solvency of KBC Bank' table in the 'Capital adequacy' section	13 625	13 484
/			
Total exposure measures (total of non-risk-weighted on and off-balance sheet items, with a number of adjustments) (B)	Based on the Capital Requirements Regulation (CRR)	263 249	269 242
= (A) / (B)		5.2%	5.0%

Liquidity coverage ratio (LCR)

Gives an idea of the bank's liquidity position in the short term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-month period. It is the average of 12 end-of-month LCR figures.

Calculation (in millions of EUR or %)	Reference	2018	2017
Stock of high-quality liquid assets (A)	Based on the European Commission's Delegated Act on LCR.	79 300	79 850
/			
Total net cash outflows over the next 30 calendar days (B)		57 200	57 600
= (A) / (B)		139%	139%

Loan portfolio

Gives an idea of the magnitude of (what are mainly traditional) lending activities. As of 2018, we have slightly changed the definition, switching from 'outstanding amount' to the new definition of gross carrying amount, i.e. including reserved and accrued interest. We also extended the scope of the loan portfolio to include other exposures to credit institutions (money market placements, documentary credit, accounts), KBC Commercial Finance debtor risk, unauthorised overdrafts, and reverse repos (excluding central bank exposure). Under this new definition, the total loan portfolio would have come to roughly 162 billion euros at year-end 2017.

Calculation (in millions of EUR)	Reference	2018	2017
Loans and advances to customers (A)	Note 4.1, component of 'Loans and advances to customers'	144 810	139 090
+			
Reverse repos (not with central banks) (B)	Note 4.1, component of 'Reverse repos with credit institutions and investment firms'	1 521	-
+			
Debt instruments issued by corporates and by credit institutions and investment firms (banking) (C)	Note 4.1, component of 'Debt instruments issued by corporates and by credit institutions and investment firms'	5 750	6 243
+			
Loans and advances to credit institutions and investment firms (banking, excluding dealing room activities) (D)	Note 4.1, component of 'Loans and advances to credit institutions and investment firms'	-	881
+			
Other exposures to credit institutions (E)	-	4 603	-
+			
Financial guarantees granted to clients (F)	Note 6.1, component of 'Financial guarantees given'	8 308	8 241
+			
Impairment on loans (G)	Note 4.2, component of 'Impairment'	3 534	4 058
+			
Non-loan-related receivables (H)	-	-570	-
+			
Other (I)	Component of Note 4.1	-3 131	-4 353
= (A)+(B)+(C)+(D)+(E)+(F)+(G)+(H)+(I)		164 824	154 160

Net interest margin

Gives an idea of the net interest income (one of the most important sources of revenue for the group) relative to the average total interest-bearing assets of the banking activities. We also use the same methodology to calculate this ratio for each business unit. Please note that, as of 2018, the dealing-room activities and the net positive impact of foreign exchange swaps and repos used for asset/liability management purposes have been excluded from the calculation. Under this revised definition, the net interest margin would have amounted to 1.95% in 2017.

Calculation (in millions of EUR or %)	Reference	2017	2016
Net interest income* (A)	'Consolidated income statement': component of 'Net interest income'	3 813	3 513
/			
Average interest-bearing assets* (B)	'Consolidated balance sheet': component of 'Total assets'	187 703	187 216
= (A) / (B) X 360/number of calendar days		2.00%	1.85%

* After elimination of all divestments and volatile short-term assets used for liquidity management purposes.

Net stable funding ratio (NSFR)

Gives an idea of the bank's structural liquidity position in the long term, more specifically the extent to which the group is able to overcome liquidity difficulties over a one-year period.

Calculation (in millions of EUR or %)	Reference	2018	2017
Available amount of stable funding (A)	'Basel III: the net stable funding ratio' (Basel Committee on Banking Supervision publication, October 2014).	165 650	157 700
/			
Required amount of stable funding (B)		122 150	117 300
= (A) / (B)		136%	134%

Total assets under management

Total assets under management (AuM) comprise third-party assets and KBC group assets managed by the group's various asset management companies (KBC Asset Management, ČSOB Asset Management, etc.), as well as assets under advisory management at KBC Bank. The assets, therefore, consist mainly of KBC investment funds and unit-linked insurance products, assets under discretionary and advisory management mandates of (mainly retail, private banking and institutional) clients, and certain group assets. The size and development of total AuM are major factors behind net fee and commission income (generating entry and management fees) and hence account for a large part of any change in this income line. In that respect, the AuM of a fund that is not sold directly to clients but is instead invested in by another fund or via a discretionary/advisory management portfolio, are also included in the total AuM figure, in view of the related work and any fee income linked to them.

Calculation (in billions of EUR)	Reference	2018	2017*
Belgium Business Unit (A)	-	186.4	202.1
+			
Czech Republic Business Unit (B)		9.5	9.6
+			
International Markets Business Unit (C)		4.4	5.0
= (A)+(B)+(C)		200.3	216.7

* The figures for 2017 have been adjusted (i.e. reduced by 2 billion euros) following a correction with regard to institutional mandates.

Management certification

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